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INTELLECTUAL PROPERTY

BRIDGEMAN ART LIBRARY, LTD. V. COREL CORP.

By Robert C. Matz

Digital technology promises to democratize the art world by giving the masses[1] unprecedented access to public domain works of art.[2] Computer users—both foreign and domestic—can now view digital images of famous works of art over the Internet from the comfort of their homes. Consumers can now buy inexpensive, high-quality reproductions of these same works. Advertisers, drawing on a vast new pool of digital imagery, now use images of public domain works of art to sell everything from cars[3] to chocolate bars.[4] The commodification of images of public domain works of art makes it possible for us to adorn our everyday lives with images of fine art.[5] And "the transformation of artworks into easily reproducible, usable, images wrests art away from the few specialized experts and gives it to the populace to apply to their own lives."[6]

Museums, collectors, and private companies impede this democratizing trend by controlling access to the original work of art and by asserting copyright protection in photographic or digital reproductions.[7] In addition to implementing security measures to prevent museum-goers from photographing the works in their collections, legal analysts have encouraged museums to:

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1. At least that portion of the masses that has access to the Internet. For information on the "digital divide," see National Telecommunications and Information Administration, *Falling Through the Net II: New Data on the Digital Divide* (visited Dec. 12, 1999) ⟨http://www.ntia.doc.gov/ntiahome/net2/falling.html⟩.

2. *See* HOWARD BESSER & JENNIFER TRANT, INTRODUCTION TO IMAGING 7 (1995) ("The ability to display and link collections from around the world breaks down physical barriers to access, and the potential of reaching audiences across social and economic boundaries blurs the distinction between the privileged few and the general public.").

3. Pontiac advertised the Sunfire using Edvard Munch's *The Scream*. *See* Kathleen Connolly Butler, *Keeping the World Safe from Naked-Chicks-In-Art Refrigerator Magnets: The Plot to Control Art Images in the Public Domain Through Copyrights in Photographic and Digital Reproductions*, 21 HASTINGS COMM. & ENT. L.J. 55, 64 (1998).

4. Recent Hershey's ads featured a Van Gogh self-portrait holding a Hershey bar. *See id.* at 69 n.50.

5. Images of Raphael's cherubs have become especially ubiquitous in California, appearing on stationery, greeting cards, magnets, and posters. *See id.* at 64.

6. *See id.* at 60-61 (citing JOHN BERGER, WAYS OF SEEING 32 (1972)).

7. For a detailed examination of how museums maintain control over public domain works of art through copyright law, see *id.* at 55-127.

> always claim copyright in any reproduction that appears in a poster, postcard, advertisement, brochure, or three-dimensional model. . . . [W]hen the underlying work falls into the public domain, the whole world may copy it. The museum's copyright in its reproduction, however, will not be affected by the underlying work falling into the public domain, and its copyright in its derivative work will continue for the full duration.[8]

Although such blanket assertions of copyright protection do not guarantee their ultimate validity under the Copyright Act, their *in terrorem* effect can curb public use. Moreover, as Corbis Corporation's[9] recent acquisition of the Bettmann Photo Archives[10] illustrates, private collectors and companies further impede democratization of the art world by purchasing (thus "privatizing") public domain works of art and subsequently claiming copyright protection in all photographic or digital reproductions. Thus, even though the Copyright Act seeks to offset the decidedly "undemocratic" effect of monopoly privileges by "democratically" allowing the public unfettered access to copyrighted works after the statutory period of exclusive control has expired,[11] museums, private collectors, and companies have, in the past, been able to circumvent the public domain status of certain works of art by controlling access to the original and by asserting copyright protection in all photographic or digital reproductions.

In *Bridgeman Art Library v. Corel Corporation*,[12] the district court for the Southern District of New York affirmed the public's right to access and use images of public domain works of art by holding that Bridgeman's exact photographic reproductions of public domain works of art were not

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8. Rhonda L. Berkowitz & Marshall A. Leaffer, *Copyright and the Art Museum*, 8 COLUM.-VLA J.L. & ARTS 249, 265-67 (1984).

9. Corbis Corporation was founded by Bill Gates in 1989 "to archive and distribute high-quality digital and analog images worldwide." Microsoft Corp., *Bill and Melinda Gates Bring Leonardo da Vinci's Codex Leicester to Life* (visited Dec. 12, 1999) ⟨http://www.microsoft.com/BillGates/news/codex.html⟩. Corbis Corporation is now "home to 65 million of the world's most significant images, with more than 2.1 million available online." Corbis Corp., *About Corbis* (visited Dec. 12, 1999) ⟨http://www.corbis.com/press/corbis.asp?s=1⟩.

10. The Bettmann Photo Archives is "a renowned image library that illustrates the entire history of humankind, from prehistoric cave paintings to modern-day photojournalism. It contains more than 17 million images in print, transparency, glass negative, and digital file format, making it the largest historical and news photo collection in the world." Corbis Corp., *About Corbis* (visited Dec. 12, 1999). ⟨http://www.corbis.com/press/corbis.asp?s=1⟩.

11. *See* 17 U.S.C. § 302 (1994) (setting the duration of copyright to life of the author plus 70 years).

12. 36 F. Supp. 2d 191 (S.D.N.Y. 1999).

copyrightable. This Note briefly surveys the background case law, summarizes the *Bridgeman* court's decision, and then analyzes decision in terms of the doctrine it applied, the policy considerations it upheld, and the legal strategies it suggests. This Note concludes that the court correctly applied existing copyright doctrine to the facts of the case, thereby reinforcing important policy considerations against granting copyrights that would allow reproducers to harass competitors, stifle competition within the market for art reproductions, and impede access to and use of images of public domain works of art.

I. BACKGROUND CASELAW

A. The Originality Requirement

As the Supreme Court explained in *Feist Publications, Inc. v. Rural Telephone Service Company, Inc.*,[13]

> The sine qua non of copyright is originality. To qualify for copyright protection, a work must be original to the author. Original, as the term is used in copyright, means only that the work was independently created by the author (as opposed to copied from other works), and that it possesses at least some minimal degree of creativity. . . . [T]he requisite level of creativity is extremely low; even a slight amount will suffice. The vast majority of works make the grade quite easily, as they possess some creative spark, "no matter how crude, humble, or obvious it might be."[14]

Thus, a work of art is copyrightable only where it (1) originates with the author, and (2) contains a modicum of creativity.

Reproductions of works of art are copyrightable as derivative works[15] or as separately copyrightable subject matter.[16] As derivative works, reproductions of works of art are copyrightable if they (1) substantially or wholly copy the expressive elements of an underlying work of art, (2) contain an original element not present in the underlying work, and either (3) are made with the consent of the copyright owner, or (4) are copied

13. 499 U.S. 340 (1991).

14. *Id.* at 345 (citations omitted).

15. *See* 17 U.S.C. § 103(a) (defining a derivative work as "a work based upon one or more pre-existing works, such as a[n] . . . art reproduction").

16. *See* 17 U.S.C. § 102(a)(5) (including art reproductions within the category of pictorial, graphic, or sculptural works).

from a work of art which is in the public domain.[17] Copyright protection is afforded only to the original elements not present in the underlying work.[18] As separately copyrightable subject matter, an art reproduction must (1) be based on a prior work of art that satisfies the originality and creativity requirements, and (2) contain an original contribution not present in the underlying work of art (i.e. it must be more than a mere copy).[19] As with derivative works, copyright protection in reproductions of works of art extends only to the original elements contributed by the author of the reproduction.[20]

In determining whether a given reproduction or derivative work is "original," New York courts[21] generally apply one of two tests: the "distinguishable variation" test or the "skill, labor, and judgment" test.

1. The distinguishable variation test

In 1927, in *Gerlach v. Barklow Co. v. Morris Bendien, Inc.*[22], the Second Circuit Court of Appeals held that "[w]hile a copy of something in the public domain will not, if it be merely a copy, support a copyright, a distinguishable variation will, even though it present the same theme."[23] Twenty-four years later, in *Alfred Bell & Co., Ltd. v. Catalda Fine Arts, Inc.*[24], the Second Circuit altered the test slightly by holding, "[a]ll that is needed to satisfy both the Constitution and the statute is that the 'author' contributed something more than a 'merely trivial' variation, something recognizably 'his own.'"[25] By requiring something more than a trivial variation, the *Alfred Bell* court sought to draw a distinction between "distinguishable variations" that met the Constitutional and statutory require-

17. *See* MELVILLE B. NIMMER & DAVID NIMMER, 1 NIMMER ON COPYRIGHT, §§ 3.01, 3.03, 3.06 (Sept. 1998).

18. *See id.* § 3.04.

19. *See id.* § 2.08[C][1].

20. *See id.* § 2.08[C][3].

21. This Note focuses on New York case law because other courts often look to this body of law to guide them in their evaluation of art reproductions and derivative works. *See, e.g.*, Big Moore Pub., Inc. v. Big Sky Marketing, Inc., 756 F.Supp. 1371, 1374 (D. Idaho 1990) (relying on cases from the Second Circuit because it is "a preeminent authority" on copyright matters). Moreover, while the tests articulated in other jurisdictions may be worded differently, they are consistent with the standards articulated by New York courts. *See, e.g.*, 1 NIMMER, *supra* note 17, §§ 2.08[C][1], 3.04 (citing predominantly to New York case law in support of review of the standards of copyrightability that apply to art reproductions and derivative works).

22. 23 F.2d 159 (S.D.N.Y. 1927).

23. *Id.* at 161.

24. 191 F.2d 99 (2d Cir. 1951).

25. *Id.* at 102-03.

ments of originality and variations that—while distinguishable—were "merely trivial" and therefore not original. This fine distinction, however, seemed at odds with the court's oft-cited illustration that "[a] copyist's bad eyesight or defective musculature, or a shock caused by a clap of thunder, may yield [something more than merely trivial] distinguishable variations. Having hit upon such a variation unintentionally, the 'author' may adopt it as his and copyright it."[26] Hence, *Alfred Bell*'s restatement of the distinguishable variation test seemed somewhat contradictory—it explicitly heightened the standard by requiring something more than a trivial variation, but it also suggested that the requisite originality could be found in the seemingly trivial variation produced by the inadvertent slip of an artist's brush.[27]

This seeming anomaly was addressed twenty-five years later in *L. Batlin & Son, Inc. v. Snyder*,[28] in which the Second Circuit explained that "[t]he requirement of substantial as opposed to trivial variation . . . [is] inherent in and subsumed by the concept of originality. . . . There is implicit in that concept a 'minimal element of creativity over and above the requirement of independent effort.'"[29] In other words, since the prior case law seemed to suggest that art reproductions were copyrightable solely upon a finding of originality,[30] the Second Circuit's decision in *Batlin* can be seen as an attempt to harmonize the originality requirement for works of art (originality plus a modicum of creativity) with the originality requirement for reproductions of works of art. Indeed, in discussing the originality requirement for works of art, the *Batlin* court pointed out that "none of these underlying principles is different in the case of 'reproductions of works of art.'"[31] Therefore, despite Nimmer's assertion that reproductions of works of art are copyrightable solely upon a finding of originality,[32] Second Circuit case law supports the proposition that repro-

26. *Id.* at 105.

27. *But see* 1 NIMMER, *supra* note 17, § 2.01[B] n.30 (seeing no inherent inconsistency since "the unintentional should not be confused with the trivial").

28. 536 F.2d 486 (2d Cir. 1976).

29. *Id.* at 490, (quoting 3 NIMMER, *supra* note 17, § 10.2).

30. This is a proposition echoed by David Nimmer. *See* 1 NIMMER, *supra* note 17, § 2.08[C][3] (arguing that "a reproduction of a work of art need not contain any creativity other than that that is inherent in the underlying work of art of which it is a reproduction.").

31. *Batlin*, 536 F.2d at 490.

32. See 1 NIMMER, *supra* note 17, § 2.08[C][3] ("a reproduction of a work of art need not contain any creativity other than that that is inherent in the underlying work of art of which it is a reproduction").

ductions of works of art must demonstrate both originality *and* creativity in order to be copyrightable.[33]

2. *The skill, labor, and judgment test*

Although *Alfred Bell* contains language that can be construed as establishing an alternate test which looks for and rewards skill and labor,[34] the fullest articulation of the skill, labor, and judgment test is found in *Alva Studios, Inc. v. Winninger.*[35] In *Alva Studios*, the District Court for the Southern District of New York held that "to be entitled to copyright, the work must be original in the sense that the author has created it by his own skill, labor, and judgment without directly copying or evasively imitating the work of another."[36] Subsequent cases—while not directly overruling *Alva Studios*—have interpreted the skill, labor, and judgment test as requiring "true artistic skill,"[37] as opposed to the mere "skill of an artisan,"[38] and have thus denied copyright protection to reproductions of works of art where the process involved only the expenditure of "great effort and time."[39]

B. The Copyrightability of Photographs

In *Burrow-Giles Lithographic Co. v. Sarony*,[40] the Supreme Court held that photographs are "writings" within the meaning of the Copyright Clause of the Constitution.[41] In assessing the photograph's originality, Justice Miller pointed out that originality could be found in "posing [the subject] in front of the camera, selecting and arranging the costume, draperies, and other various accessories in [the] photograph, arranging the subject . . . arranging and disposing the light and shade, suggesting and invoking the desired expression."[42] Justice Miller concluded the "disposi-

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33. Though Nimmer argues that it is "of only semantic significance whether originality is defined as embodying . . . creativity or whether such creativity is regarded as a necessary adjunct to originality," Nimmer himself suggests that "a greater clarity of expression is perhaps achieved by regarding originality and creativity as separate elements." See 1 NIMMER, *supra* note 17, at § 2.01[B], 2-14 to 2-15.

34. *See Alfred Bell*, 191 F.2d at 106, n.22 (quoting WALTER COPINGER, THE LAW OF COPYRIGHTS (7th ed. 1936) 46, which states that an artist's work may "be original in the sense that he has employed skill and judgment in its production").

35. 177 F. Supp. 265 (S.D.N.Y. 1959).

36. *Id.* at 267.

37. L. Batlin & Son, Inc. v. Snyder, 536 F.2d 486, 491 (2d Cir. 1976).

38. Hearn v. Meyer, 664 F. Supp. 832, 839 (S.D.N.Y. 1987).

39. *Id.*

40. 111 U.S. 53 (1884).

41. *Id.* at 57-58.

42. *Id.* at 60.

tion, arrangement, or representation, made entirely by [the photographer], produced the picture. . . . These findings show this photograph to be an original work of art."[43] While Justice Miller conceded, in dictum, that some photographs might be rightly said to be "merely mechanical, with no place for novelty, invention, or originality,"[44] Judge Learned Hand disagreed with Justice Miller in *Jeweler's Circular Publishing v. Keystone Publishing,*[45] and concluded that "no photograph, however simple, can be unaffected by the personal influence of the author, and no two will be absolutely alike."[46] Subsequent decisions have rejected Hand's assertion in favor of Nimmer's proposition that photographs which are no more than "slavish copies" of photographs or other printed matter are not original.[47]

II. THE CASE

Bridgeman is a United Kingdom-based company that acquires photographs of public domain works of art and then licenses use of reproductions of these photographs.[48] Bridgeman obtains its photographs by securing permission to photograph the works of art themselves or by purchasing existing photographs from freelance photographers.[49] Bridgeman stores its photographic images in two formats: high-resolution color transparencies and low-resolution CD-ROMs.[50] To ensure that each transparency accurately represents the colors contained in the original work, Bridgeman attaches a color correction strip to each of its color transparencies.[51] In the United States, Bridgeman's marketing strategy was to provide potential customers with the CD-ROM version of its photographic images as a catalog of its available images and then license use of its high-resolution color transparencies.[52]

Corel Corporation is a Canadian corporation that sells computer software products.[53] One of these products is a set of seven CD-ROMs entitled "Corel Professional Photos CD-ROM Masters I-VII" ("Masters CD-

43. *Id.*
44. *Id.* at 59.
45. 274 F. 932 (S.D.N.Y. 1921)
46. *Id.* at 934.
47. *See, e.g.*, Simon v. Birraporetti's Restaurants, 720 F. Supp. 85, 86-87 (1989).
48. *See* Bridgeman Art Library, Ltd. v. Corel Corp., ("Bridgeman I") 25 F. Supp. 2d 421, 423-24 (S.D.N.Y. 1998).
49. *See id.* at 423.
50. *See id.* at 424.
51. *See id.* at 423.
52. *See id.* at 424.
53. *See id.*

ROMs").[54] The Masters CD-ROMs contain seven hundred photographic images of public domain paintings by European artists and are sold in Canada, the United Kingdom, and the United States.[55] Corel claims to have obtained the images for its Masters CD-ROMs from 35-millimeter slides owned by Off the Wall, Inc. ("OWI"), an allegedly defunct California corporation.[56] Of the seven hundred works of art represented on Corel's Masters CD-ROMs, one hundred and twenty are works of art which are also contained in Bridgeman's library of photographic images.[57]

A. Procedural History

Bridgeman filed suit against Corel and OWI in the District Court for the Southern District of New York. OWI was never served and the case against it was dismissed.[58] In its amended complaint, Bridgeman asserted that Corel's sales of its Masters CD-ROMs infringed Bridgeman's copyrights, violated sections 32(1) and 43(a) of the Lanham Act,[59] and constituted common law unfair competition.[60] Corel moved for summary judgment on the grounds that: (1) Bridgeman did not possess valid copyrights in its images, and (2) there was no evidence that Corel copied Bridgeman's images.[61] Bridgeman cross-moved for summary judgment on the validity of its copyrights under the laws of the United Kingdom.[62]

B. The District Court's November Decision

In its November, 1998 decision, the district court entered summary judgment against Bridgeman on its copyright claims.[63] After concluding that U.K. law governed copyrightability while U.S. law governed the alleged infringements, the court held that since Bridgeman's images were "copied from the underlying works without any avoidable addition, alteration, or transformation," they were not copyrightable under British law since they lacked originality.[64] With respect to the alleged infringements, the court held that even if Bridgeman's images were copyrightable, there was "substantial doubt as to whether Bridgeman has made out even a

54. *See id.*
55. *See id.* at 423-24.
56. *See id.* at 423 n.1, 424.
57. *See id.* at 424.
58. For this reason, neither Bridgeman nor Corel's factual claims with respect to OWI were established in this action. *See id.* at 423 n.1.
59. 15 U.S.C. §§ 1125 (a), 1125 (a)(1)(A), 1125 (a)(1)(B) (1988).
60. *See Bridgeman I*, 25 F. Supp. 2d at 423.
61. *See id.*
62. *See id.* at 424.
63. *See id.* at 423-31.
64. *Id.* at 426.

prima facie case of access [by Corel]," and that there was "reason to doubt also" whether there was substantial similarity between Bridgeman's high-resolution color transparencies and Corel's low-resolution Masters CD-ROMs.[65] The court then dismissed Bridgeman's claims for alleged infringements in Canada and the United Kingdom because "the [Copyright] Act has no extraterritorial operation."[66]

After disposing with Bridgeman's claims under the Copyright Act, the court entered summary judgment against Bridgeman on its Lanham Act claims and then dismissed Bridgeman's unfair competition claims for lack of jurisdiction. The court entered summary judgment against Bridgeman on its Lanham Act claims because: (1) Bridgeman admitted that the images in question did not serve to identify the source of its products or services, and (2) Bridgeman had failed to allege or offer evidence of any trademark use by Corel of any of the images at issue and thus there was no possibility of confusion.[67] The court then dismissed Bridgeman's common law unfair competition claims because its jurisdiction over these state claims was dependent upon jurisdiction over Bridgeman's federal (Copyright and Lanham Act) claims.[68]

C. Bridgeman's Motion for Reconsideration

Ten days after the entry of summary judgment, Bridgeman moved for reargument and reconsideration on the grounds that the court had erred on the issue of originality under British law.[69] Specifically, Bridgeman contended that the court had overlooked the British Register of Copyrights issuance of a certificate of registration for one of its transparencies and had misconstrued British law by failing to apply *Graves Case*.[70] The court also received an unsolicited letter from Professor William Patry which argued that the court erred in applying British law on the issue of copyrightability.[71] The court granted leave for the submission of an amicus

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65. *Id.* at 428.

66. *See id.* at 428.

67. *See id.* at 429-30.

68. *See id.* at 431.

69. *See* Bridgeman Art Library, Ltd. v. Corel Corp., ("Bridgeman II") 36 F. Supp. 2d 191, 192 (S.D.N.Y. 1999).

70. *See id.* at 192. In *Graves Case*, L.R. 4 Q.B. 715 (1869), Justice Blackburn held that "[A]ll photographs are copies of some object . . . [and therefore] a photograph taken from a picture [i.e. painting] is an original photograph." *Id.* at 197 (quoting *Graves Case*, L.R. 4 Q.B. at 722).

71. *See id.* at 192.

brief by The Wallace Collection and invited the parties to respond to Professor Patry's letter.[72]

D. The District Court's March Decision

While the court's March 1999 decision[73] ultimately affirmed its earlier entry of summary judgment against Bridgeman, it reached its decision by applying different law. In its November, 1998 decision, the court had applied British law on the question of copyrightability.[74] In its March, 1999 decision, the court held that the Berne Convention Implementation Act "made it quite clear" that Congress did not view the United States' adherence to the Berne Convention as requiring U.S. courts to apply foreign law in copyright infringement cases brought by foreign plaintiffs in U.S. courts.[75]

The court then gave a somewhat "fuller statement" of the reasons why Bridgeman's images were not copyrightable under U.S. law.[76] The court began by explaining that "there is broad scope for copyright in photographs because 'a very modest expression of personality will constitute sufficient originality.'"[77] The court then cited Nimmer for the proposition that copyright is not available "'where a photograph of a photograph or other printed matter is made that amounts to nothing more than slavish copying.'"[78] While the court conceded the "possibility that protection in such a case might be claimed as a 'reproduction of a work of art'"[79] the court explained that the Nimmers "point out that this suggestion is at odds with the Second Circuit's en banc decision in *L. Batlin & Son, Inc. v. Sny-*

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72. *See id.*

73. Bridgeman Art Library, Ltd. v. Corel Corp., 36 F. Supp. 2d 191 (S.D.N.Y. 1999).

74. *See* Bridgeman Art Library, Ltd. v. Corel Corp., 25 F. Supp. 2d 421, 426 (S.D.N.Y. 1998). The court did, however, use U.S. law to construe British law since it found (a) there was "substantial similarity between the originality requirements of the UK Act and the Copyright Act," and (b) "the Privy Council itself has looked to American law as persuasive authority with respect to copyright originality." *See id.* at 427 n.41 (citing *Interlego AG v. Tyco Industries Inc.*, 3 All ER 949, 969 (P.C. 1989)(appeal taken from Hong Kong)).

75. *Bridgeman II*, 36 F. Supp. 2d at 195.

76. *Id.*

77. *Id.* at 196 (citing 1 NIMMER, *supra* note 17, § 2.08[E][1]).

78. *Id.* (citing 1 NIMMER, *supra* note 17, § 2.08[E][2]).

79. *Id.* (citing 1 NIMMER, *supra* note 17, § 2.08[E][1]). Nimmer's proposition is based on the argument that a photograph of a photograph should not be protectable since (a) it does not constitute a distinguishable variation, and (b) because the first photograph might not be regarded as a work of art since there are separate classifications for "works of art" and photographs under the Copyright Act. *See* 1 NIMMER, *supra* note 17, § 2.08[E][2] n.212.

der."[80] After noting that "the requisite 'distinguishable variation' [required by *Batlin*] is not supplied by a change of medium,"[81] the court ruled that the images at issue were not copyrightable since they were "'slavish copies' of public domain works of art" and therefore "there was no spark of originality"[82] in them. While the court conceded that Bridgeman's photography "doubtless requir[ed] technical skill and effort," it ruled that the Supreme Court's decision in *Feist* rejected such justifications for copyright since 'sweat of the brow' alone is not the 'creative spark' which is the sine qua non of originality."[83] Therefore, after dispensing with Bridgeman's contentions that the court had overlooked evidence supporting the validity of its copyrights and had misconstrued British law,[84] the court affirmed its entry of summary judgment against Bridgeman.[85]

III. DISCUSSION

A. The Court Properly Denied Copyright Protection to Bridgeman's Exact Reproductions of Public Domain Works of Art

The *Bridgeman* court's application of existing copyright doctrine to the facts of this case was as proper as it was unremarkable. Since Bridgeman's exact reproductions were not "distinguishable variations" of the underlying works,[86] its Copyright Act claims were ultimately premised on two arguments: (1) that photographs are per se copyrightable, and (2) that its photography demonstrated sufficient "skill, labor, and judgment" to warrant protection. The court rejected both arguments by holding:

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80. *Bridgeman II*, 36 F. Supp. 2d at 196. *See supra* Part I.A.1.

81. *Bridgeman II*, 36 F. Supp. 2d at 196 (quoting Past Pluto Prod. v. Dana, 627 F. Supp. 1435, 1441 (S.D.N.Y. 1986)).

82. *Id.* at 197.

83. *Id.*

84. The court addressed these arguments by ruling (a) that certificates of registration, while establishing the prima facie validity of the copyright, do not create an irrebuttable presumption that the alleged copyrights are valid, and (b) that *Graves Case* is no longer good case law in the United Kingdom. *See id.* at 197-200.

85. *See id.* at 200.

86. Bridgeman did argue, however, that its images were distinguishable variations of the underlying works since each of its high-resolution transparencies contained a color correction bar. The court rejected this argument in its November decision by explaining that "even if the images with the color bars attached are copyrightable, they may be infringed only by reproduction of Bridgeman's unique variation, the color bars. As Corel's images did not include color correction strips, their significance for copyrightability is academic in this case." *Bridgeman I*, 25 F. Supp. 2d at 427.

> [t]here is little doubt that *many photographs, probably the overwhelming majority*, reflect at least the modest amount of originality required for copyright protection. 'Elements of originality . . . may include posing the subjects, lighting, angle, selection of film and camera, evoking the desired expression, and almost any other variant involved.' But 'slavish copying,' *although doubtless requiring technical skill and effort*, does not qualify.[87]

Given the Second Circuit's acceptance of Nimmer's proposition that "'slavish copies' of photographs or other printed matter are not copyrightable,"[88] and given that Bridgeman "by its own admission [] labored to create 'slavish copies' of public domain works of art,"[89] the court's rejection of Bridgeman's "per se" argument is not surprising. Equally unremarkable was the court's rejection of Bridgeman's argument that its photography demonstrated sufficient skill, labor, and judgment to warrant protection. First, "technical skill and effort" does not fulfill the requirements of *Alva Studios*' skill, labor, and judgment test; the test requires "something more than the skill of an artisan,"[90] which has been interpreted to require that the work evidence "true artistic skill."[91] Although the court did not make any specific findings of fact on this point, trade literature supports the court's conclusion that copy photography indeed requires technical skill, not artistic talent.[92] Second, *Alva Studios* requires that this skill, labor, and judgment be exercised "without directly copying . . . the work of another."[93] Since Bridgeman admitted that the photographs were

87. *Bridgeman II*, 36 F. Supp. 2d at 197 (quoting Rogers v. Koons, 960 F.2d 301, 307 (2d Cir. 1992)) (emphasis added).

88. *See* Hearn v. Meyer, 664 F. Supp. 832, 835 (S.D.N.Y. 1987) (holding that slavish reproductions of public domain original works are not copyrightable.).

89. *Bridgeman II*, 36 F. Supp. 2d at 197.

90. *Hearn*, 664 F. Supp. at 839.

91. *Batlin*, 536 F.2d at 491.

92. As Sheldan Collins, former photographer for the Metropolitan Museum of Art explains, copy photography consists of six steps: "getting instructions, choosing a perspective, preparing a set, lighting the art, computing the exposure, and exposing the film." SHELDAN COLLINS, HOW TO PHOTOGRAPH WORKS OF ART 137 (1992). In describing the two elements that are arguably the most creative steps in this process—choosing a perspective and lighting the art—Collins explains that "perspective requires that an observer look at it from a centered position for an ideal view . . . [c]onsequently the camera is nearly always placed in the exact center of the field of view" and that a copy photographer's "choice of lighting" consists of "placing an even number of light sources of equal intensity and an identical design . . . symetrically, at an equal distance to the left and right of the art." *Id.* at 139. Therefore, the overwhelmingly technical nature of the process lends support to the *Bridgeman* courts' finding that such photography demonstrates only technical skill and effort.

93. Alva Studios, Inc. v. Winninger, 177 F. Supp. 265, 267 (S.D.N.Y. 1959).

direct copies of the underlying works, it seems safe to conclude that the court correctly applied existing copyright doctrine to the facts of this case and properly denied protection to Bridgeman's exact photographic reproductions of public domain works of art.[94]

B. The *Bridgeman* Court's Decision Upholds Important Policy Considerations

The *Bridgeman* court's decision is significant not for the doctrine it applied but for the policy considerations it embodied. These policy considerations, in turn, serve to promote fair competition between producers of art reproductions. Understanding this dynamic requires analysis of the end product of art reproductive photography, the applicable doctrine, and the market in which Bridgeman operates.

Despite the precise and technical nature of the photographic process involved in reproducing two-dimensional works of art,[95] the end product of such photography can vary significantly. Thus, it is often possible to point to distinguishable variations between the original work of art and an "exact" reproduction; and it is also possible to point to distinguishable variations between two "exact" copies of the same work.[96] Although there may be a multitude of reasons for this, it seems that a photographer's "stylistic decisions" may play a role. As Robert A. Baron, Chair of the In-

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94. The court's decision is doctrinally significant only in that it suggests that *Feist* can be applied to works that are more artistic than telephone directories. In fact, before *Bridgeman II*, copyright commentators wondered whether *Feist* "spelled the end of *Alva Studios* as viable doctrine." Howard Abrams, *Copyright and Legislation: The Kastenmeier Years*, 55 LAW & CONTEMP. PROBS. 3, 42 (1992). And while the *Bridgeman II* court's use of language from *Feist* will certainly add fuel to this fire, its decision does not spell the end of *Alva Studios* because (a) the court never comments, discusses, or purports to apply the *Alva Studios* test, and (b) *Alva Studios* is a three-pronged test that rewards true artistic skill, labor, and judgment, not "sweat of the brow" alone. *See Alva Studios*, 177 F. Supp. at 267.

95. *See generally* COLLINS, *supra* note 92.

96. On a recent visit to U.C. Berkeley's School of Art and Architecture, Maryly Snow, Slide Librarian and author of several articles on the history of art reproductions, demonstrated this in a matter of minutes. First, Snow showed a slide of a reproduction of a work of art that was produced in the early 1970s. Next, Snow showed a contemporary slide of the same work. In comparing the new reproduction against the old, the old reproduction appeared "dated"—the colors appeared "metallic," the lighting bathed the entire image in a yellowish haze—and this older reproduction was readily distinguishable from the newer reproduction, the colors of which appeared "softer," the lighting "cleaner," and the resulting image sharper. When I mentioned this to Snow, she agreed, adding "[a]nd 50 years from now we will probably look at these [both the old and the new reproductions] as antiques." Interview with Maryly Snow, Slide Librarian, U.C. Berkeley School of Art and Architecture, in Berkeley, Cal. (Nov. 25, 1999).

tellectual Property Committee at the College Art Association, points out, art reproduction photography:

> has undergone "stylistic" changes. [For example], in the 1950s and 1960s, the publisher Skira in Switzerland hit on a new way to photograph paintings that made them considerably more luminescent. By photographing them close up under high illumination, depths of color were revealed that were not visible to the human eye in ordinary light. . . . [T]he very fact that you can write a stylistic history of reproductive photography may indicate that photographers (whether they know it or not) are making stylistic decisions—and in these decisions [may be] the needed original elements.[97]

Thus, if the differences between two "exact" photographic reproductions are "distinguishable," and if the goal of Congress's grant of copyright protection to art reproductions is to give publishers like Skira the incentive to pursue such innovations,[98] then it is at least arguable that courts ought to uphold—rather than reject—the validity of such copyrights.

While copyright doctrine protects art reproductions and derivative works that contain "distinguishable variations," it cannot protect works that contain only slight (i.e., "merely trivial") distinguishable variations because to do so would "put a weapon for harassment in the hands of mischievous copiers intent on appropriating and monopolizing public domain work."[99] The requirement that art reproductions and derivative works demonstrate more than a "merely trivial" distinguishable variation serves an important evidentiary purpose—it prevents overlapping claims. As Judge Posner explained in *Gracen v. Bradford Exchange*:[100]

> Suppose Artist A produces a reproduction of the Mona Lisa, a painting in the public domain, which differs slightly from the original. B also makes a reproduction of the Mona Lisa. A, who has copyrighted his derivative work sues B for infringement. B's defense is that he was copying the original, not A's reproduction. But if the difference between the original and A's reproduction is

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97. E-mail from Robert A. Baron, Chair, Intellectual Property Committee, College Art Association, to Kathleen Connolly Butler, Professor of Law, Thomas M. Cooley School of Law (Jun. 21, 1999) (on file with author).

98. *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).

99. L. Batlin & Son, Inc. v. Snyder, 536 F.2d 486, 492 (2d Cir. 1976).

100. 698 F.2d 300 (7th Cir. 1983).

> slight, the difference between A's and B's reproductions will also be slight, so that if B had access to A's reproductions, the trier of fact would be hard pressed to decide whether B was copying A or copying the Mona Lisa itself.[101]

Bridgeman presents the precise problem highlighted by Judge Posner. Because Bridgeman's high-resolution color transparencies were as true to the original works of art as possible,[102] Corel's images (if they too were true to the original) would have been necessarily substantially similar to Bridgeman's. If Bridgeman had established access, Corel would have had the burden of proving that their images were copied from another source. If courts were to place such a burden on defendants in copyright infringement suits, "mischievous" image vendors could use their copyrights to harass competitors, thereby stifling fair competition in the market for art reproductions.

The court's decision also reinforces important policy considerations against impeding public access to public domain works of art. Initially, Bridgeman claimed it owned "the only images of the works in question and that the works themselves could not have been photographed anew."[103] Had the court granted copyright protection to these images, Bridgeman could have used its copyright in the photograph to prevent the public from reproducing or distributing any image that was substantially similar.[104] Thus, while Justice Holmes once defended the copyrightability of art reproductions by pointing out that the public would always be "free to copy the original,"[105] it is plain to see how an "exclusive right" to photograph the original work of art, coupled with a copyright in the only authorized photograph, would render such a promise illusory. Therefore, by denying Bridgeman a copyright in their exact photographic reproduc-

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101. *Id.* at 304.

102. *See* Bridgeman Art Library, Ltd. v. Corel Corp., 36 F. Supp. 2d 191, 199, n.54 (S.D.N.Y. 1999).

103. Bridgeman Art Library, Ltd. v. Corel Corp., 25 F. Supp. 2d 421, 428, n.50 (S.D.N.Y. 1998). Bridgeman later recanted and admitted that it was not the only possible source for 119 of the 120 images. *See id.* The court dispensed with Bridgeman's claims to "exclusive rights" in all existing images of the underlying works because it found "the record arguably supports the view that Bridgeman is merely an exclusive licensing and sales agent for reproductions owned by the museums." *Id.* at 426.

104. *See* 17 U.S.C. §§ 106 (1) & (3) (1994) (granting authors the exclusive right to reproduce and distribute their works.).

105. Bleistein v. Donaldson Lithographic Company, 188 U.S. 239, 249 (1903).

tions of public domain works of art, the court ensured that these images would remain "part of the public domain[,] available to every person."[106]

C. The Market Already Provides Bridgeman with an Adequate Economic Incentive

Copyright law is premised on a fundamental principle of micro-economics—in the absence of an economic reward, producers (here artists) will not have an adequate incentive to create new works.[107] Although this assumption is problematic,[108] and fails to address a myriad of concerns,[109] it is a creature of the Constitution.[110] From this, it follows that where the market already provides an adequate reward for the production of new (or in this case reproductive) works, the case for copyright is, in the words of Justice Stevens, weak.[111] The background facts suggest this may be true in *Bridgeman*.

The primary market for high-resolution transparencies of public domain works of art is universities, publishers, and advertising agencies.[112] Universities require high-resolution transparencies for their art history and art courses as well as for research purposes.[113] Publishers use high-resolution transparencies in textbooks and other printed matter.[114] Advertising agencies require "color transparencies [because they] provide much higher quality reproduction than would a . . . photograph."[115] High-resolution color transparencies are more expensive than other types of art reproductions.[116] Therefore, the background facts suggest that Bridge-

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106. Feist Publications, Inc. v. Rural Telephone Service Company, Inc., 499 U.S. 340, 348 (1991).

107. *See* Linda Lacey, *Of Bread and Roses and Copyrights*, 1989 DUKE L.J. 1532 (pointing out that this incentive theory is "boilerplate micro-economic analysis").

108. *See* Stephen Breyer, *The Uneasy Case for Copyright: A Study of Copyright in Books, Photocopies, and Computer Programs*, 84 HARV. L. REV. 281, 350 (1970) (arguing that "the case for copyright protection is weak, particularly as applied to certain classes of works").

109. *See* Lacey, *supra* note 107, at 1532-96 (pointing out that this "boilerplate micro-economic analysis" fails to account for the fact that many artists create for non-economic reasons and further noting that this justification for copyright fails to protect an artist's moral right in her work).

110. *See supra* note 98.

111. *See* Breyer, *supra* note 108.

112. *See* Butler, *supra* note 3, at 59-78.

113. *See id.* at 62-63, 77.

114. *See id.* at 62.

115. Ronald Alsop, *Fine Art is Now on Exhibit in Many Ads But Critics Say Commercial Use Cheapens the Great Masterpieces*, WALL ST. J., Mar. 25, 1988, *available in* 1988 WL-WSJ 475381.

116. *See Butler, supra* note 3, at 63 n.24.

man's business strategy was to service this large, high-end market for color transparencies. Bridgeman's marketing strategy reflects this focus—in the U.S., Bridgeman provided its potential customers with copies of its low-resolution CD-ROMs free of charge as a catalogue of their high-resolution transparencies.[117]

But even though the court refused to extend copyright protection to Bridgeman's images, it does not affect Bridgeman's ability to compete in the market for high-resolution color transparencies. As Ronald Alsop explains, "[b]ecause good reproduction is so important in advertisement, agencies typically won't use a certain painting unless they can get the transparencies."[118] Therefore, given the need for high-resolution color transparencies in certain contexts, it is reasonable to assume that certain customers will continue to purchase transparencies from Bridgeman because it is already well-positioned to service this market. In fact, the real threat to Bridgeman's position in the market for high-resolution color transparencies comes not from those who would make low-resolution copies of their high-resolution transparencies, but from technology that would permit others to make high-resolution copies of their high-resolution transparencies. Thus, the court's decision in *Bridgeman* may reflect a judicial determination that as Bridgeman already possesses an adequate economic incentive to produce high-resolution color transparencies (even in the absence of a copyright in the images themselves), their case for copyright—based on an incentive theory—is weak.

The court's decision does not affect Bridgeman's ability to compete in the market for low-resolution reproductions of public domain works of art. In fact, the court's decision tells Bridgeman (and others like Bridgeman) that courts will not impede access to this market and will thus leave it to the market itself to provide producers with the requisite incentive. Therefore, most image vendors are pursuing a marketing strategy designed to attract customers who want access to the widest variety and greatest number of works.[119] Bridgeman, which claims to own images from 800 museums, galleries and contemporary artists,[120] can hardly be said to be at a

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117. *Bridgeman I*, 25 F. Supp. 2d at 424.

118. Alsop, *supra* note 115.

119. For example, while Corbis Corporation claims that it owns "The World's Largest Collection of Fine Art and Photograpy," Corbis Corp. *About Corbis*, (visited Jan. 29, 2000) ⟨http://corbis.com⟩, Bridgeman boasts that it owns "The World's Most Comprehensive Source of Art Images for Reproduction." Bridgeman Art Library, Ltd., *About Us* (visited Jan. 29, 2000) ⟨http://bridgeman.co.uk⟩.

120. Bridgeman Art Library, *About Us* (visited Jan. 29, 2000) ⟨http://bridgeman.co.uk/public/aboutus/index.jhtml?go=true&r=513890⟩.

disadvantage in this market—even in the absence of copyright protection. Therefore, since Bridgeman already possesses an adequate economic incentive to produce low-resolution reproductions of public domain works of art, the court's decision may reflect a judicial determination that granting copyright protection to this class of works would give art reproducers like Bridgeman unjustified monopolies in a market in which they are already able to compete.

D. The Court's Decision Channels Protection to a More Appropriate Form of Intellectual Property Protection

The court's decision does not mean Bridgeman's intellectual property is unprotectable. In fact, as Professor Peter Menell writes: "given the broad array of modes of intellectual property protection, each with differing standards and terms of protection, the overall efficacy of the intellectual property regime depends significantly upon the ability of the system to properly channel innovation among the various modes."[121] Thus, the court's refusal to protect Bridgeman's images as derivative or photographic works may serve to channel this type of innovation into a more appropriate form of protection.

1. Bridgeman's image library may be copyrightable as a compilation

Bridgeman's image library may be copyrightable as a compilation.[122] Admittedly, "copyright in a . . . compilation is thin."[123] Nonetheless, as the *Feist* Court explained, authors of such compilations are entitled to protection since:

> [t]he compilation author typically chooses which [pre-existing material] to include, in what order to place them, and how to arrange the collected data so that they may be effectively used. . . . These choices as to selection and arrangement, so long as they are made independently by the compiler and entail a minimal

121. Peter S. Menell, *Intellectual Property: General Theories*, *in* ENCYCLOPEDIA OF LAW AND ECONOMICS (B. Bouckaert & G. De Geest eds., forthcoming 2000).

122. Section 101 of the Copyright Act defines a compilation as "[a] work formed by the collection and assembling of pre-existing materials or of data that are selected, coordinated, or arranged in such a way that the resulting work as a whole constitutes an original work of authorship." 17 U.S.C. § 101 (1994).

123. Feist Publications, Inc. v. Rural Telephone Service Company, Inc., 499 U.S. 340, 349 (1991).

> degree of creativity, are sufficiently original that Congress may protect such compilations through the copyright laws.[124]

Thus, to the extent that Bridgeman independently and creatively selected, coordinated, and arranged public domain works of art, it is entitled by statute to enjoin others from selling substantially similar compilations.[125] Granting protection to Bridgeman's images as compilations has several advantages from a policy perspective. First, since the copyright in such a compilation extends only to the selection, coordination, and arrangement of the materials, it would not affect the public's right to access and use the individual images and would thus guarantee the images remain "part of the public domain available to every person."[126] Second, granting copyright protections to compilations would give museums and image vendors an incentive to add value by creatively compiling the information so that it may be effectively used by the general public. Finally, granting protection to such works as compilations comports with the purposes of copyright—which is to encourage creation, not slavish copying.

2. *Bridgeman's photographic process may be patentable*

To the extent that Bridgeman's photography employs new, useful, non-obvious processes which are fully disclosed[127] in the application, Bridgeman may be entitled to a patent on the process. Indeed, after the court's March decision, Stephen A. Weingrad, a lawyer for Bridgeman, spoke of Bridgeman's images as though they were novel and unique: "the images . . . were magnificent 8+- 10 positive transparencies made under superb conditions. They are not reproducible by a walk-by photographer with a point-and-shoot camera."[128] Channeling protection for Bridgeman's photography to patent law provides Bridgeman (and society in general) with several benefits. First, it gives Bridgeman an economic incentive to invent new photographic processes that will "advance the Progress of Science."[129] Second, by requiring Bridgeman to disclose their process in the patent application, it allows others to use the process once the statutory

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124. *Id.* at 348.

125. *See* 17 U.S.C. §§ 501-506 (1994) (listing the remedies for infringement of copyrights).

126. *Feist*, 499 U.S. at 348 (quoting Miller v. Universal City Studios, Inc., 650 F.2d 1365, 1369 (5th Cir. 1981)).

127. *See* Patent Act, 35 U.S.C. §§ 101-103, 112 (1994).

128. Deborah Pines, *Copyright Protection Refused for Photographs of Classic Art*, N.Y. L.J., Feb. 24, 1999, at 1, col. 3.

129. See *supra* note 98.

period of exclusive control has ended.[130] Finally, by protecting the process of art reproductive photography rather than the end product, the public is assured their access to public domain works of art will remain unfettered.

3. *Bridgeman may be protected by unfair competition laws*

Although the court dismissed Bridgeman's unfair competition claims for lack of jurisdiction, it might be that this body of law is better suited to address the wrongs alleged in this suit. While a full discussion of unfair competition law is beyond the scope of this Note, the alleged wrong that forms the basis of *Bridgeman v. Corel* was that Corel had violated a property right by copying Bridgeman's images without compensating them for this use. If we substitute the words "committed a wrong" for "violated a property right," it seems Bridgeman would still have a cause of action that adequately describes the alleged wrong, except that the former sounds in property while the other sounds in tort. Remedying these wrongs through unfair competition law might be better since such causes of action would not threaten the public domain status of the underlying images, would provide plaintiffs with the ability to bring such suits beyond the statutory limit set for copyright actions, and might lessen problems of proof inherent in most copyright infringement actions.

IV. CONCLUSION

The *Bridgeman* decision has evoked strong feelings on both sides of a long-standing divide that has existed in the art community since the advent of digital technology. On one side of this divide are those (usually museum directors) who see digitization as potential "cash cows"[131] for their enterprises. For these people, the *Bridgeman* decision represents a dangerous precedent they hope will not be affirmed in the higher courts. For those on the other side of this divide—generally egalitarian minded museum workers and art historians who see digital technology as an ideal way to educate the public about art—the *Bridgeman* decision represents an affirmation of what they've asserted from the beginning—that public domain works of art ought to remain accessible to the public and that granting copyright privileges to public domain works of art inevitably creates unwarranted, unjustifiable barriers to access.

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130. *See* Patent Act, 35 U.S.C. §§ 112, 154 (1994) (stating the written description requirement and patent term.).

131. Interview with Rick Rinehart, Information Systems Manager, U.C. Berkeley Art Museum, in Berkeley, Cal. (Nov. 18, 1999).

But even though the *Bridgeman* decision ultimately affirms the public's right to use public domain works of art, it may lead museums and private companies to exert tighter control over these images. Indeed, as one commentator concluded in his summary of the *Bridgeman* decision:

> [I]mage vendors would be thus wise to reexamine their licensing practices and, in particular, the form and content of the restrictions they place upon access and use. Absent copyrights, it becomes critical to the possessor of valuable images that they not be let loose upon the world without binding, contractual restrictions.[132]

While the enforceability of such contractual provisions has not yet been fully settled by the courts,[133] their *in terrorem* effect may curb public use. Therefore, it seems the full impact of the *Bridgeman* decision will be felt only if courts prevent image vendors from achieving through contract what they couldn't achieve—at least in *Bridgeman v. Corel*—through copyright.

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132. Paul Dennis Connuck, *No Copyright for Art Reproductions?*, N.Y. L.J., May 17, 1999, at S3.

133. *See* 17 U.S.C. § 301(a) (federal copyright preemption); U.S. CONST. art. VI, cl. 2 (Supremacy Clause).

ALCATEL USA, INC. V. DGI TECHNOLOGIES, INC.

By Ben Sheffner

I. INTRODUCTION

The Copyright Act grants copyright owners the exclusive right to copy, sell, import, distribute, and prepare derivative works of their copyrighted material.[1] Owners of copyrighted software, however, often want more: not just the right to keep competitors from selling infringing software, but to prohibit others from developing non-infringing, interoperable software that works in conjunction with their own copyrighted works. Fortunately for the health of the competitive marketplace, courts have frowned upon attempts by copyright owners to extend their exclusive rights beyond those granted by the Copyright Act. As software manufacturers have, in the past two decades, increasingly sought to gain protection under the copyright laws, courts have invoked the doctrine of fair use,[2] or refused to afford copyright protection to the functional aspects of software,[3] as means of confining the rights under copyright to those afforded by the statute and mandated by the policies motivating intellectual property law.[4]

In the past decade, courts (and defendants) have added an increasingly deadly arrow to their quiver in the battle against copyright owners who attempt to exceed the rights under the statutory monopoly grant: copyright misuse. Derived from the more established doctrine of patent misuse, this affirmative defense to copyright infringement renders unenforceable a

1. *See* 17 U.S.C. § 106 (1994).

2. *See id.* § 107; Sega Enters. Ltd. v. Accolade, Inc., 977 F.2d 1510, 1521-22 (9th Cir. 1993); Atari Games Corp. v. Nintendo of Am., Inc., 975 F.2d 832, 842-43 (Fed. Cir. 1992).

3. *See* 17 U.S.C. § 102(b) ("In no case does copyright protection for an original work of authorship extend to any idea, procedure, process, system, method of operation, concept, principle, or discovery, regardless of the form in which it is described, explained, illustrated, or embodied in such work."); Lotus Dev. Corp. v. Borland Int'l, Inc., 49 F.3d 807, 815 (1st Cir. 1995), *aff'd by an equally divided Court*, 516 U.S. 233 (1996); Apple Computer, Inc. v. Microsoft Corp., 35 F.3d 1435, 1444 (9th Cir. 1994).

4. *See* Robert P. Merges, Who Owns the Charles River Bridge? Intellectual Property and Competition in the Software Industry (Apr. 2, 1999) unpublished manuscript, *available at* ⟨http://www.sims.berkeley.edu/BCLT/pubs/merges/⟩ (analyzing the conflict between copyright owners' desire to dominate markets and the policy of interoperability).

copyright held by an author who improperly seeks to leverage a lawful monopoly granted by the Copyright Act into an unlawful monopoly in a separate market for non-infringing material.[5] Adding to the growing body of caselaw validating copyright misuse as a viable defense, the Fifth Circuit in *Alcatel USA, Inc. v. DGI Technologies, Inc.*[6] refused to allow a manufacturer of telephone switching equipment employing copyrighted software to exclude others, through restrictive license provisions, from the market for compatible, though non-infringing, expansion cards for its switches. In doing so, the *Alcatel* court performed a valuable function, keeping copyright within its proper bounds and preventing a copyright in one product market from granting owners unwarranted monopolies in others. Copyright misuse—along with fair use, limits on copyrightability, and enforcement of the traditional antitrust laws—has become a key tool in keeping copyright owners from excluding others from the market for interoperable products.

II. THE CASE

Alcatel USA, Inc., formerly DSC Communications Corporation ("DSC"),[7] designs, manufactures, and sells telephone switching equipment.[8] DSC's switches, used by major long distance providers such as MCI and Sprint, route long distance calls to their proper destinations. DSC also develops software necessary to control its switches.[9] It does not sell the software, but instead licenses it to its customers pursuant to a license agreement that provides: (1) the software remains the property of DSC; (2) the customer may use the software only to operate its switches (and not for other purposes); (3) the customer may not copy the software or make it available to third parties; and (4) the customer may use the software only in conjunction with DSC switches (and not in conjunction with other manufacturers' switches).[10]

When customers require additional call-handling capacity for their switches, they purchase expansion cards containing "firmware," which is

5. *See, e.g.*, Lasercomb America, Inc. v. Reynolds, 911 F.2d 970, 979 (4th Cir. 1990) ("The misuse arises from Lasercomb's attempt to use its copyright . . . to control competition in an area outside the copyright.").

6. 166 F.3d 772 (5th Cir. 1999).

7. Following the practice of the courts that have adjudicated this case, I will refer to "DSC" rather than "Alcatel" throughout.

8. *See* Alcatel USA, Inc. v. DGI Techs, Inc., 166 F.3d 772, 777 (5th Cir. 1999).

9. *See id.*

10. *See id.*

software embedded in memory chips.[11] Until 1989, DSC itself was the sole provider of such expansion cards.[12] In that year, however, the defendant in this case, DGI Technologies, Inc. ("DGI"), sought to break DSC's monopoly in the expansion card market by designing, manufacturing, and selling its own expansion cards. DGI contended that, in order to develop its DSC-switch-compatible cards, it engaged in permissible reverse engineering of DSC's unpatented technologies.[13] DGI further contended that DSC engaged in a series of practices intended to bar the potential new competitor's entry into the expansion card market.[14] Such practices allegedly included the insertion by DSC of software "patches" designed to render the DGI cards inoperable and DSC's sending of a letter to its switch customers threatening to void its warranties if they used DGI cards instead of DSC cards.[15] DSC disputed these claims, countering that DGI did not engage in legitimate reverse engineering, but instead improperly obtained copyrighted schematics and operating manuals provided to customers only on the condition that their contents not be disclosed to third parties.[16]

In 1994, DSC filed suit against DGI in the United States District Court for the Northern District of Texas, stating claims for copyright infringement and state-law misappropriation of trade secrets and unfair competition by misappropriation.[17] DGI counterclaimed, charging DSC with: (1) violating section 2 of the Sherman Act by monopolizing or attempting to monopolize the market for DSC-switch-compatible expansion cards; (2) tortiously interfering with DGI's contractual relations; and (3) engaging in unfair competition.[18] The district court issued a preliminary injunction barring DGI from removing DSC's operating system software from customer facilities;[19] on an initial appeal, the Fifth Circuit subsequently affirmed, while finding a likelihood that DGI would prevail on its copyright misuse defense.[20]

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11. *See id.* at 777-78.
12. *See id* at 778.
13. *See id.*
14. *See id.*
15. *See id.*
16. *See id.*
17. *See id.* at 779.
18. *See id.*
19. *See id.*
20. *See* DSC Communications Corp. v. DGI Techs, 81 F.3d 597, 601 (5th Cir. 1996) ("DSC I"), *aff'g* DSC Communications Corp. v. DGI Technologies, Inc., 898 F. Supp. 1183 (N.D. Tex. 1995).

A. The District Court Proceedings

After issuing its preliminary injunction, the district court held a three-week jury trial that produced a mixed verdict. The jury did find that DGI infringed DSC's copyrights;[21] engaged in unfair competition by misappropriating DSC's time, labor, skill, and money;[22] and misappropriated DSC's trade secrets.[23] But it also found that DSC violated the Sherman Act, interfered with DGI's contractual relations, and itself engaged in unfair competition. Finally, it determined that both parties had "unclean hands."[24] Nine months after the conclusion of the trial, in November 1997, the court entered a final judgment and permanent injunction. The court awarded DSC $4.3 million in actual damages and $7 million in punitive damages, and also awarded DGI $2 million in actual damages and $9 million in punitive damages—resulting in a net offset judgment of $300,000 for DSC. The court dismissed DGI's antitrust claim, holding that it had failed to prove the relevant market pursuant to the standards set forth by the Supreme Court in *Eastman Kodak Co. v. Image Technical Services, Inc.*[25] and that its damages model was "hopelessly flawed."[26] And, finally, the court permanently enjoined DGI from developing any new cards with the assistance of DSC's software and from selling any card designed to use DSC software;[27] it also ordered DGI to turn over all of its "DMP-2800" expansion cards to DSC for destruction.[28] Both parties appealed, and hence this decision of the Fifth Circuit, issued January 29, 1999.

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21. The actual act of infringement occurred when DGI, as part of the testing process for its cards, necessarily downloaded DSC's operating system software into its expansion cards. It did so with the help of NTS Communication, a valid licensee of DSC. *See Alcatel*, 166 F.3d at 779. The act of downloading a copy of software into RAM has been held to constitute copyright infringement. *See* MAI Sys. Corp. v. Peak Computer, Inc., 991 F.2d 511 (9th Cir. 1993), *cert. dismissed*, 510 U.S. 1033 (1994); Central Point Software, Inc. v. Nugent, 903 F. Supp. 1057, 1059-60 (E.D. Tex. 1995) ("Plaintiffs may establish copying if they can demonstrate that the software has been reproduced in a computer's memory without permission.").

22. *See Alcatel*, 166 F.3d at 779.

23. *See id.* at 779-80.

24. DGI's hands were apparently sullied by its actions in obtaining, through NTS, DSC's proprietary materials, including owners manuals. *See Alcatel*, 166 F.3d at 794. DSC had allegedly earned its own unclean hands by installing software patches designed to disable the DGI expansion cards, and by threatening to void switch-owners' warranties and maintenance agreements if they used non-DSC expansion cards. *See id.* at 796.

25. 504 U.S. 451 (1992).

26. *Alcatel*, 166 F.3d at 780.

27. *See id.*

28. *See id.*

B. The Fifth Circuit's Decision

The Fifth Circuit began its analysis of this "complex intellectual property action"[29] by turning to the antitrust claim and agreeing with the district court that DGI had failed as a matter of law to define the relevant market.[30] The court next considered DSC's trade secret cause of action and concluded that "there was ample evidence to support the jury's determination that DGI obtained DSC's trade secrets through improper means."[31] Citing its own caselaw and the Restatement of Torts, the court held that DGI's conduct in gaining access to "purloined software" "[fell] below the generally accepted standards of commercial morality and reasonable conduct."[32]

The court next considered whether DSC's state-law misappropriation claim against DGI was preempted by federal copyright law, which mandates preemption when: (1) the work sought to be protected by state law falls within the subject matter of copyright as defined in section 102 of the Copyright Act; and (2) the right sought to be protected by the state law is equivalent to any of the exclusive rights specified by section 106 of the Act.[33] DSC had argued against preemption based on the first prong of the preemption test, characterizing its misappropriation claim as concerned with DGI's taking of facts contained within its copyrighted works—but not of the copyrighted material itself.[34] The court, however, quickly rejected this reasoning, explaining that the district court had instructed the jury on this claim, without objection from DSC, as to the copyrighted materials as a whole, not to the specific facts contained within.[35] The work at issue, the court thus determined, falls under the subject matter of copyright. After undertaking a lengthy analysis of the purposes of both copyright and Texas misappropriation law, the court also held that the rights protected by both are equivalent, and thus that the second prong of the

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29. *Id.* at 777.

30. *See id.* at 780-84.

31. *Id.* at 785. The "improper means" were employed by DGI to obtain access to the DSC operating system through NTS, which, according to the terms of its license from DSC, was not permitted to furnish the DSC software to DGI or any other third party. Explained the court, "DGI duped NTS into breaching its own contract with DSC." *Id.*

32. *Id.*; E.I. DuPont deNemours & Co. v. Christopher, 431 F.2d 1012, 1016 (5th Cir. 1970); RESTATEMENT OF TORTS § 757, cmt. f (1939).

33. *See* 17 U.S.C. § 301 (1994).

34. *See Alcatel*, 166 F.3d at 786. Copyright law protects expression, not facts. *See* Feist Publications, Inc. v. Rural Tel. Serv. Co., 499 U.S. 340, 356 (1991) (noting that 17 U.S.C. § 102(b) is "universally understood to prohibit any copyright in facts").

35. *See Alcatel*, 166 F.3d at 786.

preemption test is satisfied.[36] The court therefore held that the district court should have dismissed DSC's state-law misappropriation claim under section 301 and ordered its damages reduced by the amount awarded under that theory.[37]

After holding that the district court had sufficient evidence of DGI's acts of copyright infringement on which to base its injunction, it turned to DGI's argument that, even assuming that it had infringed DSC's copyrights, the "copyright misuse" defense precluded injunctive relief under such facts. The copyright misuse defense does not invalidate an otherwise valid copyright, but "'bars a culpable plaintiff from prevailing on an action for the infringement of the misused copyright'"[38] where the copyright is used "'to secure an exclusive right or limited monopoly not granted by the [Copyright] Office and which it is contrary to public policy to grant.'"[39] Pressing its case for a misuse defense, DGI argued that "as DSC's software is licensed to customers to be used only in conjunction with DSC-manufactured hardware, DSC indirectly seeks to obtain patent-like protection of its hardware—its microprocessor card—through the enforcement of its software copyright."[40] The court agreed, explaining that there was no way for DGI to develop its cards without using DSC's copyrighted software, thereby giving DSC a "limited monopoly over its uncopyrighted microprocessor cards."[41] It therefore held that DSC had misused its copyright and thus could not recover for any alleged infringement by DGI.[42]

Finally, in the last major holding of the case, the Fifth Circuit rejected DSC's claim that the copyright misuse defense should be unavailable to DGI given the jury's finding that DGI had unclean hands. The relevant issue, the court explained, is not whether *DGI* had unclean hands, but whether *DSC*—which was the party seeking equitable relief in the form of an injunction—had sullied its own. DSC had indeed, the court stated, by misusing its copyright. Despite acknowledging that a "smattering" of other courts had held the copyright misuse defense unavailable to defendants

36. *See id.* at 789.

37. *See id.*

38. *Id.* at 792 (quoting Lasercomb Am., Inc. v. Reynolds, 911 F.2d 970, 972 (4th Cir. 1990)).

39. *Id.* at 792 (quoting *Lasercomb*, 911 F.2d at 976).

40. *Alcatel*, 166 F.3d at 793.

41. *Id.* at 794.

42. *See id.* at 793-95.

with unclean hands, the Fifth Circuit announced, "[W]e find these decisions unpersuasive."[43]

III. DISCUSSION

A. Copyright Misuse

Copyright misuse is a defense to copyright infringement. When a plaintiff brings a cause of action against a defendant for copyright infringement, the defendant may assert that, despite the alleged infringement, equity should prevent the plaintiff from recovering. The notion stems from the venerable equitable doctrine that a party seeking relief in equity will be denied relief if he comes to court with "unclean hands"—*i.e.*, that he himself is guilty of having committed wrongful acts.[44] Such defenses generally arise from one of two types of situations. First, the plaintiff may be accused of some sort of unfair conduct, such as fraud in its dealings with the Copyright Office.[45] Second, and more commonly, the party asserting the misuse defense will accuse its opponent of using the rights afforded it under the copyright law to expand its monopoly beyond

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43. *Id.* at 795. Among the decisions holding that the copyright misuse defense is unavailable to a party with unclean hands are Data Gen. Corp. v. Grumman Sys. Support Corp., 36 F.3d 1147, 1170 n.43 (1st Cir. 1994); Atari Games Corp. v. Nintendo of Am., Inc., 975 F.2d 832, 846 (Fed. Cir. 1992); Leo Feist, Inc. v. Young, 138 F.2d 972, 975 (7th Cir. 1943); Tempo Music, Inc. v. International Good Music, Inc., 143 U.S.P.Q. (BNA) 67 (W.D. Wash. 1964). *Nimmer on Copyright* also suggests that the copyright misuse defense is inappropriate in such circumstances. *See* 4 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 13.09[B], at 13-295 (1997).

44. As the district court explained in instructing the jury,

> The doctrine of unclean hands is an equitable defense which provides that a party must have acted fairly and justly in its dealings with another in order to assert a cause of action against that party. A party is said to possess 'unclean hands' if it is guilty of conduct involving fraud or bad faith. If you find that either party acted in a fraudulent, underhanded, unfair or unjust manner then you may conclude that party had "unclean hands."

Alcatel, 166 F.3d at 796.

45. *See, e.g.*, *Atari*, 975 F.2d at 836. The case provides a vivid example of fraud on the Copyright Office. After Atari was unable, through its own reverse engineering attempts, to gain access to Nintendo's object code, Atari's attorney applied to the Copyright Office for a copy of the code, claiming that it was a defendant in a copyright infringement action and needed the code in order to defend itself. In fact, contrary to its assertions, Atari was not then a defendant. *See id.* The court later used this fact to preclude Atari from invoking the copyright misuse defense, even where it may otherwise have been a viable defense to charges of infringement. *See id.* at 846.

that of the Copyright Act's statutory grant, in violation of the spirit, if not the letter, of the antitrust laws.[46]

1. *Origins in patent law*

Most commentators agree that copyright misuse is a direct outgrowth of the more established and refined doctrine of patent misuse.[47] The notion of patent misuse—though it was not called by that name until later—first began to receive favorable hearing in the Supreme Court as early as 1917.[48] Put simply, the patent misuse doctrine states that a patentee may not enforce his statutory rights when he improperly attempts to extend his monopoly power beyond the power granted by the Patent Act.[49] In the *Motion Picture Patents* case, for example, the Supreme Court expressed concern that the patentee was attempting, through license provisions, to restrict the manner of use of the invention.[50] In another early case, the Court frowned upon a provision in a license for a patented dry ice machine that required licensees to purchase other, unpatented, materials from the licensor.[51]

The seminal Supreme Court case on patent misuse, and the first one to actually use the term, was *Morton Salt Co. v. G.S. Suppiger Co.*[52] Morton Salt manufactured and held a patent to a machine that inserted salt tablets into canned food products.[53] Morton licensed its machine; one of the provisions of the license mandated that licensees had to purchase the (unpatented) salt tablets from a Morton subsidiary.[54] When Morton brought suit against a manufacturer of a rival salt-tablet depositing machine that alleg-

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46. *See, e.g.*, Lasercomb Am., Inc. v. Reynolds, 911 F.2d 970, 979 (4th Cir. 1990) ("The misuse arises from Lasercomb's attempt to use its copyright . . . to control competition in an area outside its copyright . . . regardless of whether such conduct amounts to an antitrust violation.").

47. *Cf.* Raymond T. Nimmer & Murali Santhanam, *The Concept of Misuse in Copyright and Trademark Law: Searching for a Concept of Restraint*, 524 PLI/PAT. 397, 410-12 (1998). While Nimmer and Santhanam do acknowledge the contributions of patent misuse to the copyright misuse doctrine, they trace copyright misuse's origins to two early Twentieth Century cases that actually predate the development of patent misuse. *See* Stone & McCarrick, Inc. v. Dugan Piano Co., 220 F. 837 (5th Cir. 1915), Edward Thompson Co. v. American Law Book Co., 122 F. 922 (2d Cir. 1903).

48. *See* Motion Picture Patents Co. v. Universal Film Mfg. Co., 243 U.S. 502 (1917).

49. *See* 6 DONALD S. CHISUM, CHISUM ON PATENTS § 19.04 (1997).

50. *See Motion Picture Patents*, 243 U.S. at 509.

51. *See* Carbice Corp. of America v. American Patents Dev. Co., 283 U.S. 420 (1931).

52. 314 U.S. 488 (1942).

53. *See id.* at 489.

54. *See id.* at 490.

edly infringed its patent, the defendant successfully raised the misuse defense in the district court;[55] the Supreme Court agreed.[56] Though the Court found no actual violation of the antitrust laws on the part of Morton, it denied relief by relying on "the equitable maxim that a party seeking the aid of a court of equity must come into court with clean hands."[57] The Court was less than precise about what sort of conduct, short of an actual Sherman Act transgression, would preclude a patentee from being able to enforce its patent; it merely stated that practices that would trigger application of the doctrine were those that are "contrary to public policy" or that have an "adverse effect on the public interest."[58]

In the half century since *Morton Salt*, courts have created a considerable body of law refining the patent misuse defense, and the doctrine is an established feature of the current terrain of patent law.[59] A detailed examination of the modern application of the patent misuse doctrine is beyond the scope of this Note; instead it is simply worth noting a recent statement of the Federal Circuit on the subject: "Patent misuse is an affirmative defense to an accusation of patent infringement, the successful assertion of which requires that the alleged infringer show that the patentee has impermissibly broadened the physical or temporal scope of the patent grant with anticompetitive effect."[60]

2. *The birth of copyright misuse*

A federal district court first validated a defense of copyright misuse in 1948 in *M. Witmark & Sons v. Jensen*.[61] The case involved the conduct of ASCAP, the performing rights society, which negotiated with film producers over the rights to record copyrighted songs on motion picture soundtracks and also negotiated with theater owners over the rights to per-

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55. *See id.* at 489-90.

56. *See id.* at 494.

57. *Id.* at 492.

58. *Id.*

59. *See* 6 CHISUM, *supra* note 49, § 19.04. The doctrine, however, is not without its critics. *See* Mark A. Lemley, Comment, *The Economic Irrationality of the Patent Misuse Doctrine*, 78 CALIF. L. REV. 1599, 1599 (1990) (arguing for the abolition of the doctrine on the grounds that: (1) "the level of sanction [unenforceability of the patent] is unrelated to the injury caused" by the misuse; (2) "the sanction duplicates antitrust remedies, leading to excessive recoveries;" and (3) the doctrine awards a "windfall" to infringers, even if they themselves are not harmed by the misuse).

60. Virginia Panel Corp. v. MAC Panel Co., 133 F.3d 860, 868 (Fed. Cir. 1997) (internal quotation marks omitted).

61. 80 F. Supp. 843 (D. Minn. 1948), *appeal dismissed sub nom.* M. Witmark & Sons v. Berger Amusement Co., 177 F.2d 515 (8th Cir. 1949).

form films that contained the copyrighted songs.[62] ASCAP brought a copyright infringement action against the defendants, but the court denied relief, analogizing from the patent misuse cases.[63] The court reasoned that, since ASCAP controlled eighty percent of the songs used on soundtracks, it gained an unfair advantage in the market for theater performance licenses, in violation of the antitrust laws.[64] Concluded the court,

> One who unlawfully exceeds his copyright monopoly and violates the anti-trust laws is not outside the pale of the law, but where the Court's aid is requested, as noted herein, and the granting thereof would tend to serve the plaintiffs in their plan and scheme with other members of ASCAP to extend their copyrights in a monopolist control beyond their proper scope, it should be denied.[65]

3. Lasercomb *and the reawakening of copyright misuse*

After the copyright misuse defense reared its head in *Witmark*, the doctrine quickly retreated into near dormancy for over forty years. Though a number of courts considered the defense, every single one found it inapplicable on the facts presented.[66] It was not until 1990 in *Lasercomb America, Inc. v. Reynolds*[67] that a court actually accepted the argument that it should not enforce a copyright on behalf of a plaintiff who had "misused" its statutory monopoly grant. Lasercomb manufactured sophisticated steel rule dies used to cut paper and cardboard into shapes appropriate for boxes and cartons.[68] It also developed copyrighted software that enabled users to direct the cutting of the actual steel die by first creating a cardboard model on a computer screen.[69] Lasercomb licensed the software to users; its standard license agreement contained provisions forbidding licensees from developing or aiding others in developing any competing

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62. *See id.* at 844-45.
63. *See id.* at 844, 848-49.
64. *See id.*
65. *Id.* at 850.
66. *See, e.g.*, United Tel. Co. of Mo. v. Johnson Publishing Co., 855 F.2d 604, 610-12 (8th Cir. 1988); Supermarket of Homes, Inc. v. San Fernando Valley Bd. of Realtors, 786 F.2d 1400, 1408 (9th Cir. 1986); F.E.L. Publications, Ltd. v. Catholic Bishop of Chicago, 214 U.S.P.Q. (BNA) 409, 413-14 (7th Cir. 1982); Mitchell Bros. Film Group. v. Cinema Adult Theater, 604 F.2d 852, 865 (5th Cir. 1979); CBS, Inc. v. ASCAP, 607 F.2d 543, 544-45 (2d Cir. 1979); Edward B. Marks Music Corp. v. Colorado Magnetics, Inc., 497 F.2d 285, 290 (10th Cir. 1974).
67. 911 F.2d 970 (4th Cir. 1990).
68. *See id.* at 971.
69. *See id.*

software for a period of 99 years.[70] Lasercomb brought a copyright infringement suit against defendant Holiday Steel after Holiday apparently made three unauthorized copies of the Lasercomb software and also developed and marketed software of its own that copied from Lasercomb's.[71] Holiday Steel asserted copyright misuse as an affirmative defense, claiming that the license provision described above (to which Holiday was not even a party)[72] constituted an improper attempt to expand its copyright protection beyond that granted by the Copyright Act by foreclosing competition even from software which did not infringe its own.[73]

The Fourth Circuit undertook a fairly detailed examination of the related historical origins of patent and copyright and ultimately determined that "since copyright and patent law serve parallel public interests, a 'misuse' defense should apply to infringement actions brought to vindicate either right."[74] The court explicitly cited *Morton Salt*, noting that "the phraseology [announcing the Supreme Court's embrace of the patent misuse defense] adapts easily to a copyright context."[75] Significantly, the court also adopted *Morton Salt*'s holding that a party may succeed with a misuse defense without actually proving an antitrust violation.[76] Also, the Fourth Circuit held, as in *Morton Salt*, that a party (like Holiday Steel) need not actually be bound by the offending license provisions or indeed even harmed directly by them in order to avail itself of the copyright misuse defense.[77] Finally, the court noted that Lasercomb would be free to bring another suit for copyright infringement against Holiday Steel (or anyone else) "once it has purged itself of the misuse."[78]

4. *After* Lasercomb: *increasing acceptance of the copyright misuse defense*

Commentators did not let the *Lasercomb* decision go unnoticed; the decision sparked a flurry of scholarly comment,[79] not to mention assertion

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70. *See id.* at 973.
71. *See id.* at 971.
72. *See id.* at 979.
73. *See id.* at 972.
74. *Id.* at 976.
75. *Id.* at 977.
76. *See id.* at 978.
77. *See id.* at 979.
78. *Id.* at 979 n.22.
79. *See, e.g.*, Ramsey Hanna, *Misusing Antitrust: The Search for Functional Copyright Misuse Standards*, 46 STAN. L. REV. 401 (1994); James A.D. White, *Misuse or Fair Use: That is the Software Copyright Question*, 12 BERKELEY TECH. L.J. 251 (1997); William E. Thomson, Jr. & Margaret Y. Chu, *Overstepping the Bounds: Copyright Misuse*, COMPUTER LAW., Nov. 1998, at 1; Aaron Xavier Fellmeth, *Copyright Misuse and*

of the defense by litigants.[80] A large percentage of the post-*Lasercomb* cases and commentary have concerned alleged copyright misuse in cases involving computer software.[81] Explanations for why this is so center around the factors that distinguish software from more traditional forms of copyrighted material, such as literary works, music, and film. While commercially successful works in those media may provide authors a revenue stream for many years, in fact many decades,[82] that is not the case with computer software, where manufacturers release new versions with dizzying speed; state-of-the-art Version 3.0 becomes obsolete as soon as Ver-

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the Limits of the Intellectual Property Monopoly, 6 J. INTELL. PROP. L. 1 (1998); John G. Mills, *Possible Defenses to Complaints for Copyright Infringement and Reverse Engineering of Computer Software: Implications for Antitrust and I.P. Law*, 80 J. PAT. & TRADEMARK OFF. SOC'Y 101 (1998); Edward J. Hansen & Susan E. McGlamery, *Copyright Misuse: No Magic Bullet for Licensees*, N.Y.L.J., June 14, 1999; Note, *Clarifying the Copyright Misuse Defense: The Role of Antitrust Standards and First Amendment Values*, 104 HARV. L. REV. 1289 (1991); John Baker McClanahan, Note, *Copyright Misuse as a Defense in an Infringement Action*: Lasercomb America v. Reynolds, 49 WASH. & LEE L. REV. 213 (1992).

80. For cases in which the defense was successfully raised, see, e.g., Practice Management Info. Corp. v. AMA, 121 F.3d 516 (9th Cir. 1997); Atari Games Corp. v. Nintendo of America, Inc., 975 F.2d 832 (Fed. Cir. 1992); PRC Realty Sys., Inc. v. Nat'l Assoc. of Realtors, 972 F.2d 341 (4th Cir. 1992); Electronic Data Sys. Corp. v. Computer Assocs. Int'l, Inc., 802 F. Supp. 1463 (N.D. Tex. 1992); qad, Inc. v. ALN Assocs., Inc., 770 F. Supp. 1261 (N.D. Ill. 1991).

For cases in which the court acknowledged the existence of a defense of copyright misuse but ultimately did not accept the assertion of the defense on the facts, see, e.g., Triad Sys. Corp. v. Southeastern Express Co., 64 F.3d 1330 (9th Cir. 1995); Data Gen. Corp. v. Grumman Sys. Support Corp., 36 F.3d 1147 (1st Cir. 1994); Service & Training, Inc. v. Data Gen. Corp., 963 F.2d 680 (4th Cir. 1992); Dream Dealers Music v. Parker, 924 F. Supp. 1146 (S.D. Ala. 1996); Religious Tech. Ctr. v. Lerma, 40 U.S.P.Q.2d (BNA) 1569 (E.D. Va. 1996); *In re* Independent Serv. Orgs. Antitrust Litigation, 910 F. Supp. 1537 (D. Kan. 1995); Advanced Computer Servs. of Mich., Inc. v. MAI Sys. Corp., 845 F. Supp. 356 (E.D. Va. 1994); NFL v. Rondor, Inc., 840 F. Supp. 1160 (N.D. Ohio 1993); Budish v. Gordon, 784 F. Supp. 1320 (N.D. Ohio 1992); Basic Books, Inc. v. Kinko's Graphics Corp., 758 F. Supp. 1522 (S.D.N.Y 1991); Georgia Television Co. v. TV News Clips of Atlanta, Inc., 19 U.S.P.Q.2d (BNA) 1372 (N.D. Ga. 1991); Nat'l Cable Television Ass'n v. Broadcast Music, Inc., 772 F. Supp. 614 (D.D.C. 1991). These cases are collected in Nimmer & Santhanam, *supra* note 47, at 431 nn.90-91.

81. *See, e.g.*, Hanna, *supra* note 79, at 409 ("[T]he misuse defense has been raised most frequently in software infringement cases.").

82. 17 U.S.C. § 302 provides that copyright lasts for the life of the author plus 70 years, or 95 years for a corporate or anonymous author. These terms reflect the recently passed Sonny Bono Copyright Extension Act, which extended terms for both categories of works by 20 years. *See* Pub. L. No. 105-298, 112 Stat. 2827 (codified at 17 U.S.C. § 302 (Supp. IV 1999)).

sion 4.0 hits the shelves.[83] Thus software manufacturers must act quickly to recoup the costs of development and reap a profit; they cannot count on a steady current of royalties to pour in over the life of the copyright grant. For this reason, licensors of software seek, in those licenses, to gain every advantage possible, including, at times, attempts to extend their monopoly beyond that explicitly granted by the Copyright Act. As Nimmer and Santhanam explain, software is a "burgeoning field" in which

> the commercial life of the copyrighted work is fleeting in proportion to the term of the copyright. Moreover, the market for the work is also not so pervasive as in the case of other copyrighted works. The cost of development of such works is also comparatively high. These factors combine to impel the holder to adopt measures that would ensure recouping of the investment, stabilizing market presence and reaping rewards. These measures may present the aura of misuse to a court applying vague concepts of equity in light of its own views of what scope of leverage a property rights owner should have.[84]

In explaining the high percentage of software cases in the misuse arena, others have focused on the functional nature of computer software and the fact that it must be used with compatible hardware and software; the compatibility factor works to endow the owners of intellectual property the power to formulate license provisions that seek to extend their monopolies further than that explicitly permitted by the copyright (or patent) statutes.[85] Endowed by the power of their technology with the means to exclude competitors from the market for interoperable software, it should be little surprise that profit-seeking software manufacturers indeed seek to do so.

B. Alternatives to Copyright Misuse in Maintaining Interoperability

As commentators have recognized, copyright misuse is but one means courts and litigants have of furthering the goal of interoperability, that is, maintaining a competitive market for software products compatible with

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83. *See* Peter H. Lewis, *State of the Art; Many Updates Cause Profitable Confusion*, N.Y. TIMES, Jan. 21, 1999, at G1 ("The frantic pace of innovation in the computer industry is a mixed blessing. On one hand, we benefit from a torrent of newer, faster, better and cheaper products, creating value for the consumer at a speed unmatched in any other industry in history. On the other hand, rapid advances in technology condemn us to a treadmill of rapid obsolescence. It is frustrating to buy version 1.0 of something, knowing that version 1.1 is already in development and that version 2.0 is just around the corner.").

84. Nimmer & Santhanam, *supra* note 47, at 423.

85. *See* Hanna, *supra* note 79, at 409-10; White, supra note 79, at 282-85.

other products protected by copyright.[86] Scholars examining network economic effects[87] have recognized the importance of maintaining interoperability in order to prevent the acquisition of monopoly power in markets simply by virtue of having obtained intellectual property protection for one important component in the interoperable system.[88] As Professor Merges explains, "small" property rights should not be employed to "leverage very large markets."[89] It is by no means certain that there is but one best means of furthering the goal of interoperability, and different factual scenarios may in fact invite different responses. But in evaluating the potential responses to copyright owners who attempt to prevent competitors from developing compatible products, one must start by examining the advantages and disadvantages of copyright misuse as compared with potential alternatives, including fair use, limits on copyrightability, and antitrust. As it shall become clear, in embracing the copyright misuse defense, the *Alcatel* court, whether or not it did so consciously, embraced the most appropriate means, given the particular facts of the case, to safeguard the market for interoperable goods.

1. Fair use

Courts in several instances have invoked fair use to maintain the interoperability principle. The game cartridge cases are prime examples.[90] Manufacturers of game consoles such as Nintendo and Sega sought to

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86. *See* Merges, *supra* note 4, at 4-9; David R. Owen, Note, *Interfaces and Interoperability in Lotus v. Borland: A Market-Oriented Approach to the Fair Use Doctrine*, 64 FORDHAM L. REV. 2381 (1996) (arguing that "the use of protected elements of computer programs that are necessary for interoperability should be allowed under copyright law subject to a requirement that unfair harm to the market for the copyrighted work is minimized or eliminated" (internal quotation marks and footnote omitted)).

87. Network economic effects occur with products whose utility depends on the use of the same (or compatible) products by others. For example, the utility of a non-network good, such as one's shoe, is the same whether the wearer is the only one wearing the shoe or if it graces all the feet in the neigborhood. A classic network product—a telephone, for example—is useful only to the extent that others use compatible, or interoperable, telephones. *See generally* Mark A. Lemley & David McGowan, *Legal Implications of Network Economic Effects*, 86 CALIF. L. REV 479 (1998).

88. For general discussions of the importance of maintaining interoperability, see Michael L. Katz & Carl Shapiro, *Network Externalities, Competition, and Compatibility*, 75 AM. ECON. REV. 424 (1985); Peter S. Menell, *Tailoring Legal Protection for Computer Software*, 39 STAN. L. REV. 1329 (1987).

89. Merges, *supra* note 4, at 4.

90. *See* Sony Computer Entertainment, Inc. v. Connectix Corp., No. 99-15852, 2000 WL 144399 (9th Cir. Feb. 10, 2000); Sega Enters. Ltd. v. Accolade, Inc., 977 F.2d 1510, 1523-24 (9th Cir. 1993); Atari Games Corp. v. Nintendo of Am., Inc., 975 F.2d 832 (Fed. Cir. 1992).

maintain control over not just their proprietary consoles, but over the games designed to be played on the consoles, which come in the form of removable cartridges. The manufacturers attempted to maintain this control by technological means, specifically by including a short piece of code called a software "key" that cartridge makers would be forced to copy (thus infringing an exclusive right under copyright)[91] in order to have their games work with the console. When Sega sued Accolade, a game cartridge maker that had allegedly copied this "key," the Ninth Circuit held that such copying was fair use.[92]

Such an approach is sound in that it does indeed prevent the manufacturer of the main product (the console) from parlaying a legitimate monopoly in that market into an improper one in another. But it is somewhat limited, in that it appears only to apply where the attempt to exclude a competitor is done through technological means. In the *Alcatel* case, for example, DSC, the copyright holder, did not attempt to extend its statutory rights through technological ingenuity, but instead by restricting others' competitive activity through contractual provisions contained in software licenses. And where the activities of a defendant are arguably protected by fair use but are bargained away through contract, it is the contract that governs; at least in this instance, copyright does not preempt contract law.[93] Fair use is indeed an important tool for furthering competition in general and interoperability in particular, but it does not have much bite in cases like Alcatel, where contract plays so dominant a role.

2. *Limits on copyrightability*

Another means by which copyright owners' ability to restrict competition may be properly limited is ensuring that copyright extends only to expression, and not to uncopyrightable ideas.[94] If a copyright owner were allowed to gain proprietary rights over the ideas contained in its work, it could conceivably exclude others from the market for interoperable goods by staking out a monopoly over the "idea" of "all software that works in

91. *See* MAI Sys. Corp. v. Peak Computer, Inc., 991 F.2d 511 (9th Cir. 1993), *cert. dismissed*, 510 U.S. 1033 (1994); Cent. Point Software, Inc. v. Nugent, 903 F. Supp. 1057, 1059-60 (E.D. Tex. 1995) ("Plaintiffs may establish copying if they can demonstrate that the software has been reproduced in a computer's memory without permission.").

92. *See Sega*, 977 F.2d at 1523-24.

93. *See infra* part III.B.3.

94. *See* Baker v. Selden, 101 U.S. 99 (1879); Lotus v. Borland, 49 F.3d 807 (1st Cir. 1995), *aff'd by an equally divided Court*, 516 U.S. 233 (1996).

conjunction with mine."[95] In *Lotus v. Borland*, for example, the First Circuit held that Lotus' copyright in its 1-2-3 spreadsheet application did not extend to the program's menu command structure[96]—just as Mr. Selden a century before famously could not claim copyright in the accounting system embodied in his considerably more primitive spreadsheets nearly a century earlier.[97] While the First Circuit was correct in its instinct that copyright should not cover functional aspects of computer software, this principle only goes so far in preserving the ability of competitors to develop competing but non-infringing products. The software-based idea/expression dichotomy articulated in *Lotus v. Borland* helps to answer the question of infringement *vel non*. But this is usually not the hard question in interoperability cases. Rather, the question in these cases is usually either: (1) is a certain amount of copyright infringement permissible if necessary to maintain competition in the market for interoperable products;[98] or (2) should a license provision prohibiting the development of interoperable products (like DGI's expansion cards) that unquestionably *do not infringe* the copyright of the main component be enforceable? Limiting copyright to non-functional aspects of computer software is an important tool in keeping copyright owners from gaining monopoly power in markets where they are not entitled to it, but this principle does not go far enough in maintaining the ability of non-infringing products to compete in the market for interoperable goods.

For this reason, the issue of the proper scope of copyright was not particularly relevant to the litigants or court in the *Alcatel* dispute. No one could plausibly argue that DSC did not hold a valid copyright in its operating system software. Nor was there any serious question but that DSC had made out a prima facie case of copyright infringement against DGI by proving that DGI, acting in conjunction with NTS, the testing company, downloaded the operating system software into its expansion cards while lacking a license to do so. The issue was not, therefore, whether DSC properly claimed copyright in its software, or even whether DGI had technically committed an act of infringement. The issue, rather, was whether there was something about DSC's conduct that made it legally permissible for DGI to infringe. And that question could not be answered by inquiring

95. See generally Peter S. Menell, *An Epitaph for Traditional Copyright Protection of Network Features of Computer Software*, 43 ANTITRUST BULL. 651 (1998) for an overview of copyright protection for computer software.

96. *See Lotus*, 49 F.3d at 815.

97. See *Baker*, 101 U.S. at 100 (describing Selden's "peculiar system of bookkeeping.").

98. *See Sega*, 977 F.2d at 1520-28.

into the proper scope of copyright protection for DSC's operating system software.

3. Preemption

Section 301 of the Copyright Act provides that "all legal or equitable rights that are equivalent to any of the exclusive rights within the general scope of copyright . . . are . . . governed exclusively by" federal copyright law.[99] The preemption mandate of the Copyright Act might be read to mean that, given the copyright law's promotion of interoperability, any contractual licensing provision that conflicts with this goal is preempted by federal law and thus invalid.[100] For a variety of reasons, most relating to the complex and somewhat obscure nature of the copyright preemption doctrine, preemption has not proven to be a serious check on contractual provisions that appear to expand one or more of the rights granted by the Copyright Act.

Professor Lemley identifies four basic reasons why preemption "although necessary, is not sufficient to protect the interests of intellectual property law in the indifferent world of contract."[101] First, preemption "lacks nuance" because "courts don't want to preempt the entire field of licensing contracts, and preemption doctrine does not always give them tools fine enough for the delicate legal surgery they must perform."[102] Second, courts will have a hard time conducting preemption analysis when they are construing not simply the federal Copyright Act, but a more vague "policy" underlying the statute.[103] Third, intellectual property laws such as trade secret law and right-of-publicity statutes are state law, and thus section 301 does not come into play.[104] Fourth, and most generally, some argue that "contracts are different" from statutes and thus should not be subject to preemption, because, unlike statutes, which create rights against all the world, contracts govern relations only between the parties to the contract.[105] Preemption, then, although a crucial tool for limiting states' ability to subvert the purposes of federal copyright law, is of only limited use in battling private contractual license provisions that may result in similar subversion.

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99. 15 U.S.C. § 310(a) (1994).

100. *See* Mark A. Lemley, *Beyond Preemption: The Law and Policy of Intellectual Property Licensing*, 87 CALIF. L. REV. 111, 136 (1999).

101. *Id.* at 145.

102. *Id.*

103. *See id.* at 145-46.

104. *See id.* at 146.

105. *See id.* at 147. Professor Lemley generally disagrees with this point, explaining that even private contracts often affect the rights of third parties. *See id.* at 149.

The *Alcatel* case turned largely on the content of the license provisions that governed customer use of its telephone switch hardware and accompanying software, license provisions that arguably conflicted with the pro-competitive policies of the Copyright Act. It might be tempting, then, to suggest that the Act simply preempted the offending DSC license provisions to the extent that they subverted pro-competitive copyright policy. For the reasons described by Professor Lemley, however, such an argument was unlikely to find much support in the courts, which have consistently held that section 301 governs conflicts between the Copyright Act and state law, not conflicts between the Act and private contract provisions.[106]

4. Antitrust

One obvious response to the problem of improper acquisition of monopoly power in the market for interoperable products is to recognize that we have long had in place an anti-monopoly law, namely section 2 of the Sherman Act, which prohibits both monopolization and attempts at monopolization.[107] Courts have held that, although intellectual property laws do confer legitimate (though limited) monopolies upon authors and inventors, IP owners are nonetheless still subject to the antitrust laws when they engage in anticompetitive acts.[108] The antitrust laws can indeed be an effective remedy to anticompetitive conduct on the part of copyright owners; the availability of treble damages,[109] actions brought by the government, with its vast litigation resources, and even, in certain circumstances, the possibility of criminal penalties, certainly acts to chill a great deal of improper conduct.

But antitrust also has significant drawbacks as a means for combating anticompetitive acts, especially in the intellectual property arena. Chief among these disadvantages is the necessity of defining the relevant mar-

106. *See, e.g.*, ProCD, Inc. v. Zeidenberg, 86 F.3d 1447, 1454 (7th Cir. 1996) ("courts usually read preemption clauses to leave private contracts unaffected.").

107. 15 U.S.C. § 2 (1994) ("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, or with foreign nations, shall be deemed guilty of a felony, and, on conviction thereof, shall be punished by fine not exceeding $10,000,000 if a corporation, or, if any other person, $350,000, or by imprisonment not exceeding three years, or by both said punishments, in the discretion of the court.").

108. *See, e.g.*, Image Technical Servs. v. Eastman Kodak Co., 125 F.3d 1195, 1216 (9th Cir. 1997) ("[I]ntellectual property rights do not confer an absolute immunity from antitrust claims.").

109. *See* 15 U.S.C. § 15 (1994).

ket, a hurdle that can trip up the antitrust plaintiff (who may be a defendant in a copyright infringement suit) even where it seems relatively clear that an IP owner is improperly attempting to leverage his legitimate copyright monopoly into a monopoly in a market where he has no proprietary rights.[110] In the *Alcatel* case, for example, though there was considerable evidence that DSC had a 100 percent share of the market for expansion cards for its switches, the Fifth Circuit held that DGI had not made an adequate showing that this market was indeed the relevant one for antirust purposes.[111] Ramsey Hanna summarizes the inherent problems in relying on antitrust to solve the problem of anticompetitive uses of intellectual property:

> [A]ntitrust law is uniquely ill-suited to assess the impact of competitive practices in markets driven by innovation. Antitrust doctrine does not provide the analytical tools necessary to measure the economic power generated by copyrights and patents, and prohibits many competitive arrangements that encourage investment in innovation. Therefore, indiscriminate application of classical antitrust analysis in copyright infringement cases may impede the very creativity copyright law seeks to promote.[112]

C. Evaluating Misuse

Fair use, limitations on copyrightability, preemption, and the traditional antitrust laws are quite useful (indeed necessary) tools in the fight to maintaining competition in markets for products where copyright law properly does not grant a statutory monopoly. But there are still gaps: conduct that should not be tolerated, but which is not covered by any of these established doctrines. In such situations, copyright misuse, properly defined, can, and should, play a role. Perhaps the doctrine's greatest strength—as well as its greatest weakness—is its flexibility. A party asserting misuse is not held to the strict antitrust standards concerning market power or standing. The doctrine is available in situations involving overly restrictive license provisions, as was the case in *Alcatel*, as well as potentially in situations where the copyright owner has attempted to ex-

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110. *See* Hanna, *supra* note 79, at 410-19.

111. See *Alcatel*, 166 F.3d at 781-84.

112. Hanna, *supra* note 79, at 445. Some, but certainly not all, of the uncertainty of the application of antitrust doctrine to intellectual property markets may have been alleviated by the issuance of *Antitrust Guidelines for the Licensing of Intellectual Property* by the U.S. Department of Justice and the Federal Trade Commission, dated April 6, 1995, available at ⟨http://www.usdoj.gov/atr/public/guidelines/ipguide.htm⟩.

pand its monopoly through technical means.[113] The court is thus forced to ask not whether the copyright owner has transgressed some antitrust standard that may have been derived from a case involving products with few of the same qualities as copyrighted software, but rather to inquire whether the conduct at issue is consistent with the policy rationale for copyright, namely, to "promote the Progress of Science and the useful Arts."[114] As with all questions involving copyright, the court must engage in balancing, weighing the amount of incentive that must be provided to authors in order to encourage the optimal level of creativity against the public's right to gain access to the work at a reasonable cost.

This balancing may be objected to on the grounds that it invites vague standards, creating uncertainty on the part of copyright owners as to what sort of conduct, and specifically what kind of licensing provisions, will be considered permissible.[115] Thomson and Chu note that "the parameters and the standard of application of the misuse defense are unclear."[116] Hanna laments that "its scope remains unclear." The Supreme Court has provided almost no guidance,[117] and the lower courts have not reached consensus as to the circumstances under which the defense should be available."[118] An article in the *Journal of Intellectual Property Law* refers to the "Misted Limbo of the Misuse Doctrine,"[119] and states, "The questions now are: what are the tenets of the doctrine and when will the defense most likely succeed?"[120] While concerns about vagueness are understandable, they do not seem any stronger in this context than are similar concerns about the application of the fair use doctrine in copyright or the

113. *See, e.g.*, Atari Games Corp v. Nintendo of Am., Inc. 975 F.2d 832 (Fed. Cir. 1992).

114. U.S. CONST. art. I, § 8, cl. 8.

115. The copyright misuse defense is also vulnerable to the same criticisms directed against the patent misuse doctrine, namely that its harsh penalty (unenforceability of a copyright) provides an unwarranted windfall to literal infringers). *See* Lemley, *supra* note 59, at 1615-16. These arguments are blunted somewhat by the fact that, once the misuse has been purged, the copyright owner is once again free to sue for damages. *See Lasercomb*, 911 F.2d 979 n.22.

116. Thomson & Chu, *supra* note 79, at 6.

117. The Supreme Court has never explicitly opined on the copyright misuse defense. *See* Note, *Clarifying the Copyright Misuse Defense*, *supra* note 79, at 1292. Two Supreme Court antitrust cases involving "block-booking" practices of film companies, however, are often cited as precursors of the modern doctrine. *See id.* at 1292-93; United States v. Loew's, Inc., 371 U.S. 38 (1962); United States v. Paramount Pictures, Inc., 334 U.S. 131 (1948).

118. Hanna, *supra* note 79, at 403.

119. Fellmeth, *supra* note 79, at 9.

120. *Id.* at 4.

notoriously slippery "rule of reason" mode of analysis in antitrust. Indeed, although the copyright misuse doctrine has existed in its modern form for only a decade, commentators have had little trouble articulating general guidelines explaining what sort of license provisions will trigger a successful invocation of the misuse defense in an infringement action. For example, Thomson and Chu, writing in *Computer Lawyer*, identify four general categories of activity can lead to a finding of copyright misuse: (1) license restrictions that do not facially appear to extend the limited copyright monopoly, if the effect of enforcing the provision is to secure more extensive rights than those granted by the Copyright Act; (2) requirements that licensees and their employees agree not to create works that compete with the copyrighted work; (3) requirements that licensees use the copyrighted work to the exclusion of a competitor's works; and (4) licenses that bar the use of equipment other than that of the licensor when the restriction prevents the development of new works.[121] While it is certainly possible that creative and profit-hungry copyright owners may devise improperly anticompetitive license provisions that do not fall into one of these categories, there is little reason to believe that courts will not be able

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121. Thomson & Chu, *supra* note 79, at 4 (footnotes omitted). Thomson and Chu, noting that courts have focused on the close relationship between patent and copyright misuse, also speculate that the following situations where courts have found patent misuse may constitute copyright misuse in analogous situations as well:

> A patent owner commits misuse if the grant of a license is conditioned upon the use of unpatented materials, supplies or components purchased from the patent owner or his designee and, under the circumstances, the patent owner has market power in the relevant market for the patent or patented product on which the license or sale is conditioned.
>
> A policy of mandatory or coercive package licensing under which the patent owner refuses to license patents separately can constitute misuse since it is viewed as a species of tying arrangements.
>
> If the grant of a license is conditioned upon the licensee's agreement to pay royalties based on total sales regardless of actual use of the patented product or process, it is an improper extension of the patent monopoly and, thus, patent misuse, unless the parties voluntarily and for convenience agree to such a royalty structure.
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> . . .
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> Territorial and/or field of use restrictions in assignments or licenses are judged in terms of their relation to the patentee's right to exclude all or part of the patent grant, and may constitute patent misuse is the restriction involves anticompetitive effects extending beyond the patentee's statutory right to exclude.

Id. at 4-5 (footnotes omitted).

to adapt to the changes in technology and business practices, just as they have adapted in traditional copyright and antitrust analysis.

In a case like *Alcatel*, then, a court is left with little choice but to embrace the copyright misuse defense, as least if it is serious (as, happily, most courts seem to be) about furthering the goal of healthy competition. Other related doctrines—fair use, copyright scope, preemption, and antitrust—are no doubt important, but they do not necessarily have much relevance to business relationships that are governed by software licenses. Copyright misuse, though resurrected only a decade ago, stands to play an increasingly important role in filling the gap where these other doctrines fail to adequately promote interoperability among copyrighted works.

IV. CONCLUSION

In *Alcatel*, the Fifth Circuit properly validated copyright misuse as a defense to infringement, holding that a copyright owner may not assert its statutory rights when it seeks to leverage those rights to exclude competitors from markets for compatible though non-infringing products. The decision can best be seen as an additional judicial endorsement of the principle of interoperability.[122] Allowing intellectual property owners to gain a monopoly not just over their products, but over any that work in conjunction with them, would stifle competition and innovation, ultimately tilting copyright's "delicate balance"[123] too far in favor of owners at the expense of competitors and the public.[124]

Alcatel will not be the definitive statement on copyright misuse; the doctrine's contours will not be fully defined for some time as courts struggle to apply it to new technologies, market conditions, and license provisions. At some point, the Supreme Court, which has never explicitly opined on copyright misuse, may have to weigh in to resolve some of the unanswered questions regarding its application.[125] Nonetheless, the opin-

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122. *See* Merges, *supra* note 4, at 4-9.

123. Stewart v. Abend, 495 U.S. 207, 230 (1990).

124. *See* Menell, *supra* note 95, at 709 ("'Copyright should not grant more economic power than is necessary to achieve the incentive to create'") (citing NATIONAL COMMISSION ON NEW TECHNOLOGICAL USES OF COPYRIGHTED WORKS, FINAL REPORT 12 (1979)).

125. There is at least one significant circuit split on a copyright misuse issue, specifically the question whether a defendant asserting copyright misuse may do so only if he comes to court with "clean hands." The Federal Circuit has held that a defendant may not assert misuse if it has unclean hands. *See* Atari Games Corp v. Nintendo of Am., Inc., 975 F.2d 832, 846 (Fed. Cir. 1992). But the Fifth Circuit in *Alcatel* explicitly disagreed,

ion should serve as an important reminder to copyright owners that they may pay a steep price if they get a bit too greedy and seek to overstep the bounds of their statutory grant.

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stating that it is only the plaintiff's hands that are at issue—not the defendant's. *See Alcatel,* 166 F.3d at 796-97.

TIFFANY DESIGN, INC. V. RENO-TAHOE SPECIALTY, INC.

By Swatee L. Mehta

I. INTRODUCTION

The Copyright Act[1] seeks to advance the constitutional goal of encouraging creativity.[2] By granting limited exclusive rights to the authors of qualifying works, the Act gives these authors an incentive to produce new works, yet ensures that these works will become accessible to the public for use as source material for further creativity.[3]

As one of its provisions for furthering creativity, the Act grants owners of copyrights in works of art the exclusive right to create derivative works based on those works.[4] It defines derivative works as works "based upon" the copyrighted work, including "art reproduction[s], abridgment[s], condensation[s], or any other form[s] in which a work may be recast, transformed, or adapted."[5] While it is understood that a derivative work is one which "incorporate[s] a portion of the copyrighted work in some form,"[6] courts interpret the statute as also requiring that an infringing work be substantially similar to the work on which it is based.[7]

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1. 17 U.S.C. § 101 et seq. (1994).
2. *See* U.S. CONST. art. I, § 8, cl. 8 (granting Congress the right "[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.").
3. *See* Twentieth Century Music Corp. v. Aiken, 422 U.S. 151, 156 (1975); *see also* Sid & Marty Krofft Television Prods., Inc. v. McDonald's Corp., 562 F.2d 1157, 1163 (9th Cir. 1977).
4. *See* 17 U.S.C. § 106(2).
5. 17 U.S.C. § 101.
6. H.R. REP. No. 94-1476, at 62 (1976).
7. *See, e.g.,* Litchfield v. Spielberg, 736 F.2d 1352, 1357 (9th Cir. 1994) (rejecting the argument that the right to make derivative works covers any work based on a copyrighted work and holding that substantial similarity must exist before a work would be considered derivative within the meaning of 17 U.S.C. § 106(2)); *see also* Ferguson v. NBC, Inc., 584 F.2d 111, 113 (5th Cir. 1978) (applying substantial similarity test); Universal Athletic Sales Co. v. Salkeld, 511 F.2d 904, 907 (3rd Cir. 1975) (using substantial similarity inquiry); *cf.* Nichols v. Universal Pictures Corp., 45 F.2d 119, 121 (2nd Cir. 1930) (characterizing the test for infringement as "whether the part . . . taken is 'substantial.'").

While "substantial similarity" is accepted as the test for infringement of the right to create derivative works, what the term actually stands for can be a mystery.[8] Courts have produced so many definitions of the substantial similarity test and applied them in so many different ways that one commentator has deemed the test unworkable.[9]

This Note discusses how the substantial similarity test may be improved by developing variants which address the creative and incentive needs for different kinds of works, both in terms of medium and market. More specifically, the Note examines how the test could be modified to handle the special needs of the visual arts as illustrated by the battle of the postcard makers in *Tiffany Design, Inc. v. Reno-Tahoe Specialty, Inc.*[10]

II. CASE SUMMARY

A. Factual Background

In January of 1998, Tiffany Design, Inc. hired Robert Burton, a graphic designer, to create a postcard image of the Las Vegas Strip.[11] The company gave Burton photographs taken by Grant Gresser, its owner, and David Phillips, an aerial photographer hired by Gresser, as source material for the image.[12] Using a computer, Burton manipulated the photographs and created "an artistic depiction of the Strip and its surrounding environs," which "featured a number of enhancements or changes, including the addition of illumination, the modification of the size of certain hotels

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8. *See Krofft*, 562 F.2d at 1162 (arguing that statements such as "substantial similarity . . . frequently serve merely as boilerplate to copyright opinions); Universal Athletic Sales Co. v. Salkeld, 511 F.2d 904, 907 (3d Cir. 1975) (stating that "substantial similarity is not always substantial similarity"); Peter Pan Fabrics, Inc. v. Martin Weiner Corp., 274 F.2d 487, 489 (2nd Cir. 1960) (claiming that "[t]he test for infringement of a copyright is of necessity vague"); 4 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 13.03[A] (1998) (explaining that "the determination of the extent of similarity that will constitute a *substantial*, and hence infringing, similarity presents one of the most difficult questions in copyright law") (emphasis in original). *See generally* Jeanne English Sullivan, *Copyright for Visual Art in the Digital Age: A Modern Adventure in Wonderland*, 14 CARDOZO ARTS & ENT. L.J. 563, 600 (1996) (characterizing substantial similarity as "a most difficult question"); Maura Giannini, *The Substantial Similarity Test and Its Use in Determining Copyright Infringement Through Digital Sampling*, 16 RUTGERS COMPUTER & TECH. L.J. 509, 520 (1990) (noting that "[c]ourts have been unable to agree on what exactly is a substantial taking").

9. *See* Amy B. Cohen, *Masking Copyright Decisionmaking: The Meaninglessness of Substantial Similarity*, 20 U.C. DAVIS L. REV. 719, 735 (1987).

10. 55 F. Supp. 2d 1113 (D. Nev. 1999).

11. *See id.* at 1116.

12. *See id.* at 1115-16.

and casinos, and the addition or subtraction of colors."[13] Gresser secured from Phillips and Burton releases for all copyrights attached to this image (the "Burton Image") and obtained a federal copyright registration for the image.[14]

Also interested in creating a manipulated photographic image of the Las Vegas Strip, Reno-Tahoe Specialty, Inc. ("Reno-Tahoe") had begun work on such an image in "early 1998."[15] After seeing the Burton Image, Reno-Tahoe's graphic designer, Todd Johnson, scanned the image onto a computer, creating a "precursor image" from which he "cut and manipulated" at least six of the image's architectural components.[16] He later inserted these architectural works into Reno-Tahoe's products.[17]

After discovering the Reno-Tahoe products, Gresser and Tiffany Design, Inc. (collectively, "Tiffany Design") filed suit for copyright infringement.[18] Specifically, Tiffany Design alleged that the creation of the precursor image violated its exclusive right to reproduce the Burton image, and that Reno-Tahoe's use of the six copied architectural images in its products rendered them derivative works which violated Tiffany Design's exclusive rights to create derivative works and distribute copies of the Burton Image.[19] Tiffany Design then moved for partial summary judgment on both claims.[20]

B. The Court's Decision

The court first examined whether the Burton image contained copyrightable expression and whether Gresser held a valid copyright in the image.[21] It held that the signed writings obtained by Gresser satisfied the re-

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13. *Id.* at 1116.
14. *See id.*
15. *Id.*
16. *Id.*
17. *See id.*
18. *See id.* at 1115.
19. *See id.* at 1116.
20. *See id.*
21. *See id.* at 1117-20. In order to win a claim of copyright infringement, a plaintiff must show (1) that she holds a valid copyright in the copied work and (2) that the defendant copied that work's protected expression. *See* Entertainment Research Group, Inc. v. Genesis Creative Group, Inc., 122 F.3d 1211, 1217 (9th Cir. 1997). While expression is copyrightable, ideas are not. *See* 17 U.S.C. § 102(b) (1994); Mazer v. Stein, 347 U.S. 201, 217 (1954). Also uncopyrightable are facts and expression inseparable from a useful article's utilitarian aspects. *See* 17 U.S.C. § 101 ("[T]he design of a useful article . . . shall be considered a [protectable] work only if, and to the extent that, such design incorporates pictorial, graphic, or sculptural features that can be identified separately from, and are capable of existing independently of, the utilitarian aspects of the article."); Feist

quirements for conveyance of copyrights and therefore Reno-Tahoe failed to overcome the presumption of validity that the certificate of copyright registration raised.[22] Stating that "[i]t is basic copyright law that a photograph possesses a wide range of protectable elements, including the posture of subjects, lighting, angle, selection of film and camera," and composition, the court held that a computer enhanced photograph is copyrightable.[23] In doing so, the court rejected Reno-Tahoe's arguments that the image constituted a non-copyrightable "idea"[24] and that because the images it copied into its products were of architectural landmarks, such copying was not actionable under 17 U.S.C. § 120(a).[25]

Having found that the Burton Image was protected by copyright, the court next examined whether Reno-Tahoe had infringed upon Tiffany Design's right to reproduce the image. It focused on the Copyright Act's requirement that copies be "fixed" in order to be actionable.[26] Applying the rule that a copy is fixed if it is "sufficiently permanent or stable to permit it to be perceived, reproduced, or otherwise communicated for a period of more than transitory duration,"[27] the court held that since "the digitization or input of any copyrighted material, whether it be computer code or visual imagery, may support a finding of infringement notwithstanding only the briefest of existence in a computer's RAM [random access mem-

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Publications, Inc. v. Rural Tel. Serv. Co., Inc., 499 U.S. 340, 344-45 (1991) (holding facts contained in telephone directory white pages uncopyrightable); Landsberg v. Scrabble Crossword Game Players, Inc., 736 F.2d 485, 489 (9th Cir. 1984) (holding historical facts not copyrightable). Nevertheless, factual compilations are protectable to the extent copyright protection applies to expression found in the compilation's selection and arrangement. *See Feist*, 499 U.S. 340 at 348. Finally, in order to receive protection under copyright law, all types of expression must be original to the author. *See id.* at 345.

22. *See Tiffany Design*, 55 F. Supp. 2d at 1117-18.

23. *Id.* at 1119.

24. *Id.* at 1120 (explaining that Tiffany Design was not attempting to copyright the idea of an aerial view of the Las Vegas Strip; but instead sought protection of its "artistic rendition of this view.").

25. *See id.* at 1119-20 (holding that while the Copyright Act states that "owners of copyrights to 'architectural works' may not prevent the making or distribution of pictorial representations of such structures if they are visible from a public space," this is inapplicable to photographs of buildings because the term "architectural works" in this context only refers to the designs of buildings and structures. Thus, "while an architect may not prevent a photographer from producing pictures of her buildings, . . . that photographer may in turn certainly copyright those pictures.").

26. *See id.* at 1120; *see also* 17 U.S.C. § 101 (1994) (defining copies as "material objects" which are "fixed").

27. *Tiffany Design*, 55 F. Supp. 2d at 1120 (quoting 17 U.S.C. § 101).

ory],"[28] Reno-Tahoe infringed Tiffany Design's copyright in the Burton Image when Todd Johnson scanned it as a precursor to manipulation.[29]

Although the court granted Tiffany Design's motion for summary judgment on the issue of copying, it declined to do so on the issue of derivative works. It found a triable issue of fact as to whether Reno-Tahoe's images contained sufficient recognizable imagery from the Burton Image to constitute an infringing derivative work.[30] The court stated that since Reno-Tahoe "touched up or modified" the copyrighted material it used, a trial was necessary to determine whether it "substantially incorporated protected materials" from the Burton Image.[31] If its manipulation rendered the copied materials "*de minimis* or unrecognizable in nature," Reno-Tahoe would not be liable for violating Tiffany Design's exclusive right to make derivative images based on the Burton Image and its source photographs.[32]

Finally, the court declined to rule on Tiffany Design's claim that Reno-Tahoe's distribution of unauthorized derivative works violated its exclusive right to distribute the Burton Image. Stating that the question need not be resolved because there was a triable issue as to whether Reno-Tahoe created an infringing derivative work, the court refused to comment on whether the maker of an unauthorized derivative work, upon publication or sale of such work, violates a copyright owner's exclusive right to distribute the copyrighted image.[33] The court did, however, recognize that this is a novel question, to which there is no clear answer because, in the past, plaintiffs have "usually focused solely on the reproduction and derivative works provisions" of the Copyright Act.[34]

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28. *Id.* at 1121.

29. *See id.* See English Sullivan, *supra* note 8, at 587, for a discussion of the support for this outcome, and criticism of its impact on the visual arts.

30. *See id.* at 1121-22.

31. *Id.*

32. *Id.* at 1122. For an analysis on the extent of copying necessary for a determination of infringement, see 2 NIMMER, *supra* note 8, § 8.01[G].

33. *See id.* at 1122 n.6.

34. *Id.* Although an exploration of this issue is beyond the scope of this Note, the importance of this argument should be recognized: if the trial court finds that there is substantial similarity between the two postcards, it will be in a position to create new precedent; and if it finds that distribution of derivative works indeed violates a copyright holder's right to distribute copies of the copyrighted work, a supplemental avenue of relief will be opened for plaintiffs, and debate as to whether this is desirable under the policies of the Copyright Act will surely ensue.

III. DISCUSSION

Courts have adopted many variations of the substantial similarity test, leading to inconsistent results and much criticism from scholars. A brief overview of Ninth Circuit case law illustrates the problem facing this country's courts[35] and is useful in understanding how the issue will be approached in *Tiffany Design*, how the outcome of cases can vary depending on the precedent the court chooses to follow, and whether any of the current tests are capable of meeting the needs of the visual arts.

A. Substantial Similarity in the Ninth Circuit

Originally, the Ninth Circuit test for substantial similarity involved a determination of whether the copied and allegedly infringing works were the same "in total concept and feel."[36] Infringement occurred if the defendant's work was "recognizable by an ordinary observer as having been taken from the copyrighted source."[37]

The test was radically altered in *Sid & Marty Krofft Television Productions, Inc. v. McDonald's Corp.*,[38] where the Ninth Circuit outlined a two-step test for substantial similarity.[39] In the first step, a court uses dissection[40] and expert testimony to analyze whether the copyrighted and allegedly infringing work share similar ideas.[41] *Krofft* calls this the "extrinsic test."[42] If the ideas are substantially similar, then a factual examination is made to determine whether there is substantial similarity of expression.[43] This "intrinsic test" involves the response of the ordinary observer without any dissection.[44] In holding that the two works involved in the

35. This Note focuses on the Ninth Circuit case law because that is the circuit in which the *Tiffany Design* court is located. An examination of each circuit is beyond the scope of this Note. For an overview of the approaches taken in other circuits, see 4 NIMMER, *supra* note 8, § 13.03.

36. Roth Greeting Cards v. United Card Co., 429 F.2d 1106, 1110 (9th Cir. 1970).

37. *Id.* (internal quotation marks and citations omitted).

38. 562 F.2d 1157 (9th Cir. 1977).

39. *See id.* at 1164 (stating that this two step test developed from the test outlined by the Second Circuit in *Arnstein v. Porter*, 154 F.2d 464 (2nd Cir. 1946)).

40. Dissection involves analyzing the component parts of the work by looking at criteria such as "the type of artwork involved, the materials used, the subject matter, and the setting for the subject." *Krofft*, 562 F.2d at 1164.

41. *See id.*

42. *Id.*

43. *See id.*

44. *Id.*

case were substantially similar, *Krofft* stated that the defendants "captured the 'total concept and feel'" of the plaintiff's work.[45]

Aliotti v. R. Dakin & Co.[46] made it clear that the merger and *scenes-a-faire* doctrines apply to cases using the *Krofft* test.[47] *Scenes-a-faire* are "incidents, characters or settings which are as a practical matter indispensable, or at least standard, in the treatment of a given topic,"[48] and are unprotectable under copyright law.[49] The merger doctrine applies when the expression of an idea necessarily follows from the use of the idea, or where there are only a few ways of expressing the idea.[50] Since protection of the expression would effectively grant the author a monopoly in the uncopyrightable[51] idea, the expression is unprotectable,[52] and is considered to have "merged" into the idea.[53] The court in *Aliotti* stated:

> To the extent that it is necessary to determine whether similarities result from unprotectable expression, it is appropriate under *Krofft*'s intrinsic test to perform analytic dissection of similarities. Although even unprotectable material should be considered when determining if there is substantial similarity of expression, no substantial similarity may be found under the intrinsic test where analytic dissection demonstrates that all similarities in expression arise from the use of common ideas.[54]

The court also held that the point of view of the reasonable observer was that of the intended audience of the works.[55]

The following year, the Ninth Circuit further explained that when elements of a work "are indispensable from, indispensable to, or even standard treatment of the idea," the idea and expression "coincide," and only "identical copying" will lead to a finding of infringement.[56]

While these cases seem to clear up some of the confusion surrounding the *Krofft* test, a recent Ninth Circuit case shows that the issue of whether

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45. *Id.* at 1167.
46. 831 F.2d 898 (9th Cir. 1987).
47. *See id.* at 901.
48. Alexander v. Haley, 460 F. Supp. 40, 45 (S.D.N.Y. 1978).
49. *See* See v. Durang, 711 F.2d 141, 143 (9th Cir. 1983).
50. *See* John Pinheiro & Gerard LaCroix, *Protecting the 'Look and Feel' of Computer Software*, 1 HIGH TECH. L.J. 411, 428 (1987).
51. *See supra* note 21.
52. *See Aliotti*, 831 F.2d at 901.
53. *See* 4 NIMMER, *supra* note 8, § 13.03[B][3].
54. *Aliotti*, 831 F.2d at 901 (citations omitted).
55. *See id.* at 902.
56. Data East USA, Inc. v. Epyx, Inc., 862 F.2d 204, 209 (9th Cir. 1988).

dissection is allowed under the intrinsic test is not settled. In *Dr. Seuss Enterprises, L.P. v. Penguin Books USA, Inc.*,[57] the defendant argued that certain elements of the copyrighted work should be excluded from the intrinsic test because they were either uncopyrightable or were part of the public domain.[58] Without ruling on whether the elements were indeed unprotectable under copyright law, the court held that "analytic dissection is not appropriate when conducting the subjective or 'intrinsic test.'"[59] Although *Dr. Seuss* did not involve the merger doctrine—which was the case in *Aliotti*—the court's decision seems contrary to *Aliotti*'s statement that "[t]o the extent that it is necessary to determine whether similarities result from unprotectable expression, it is appropriate under *Krofft*'s intrinsic test to perform analytic dissection of similarities."[60]

While *Dr. Seuss* illustrates the uncertainty surrounding the Ninth Circuit substantial similarity test, among post-*Aliotti* cases are some which—because of their consideration of the needs of particular creative mediums—could be used to craft a solution to the problems presented by the "total concept and feel" test.

1. *Shaw v. Lindheim*

Shaw v. Lindheim,[61] made significant changes to the Ninth Circuit test as applied to literary works. First, it distinguished between literary and representational works by saying that while in representational works "ideas and expression merge in the representational objects" so that there are but a few ways of expressing the idea, in literary works the two remain separate because "there is an infinite variety of novel or creative expression available to the author."[62] Also, instead of focusing on *Krofft*'s distinctions of ideas (extrinsic test) and expression (intrinsic test), the court stated that "[b]ecause the criteria incorporated into the extrinsic test encompass all objective manifestations of creativity, the two tests are more sensibly described as objective and subjective analyses of expression, having strayed from *Krofft*'s division between expression and ideas."[63]

Even though *Shaw* involved literary works, the case has the potential to affect cases involving representational works. In addition to the court's

57. 109 F.3d 1394 (9th Cir. 1997).
58. *See id.* at 1398-99.
59. *Id.* at 1399.
60. *Aliotti*, 831 F.2d at 901 (emphasis removed).
61. 919 F.2d 1353 (9th Cir. 1990).
62. *Id.* at 1360.
63. *Id.* at 1357.

adoption of "objective and subjective analyses of expression,"[64] its dicta stating that due to the applicability of the merger doctrine to representational objects, "the scope of copyright protection afforded such works is necessarily narrow"[65] could influence how such cases are resolved in the future. Although it is generally accepted that the *Krofft* extrinsic test now involves an objective inquiry into similarity of both ideas and expression,[66] *Shaw*'s take on the narrow protection available to representational works has not been tested.

2. *Apple Computer, Inc. v. Microsoft Corp.*

Apple Computer, Inc. v. Microsoft Corp.[67] rejected the total concept and feel test in the context of examining a claim of copyright infringement in a computer's graphical user interface ("GUI"), which the court characterized as an inquiry into a "computer program's artistic look as an audiovisual work."[68] The matter was complicated because a license covered some of the uses.[69] In a case like this, the court held, the first step of the analysis involves separating out the licensed uses, so that "infringement cannot be founded on a licensed similarity."[70] Next, a separation of ideas and expression, and a dissection of unlicensed elements occurs "in order to determine whether the remaining similarities lack originality, flow naturally from basic ideas, or are one of the few ways in which a particular idea can be expressed given the constraints of the computer environment."[71] Finally, if the similarities between the remaining protectable elements are few, they can only receive "limited protection," meaning that "the appropriate standard for illicit copying is virtual identity."[72] Thus, a subjective comparison cannot occur until a determination as to whether the scope of protection is "broad" or "thin" has been made.[73]

It is important to note that a traditional intrinsic test, examining whether there is substantial similarity in total concept and feel, was not required. Unlike *Aliotti*, which stated that even unprotectable elements are

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64. *Id.* at 1356-57.
65. *Id.* at 1360.
66. *See, e.g.,* Apple Computer, Inc. v. Microsoft Corp., 35 F.3d 1435, 1442 (9th Cir. 1994); Brown Bag Software v. Symantec Corp., 960 F.2d 1465, 1475-76 (9th Cir. 1992).
67. 35 F.3d 1435 (9th Cir. 1994).
68. *Id.* at 1439.
69. *See id.*
70. *Id.*
71. *Id.* at 1439, 1443-45.
72. *Id.* at 1439.
73. *Id.* at 1443.

to be considered during the intrinsic test,[74] *Apple Computer* held that unprotectable elements must be dissected or "filtered" so that no finding of infringement is based on these elements.[75]

While *Apple Computer* could serve as an indication that the "total concept and feel" test is headed towards abandonment,[76] the test might still be used in cases involving simpler representational works.[77]

B. Problems with the Total Concept and Feel Approach

The Ninth Circuit's total concept and feel approach to substantial similarity is susceptible to attack on many fronts, among which are the use of the ordinary observer as the final determiner of substantial similarity, confusion over the applicability of expert testimony and dissection, the possibility that judicial value judgments may prejudice the outcome of cases, and failure to consider the needs of various creative mediums.

1. Problems with the ordinary observer, dissection, and expert testimony

Aliotti's holding that both protected and unprotected material should be considered during the intrinsic test, yet that no infringement may be found when "all" similarities in expression arise from the use of unprotected expression or common ideas[78] is dangerous precedent not only because it would allow a finding of substantial similarity in a case where there is only a small amount of shared protected expression, but also because it would allow such a finding where a substantial portion of the similarities are due to unprotectable ideas and expression. Another problem lies in that after performing dissection to determine if all expression is due to unprotectable elements, the intrinsic test requires that the works be compared as a whole.[79] Here, the ordinary observer, if truly following the

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74. *See supra* note 54 and accompanying text.

75. *Apple Computer*, 35 F.3d at 1446. Professor Nimmer argues that although the court did not "fully discard the audience test," this case essentially does away with any comparison of the works as a whole in favor of a comparison of an "analytically dissected distillation" of the work. *See* 4 NIMMER, *supra* note 8, § 13.03[F][5], at 13-144 n.345.

76. *See* 4 NIMMER, *supra* note 8, § 13.03[A][1][d].

77. Indeed, in a latter case involving an inquiry into the similarities of two book covers, the Ninth Circuit, after mentioning *Apple Computer*, proceeded to apply *Krofft*. The court allowed an intrinsic test that compared the two works in their entirety (without filtration), while stating that dissection is not appropriate at such time. *See* Dr. Seuss Enters., L.P. v. Penguin Books USA, Inc., 109 F.3d 1394, 1398-99 (9th Cir. 1997).

78. *See supra* note 54 and accompanying text.

79. *See, e.g.*, Brown Bag Software v. Symantec Corp., 960 F.2d 1465, 1475-76 (9th Cir. 1992); Aliotti v. R. Dakin & Co., 831 F.2d 898, 901 (9th Cir. 1987).

directive that he rely on his immediate, visceral reaction to the works,[80] will be unable to separate protected and unprotected expression. An immediate inquiry without thoughtful deliberation will of necessity include a comparison of ideas and non-protectable expression. And, if he attempts to compare only the protectable expression, the ordinary observer is bound to perform impermissible dissection of dissimilarities.[81]

Additionally, while the use of a member of the work's intended audience as the ordinary observer is a laudable idea, in reality it may not be reconcilable with our jury system and the policies behind the total concept and feel test in cases where the intended audience for the works involved is a highly knowledgeable, expert audience. For example, *Aliotti*, the case where such use was advanced, involved an intended audience of children.[82] While jury members might be able to imagine themselves in the shoes of a child in order to determine how a child would view two stuffed dinosaurs, such a projection will not be possible in a case where the intended audience of the works is composed of, for example, 19th Century Latin American poetry experts. In such a case, in order to project himself into the intended audience's shoes, a jury member will need to be thoroughly educated in the works at issue, most likely through the use of expert witnesses—which often, if not always, will be prohibited by the intrinsic test.[83]

These problems illustrate the need for use of dissection and expert guidance during both parts of the substantial similarity test—regardless of whether the case involves "inseparable" ideas and expression under *Aliotti*. Without guidance, there may be situations where fact finders find a lack of substantial similarity in "total concept and feel" because their eyes are not trained to perceive the nuances of the creations before them. Furthermore, there may be other situations where they find infringement, while experts would view the similarities as trivial. Finally, using dissection and expert guidance during the intrinsic test makes sense because a trier of fact who hears expert testimony during the extrinsic test may not

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80. *See* Shaw v. Lindheim, 919 F.2d 1353, 1360-61 (9th Cir. 1990); *Aliotti*, 831 F.2d at 901.

81. *See Aliotti*, 831 F.2d at 901.

82. *See id.* at 902.

83. *Krofft* held that "analytic dissection and expert testimony are not appropriate" during the intrinsic test. 562 F.2d at 1164. Although *Aliotti* did not state whether its holding would alter *Krofft* and allow expert testimony when analytic dissection is performed during the intrinsic test to "determine whether similarities result from unprotectable expression," 831 F.2d at 901, it would make sense to allow expert testimony during such an analytical inquiry. Nevertheless, at least for purposes of traditional "total concept and feel" inquiries, *Krofft* is probably controlling.

be able to ignore such testimony when performing the "total concept and feel" intrinsic test.[84] The outcome of cases should not vary solely with whether or not the fact finder was able to follow instructions that she ignore previous expert testimony and focus on her immediate reaction to the "total concept and feel" of the works before her.

2. *Judicial value judgments influence application of the idea-expression dichotomy and the merger doctrine*

The definition of the idea is one of the most important determinations in a copyright infringement case. If the idea is defined broadly, infringement is less likely because fewer elements of the plaintiff's work will be considered expression and there will be a higher likelihood that the court will conclude that such expression was dictated by the subject matter.[85] Conversely, if the idea is defined narrowly, there will be more expression and a higher likelihood that the defendant appropriated it.[86] For example, if the idea for the postcard in *Tiffany Design* is defined as "an aerial image of the Las Vegas Strip," there will be more potential expression than if it is defined as "a computer-manipulated, photographic aerial image of the Las Vegas Strip."

Unfortunately, there are no clear guidelines for courts making these decisions.[87] The guiding consideration has been described as "the preservation of the balance between competition and protection reflected in the patent and copyright laws."[88] What may ultimately occur, however, is a

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84. *See* Alice J. Kim, *Expert Testimony and Substantial Similarity: Facing the Music in (Music) Copyright Infringement Cases*, 19 COLUM.-VLA J.L. & ARTS 109, 122 (1995) (explaining that "where the finder of fact is the same for both the extrinsic and intrinsic tests, it seems of doubtful value to ask the finder of fact to 'forget' the expert testimony when considering similarity of expression. . . .").

85. *See* Amy B. Cohen, *Copyright Law and the Myth of Objectivity: The Idea-Expression Dichotomy and the Inevitability of Artistic Value Judgments*, 66 IND. L.J. 175, 212 (1990).

86. *See id.* at 212.

87. *See* Peter Pan Fabrics, Inc. v. Martin Weiner Corp., 274 F.2d 487, 489 (2nd Cir. 1960) (stating that "no principle can be stated as to when an imitator has gone beyond copying the 'idea,' and has borrowed its 'expression.'"); *see also* Alfred C. Yen, *A First Amendment Perspective on the Idea/Expression Dichotomy and Copyright in a Work's 'Total Concept and Feel,'* 38 EMORY L.J. 393, 419, 433 (1989) (noting that inherent problems in the dichotomy lie in that the idea-expression distinction can be very difficult to make, often relies solely upon instinct, and "may be construed to imply either an extremely broad scope of copyright protection or a very narrow one" depending on how the idea is defined).

88. Herbert Rosenthal Jewelry Corp. v. Kalpakian, 446 F.2d 738, 742 (9th Cir. 1971). *See also* Warner Brothers, Inc. v. Am. Broad. Cos., 720 F.2d 231, 240 (2nd Cir. 1983) (explaining that the idea-expression dichotomy, though "imprecise" "enable[s]

judicial determination as to the artistic merit of a particular work.[89] Commentators argue that a judge's personal judgment as to what constitutes a creative, distinctive work is the most important factor influencing idea-expression determinations.[90] Additional factors include the commercial success of works and the reputations of their creators.[91] As applied to *Tiffany Design*, value judgments could lead a court which believes the Burton Image to be of artistic merit to define the idea as "an image of the Las Vegas Strip" instead of using either of the above options.

In addition to the idea-expression dichotomy, courts have the opportunity to use value judgments in their merger determinations. If there is only one way of expressing an idea, a court will have no option but to find merger; however, where there are more than a few ways of expressing the idea, the court can decide where to draw the boundaries of protectable expression according to policy considerations similar to those involved in the idea-expression decision.[92]

In a world where "persons trained only in the law" are supposed to refrain from making artistic judgments "outside of the narrowest and most obvious limits,"[93] this is quite problematic. The boundaries between idea and expression are perhaps better determined by resorting to expert testimony and considerations of the creativity expressed by the medium involved.

3. *Failure to consider medium and market needs*

While the different needs of each medium may influence a court's merger determination, the total concept and feel test fails to ensure that the needs of different types of works are met. Cases such as *Shaw* and *Apple Computer* provide hope that courts will consider media when deciding how to approach the question of substantial similarity, but without explicit adoption of similar rules, the pictorial arts, which have traditionally been considered in terms of the old rules, will not be guaranteed such treatment.

Shaw's discussion of different ranges of protection for different types of works is useful, but the blanket statement that representational works

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courts to adjust the tension between [the] competing effects of copyright protection:" promoting creativity by granting authors exclusive rights, and "deter[ring] the creation of new works if authors are fearful that their creations will too readily be found to be substantially similar to preexisting works").

89. *See* Cohen, *supra* note 85, at 208 & n.127, 212-20 (1990); English Sullivan, *supra* note 8, at 604-09.

90. *See* Cohen, *supra* note 85, at 208 n.127, 212-20.

91. *See id.*

92. *See id.* at 212, 230.

93. Bleistein v. Donaldson Lithographing Co., 188 U.S. 239, 251 (1903).

are of necessity given narrow protection is not because it ignores the fact that there are different types of representational works. Within the general category of representational works, works should be given broader protection than others depending on how much "visual fact" is involved. For example, in the graphic arts, where one can expect a certain "industry aesthetic" to occur through use of similar ideas, concepts, and common goals, the protection should at times be narrower than in areas such as fine art painting, where artists may tend to portray more individuality and creativity. More protection should be given to a work which is entirely composed of imagined creatures set in a never-before-seen fantasy world than a realistic image of a dog lying in a store-bought doghouse. The closer a work comes to exact portrayals of reality, or the more it relies on standard medium manipulations, the more similarity would be needed for a finding of infringement. Using the case of *Tiffany Design*, this can be illustrated by imagining two extreme possibilities for what the Burton Image may look like: if the image consists of a heavily manipulated and distorted view of the Las Vegas Strip in which the buildings are no longer in the correct order or proportion to each other, the image would deserve more protection than if it simply touches up or slightly alters the coloring or scale of a photograph which served as source material for the image.[94] The latter image, as nearly composed only of "visual facts," would require near identical similarity for a finding of infringement.

C. Application of Ninth Circuit Law to the Visual Arts: The Need to Build upon *Apple Computer*

Many commentators have proposed alternatives to the current tests for substantial similarity. Among these, some propose a focus on the injury suffered by the plaintiff,[95] some talk of redefining derivative works,[96] and

94. Because the district court's opinion is vague in its description of the extent of manipulation and creativity involved in the creation of the Burton Image, see *supra* text accompanying note 14, this Note is left to speculate about what the image looks like.

95. *See* Laura G. Lape, *The Metaphysics of the Law: Bringing Substantial Similarity Down to Earth*, 98 DICK. L. REV. 181, 202, 204 (1994) (arguing that substantial similarity be determined by a finding of "substantial harm," composed of either "economic harm, harm to reputation, loss of privacy, and loss of artistic control").

96. *See, e.g.*, Naomi Abe Voegtli, *Rethinking Derivative Rights*, 63 BROOK. L. REV. 1213 (1997) (arguing that in order to advance the needs of appropriation artists, a 'derivative work' should be defined as "either (1) a work based significantly upon one or more pre-existing works, such that it exhibits little originality of its own or that it unduly diminishes economic prospects of the works used; or (2) a translation, sound recording, art reproduction, abridgment, and condensation.").

yet others argue that substantial similarity should be replaced entirely.[97] In reality, however, substantial similarity is probably here to stay, and a solution must be found through extensions of current law. Although several other commentators have proposed similar solutions,[98] this Note attempts to make a more detailed, workable test. In the case of the visual arts, many of the problems identified in the previous discussion could be solved by providing works with different levels of protection according to the specific needs of the field. This, if done with use of expert testimony in a step-by-step analysis similar to that used in *Apple Computer*, would restrict judicial value judgments and create a more workable system.

First, the idea should be defined and compared, the merger and *scenes-a-faire* doctrines considered, and a test of copyrightability, originality and functionality performed. For these steps, expert testimony and dissection should be used to avoid judicial value judgments affecting the inquiry, and the idea should be defined narrowly or broadly depending on the type of work involved and the level of creativity shown by the plaintiff. For the work involved in *Tiffany Design*, the idea should be defined as a computer manipulated, aerial photographic depiction of the Las Vegas Strip. Such an idea is quite predictable given modern technology's ability to manipulate photographs with a computer and the desirableness of the Las Vegas Strip as a subject for postcards. The merger doctrine or a finding of lack of originality could apply to the placement of different aspects of the strip in different areas of the postcard if these are logical design solutions given the subject matter of the image and the use of standard computer-manipulation techniques.

Next, the remaining expression should be filtered according to independent creation, licenses, conveyances, or similar considerations. While *Apple Computer* explicitly mentioned that licensed expression could not support a finding of infringement, it failed to mention the possibility of an artist independently creating part of the expression (perhaps because that

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97. *See, e.g.*, Cohen, *supra* note 9, at 741-42 (proposing that the substantial similarity test be replaced with fair use considerations).

98. *See, e.g.*, 4 NIMMER, *supra* note 8, § 13.03[E][1][b] (arguing that dissection and filtering should be performed not only in cases involving factual compilations and computer programs, but "across the gamut of copyright law" in order to prevent findings of substantial similarity from including considerations of non-protectable elements); Lawrence Jeffrey Sher, *The Search for a Suitable Standard of Substantial Similarity: The Ninth Circuit's Application of the Krofft Test*, 25 U.C. DAVIS L. REV. 229, 258-59 (1991) (proposing a four part test: (1) determining whether there is substantial similarity of ideas, (2) determining if the plaintiff's work contains any protectable material, (3) determining whether there is objective substantial similarity, and (4) determining whether there is intrinsic, "look and feel" substantial similarity).

was not an issue in the case). In a case such as *Tiffany Design*, where there is evidence that the defendant had begun work on its own image of the Las Vegas Strip prior to its encountering the plaintiff's image, a factual determination of independent creation should occur, and any expression found in the defendant's image that results from independent creation should be removed from the substantial similarity inquiry.

Finally, if there is enough remaining protectable expression, a substantial similarity inquiry should occur with respect to those elements. The level of similarity required for a finding of infringement should vary depending on the type of work involved and the amount of protectable expression in relation to the whole. While this step could use an ordinary observer audience as the trier of fact, this should be done in combination with expert testimony and dissection so that the inquiry considers only protectable elements. Even in a case such as *Tiffany Design*, where the intended audience for the works is an ordinary layperson, expert testimony would ensure that the fact finder keeps sight of the amount of protectable expression in the plaintiff's work and does not find substantial similarity by looking at non-protectable expression.

Although this proposal shies away from the traditional "total concept and feel" used by the Ninth Circuit, it is consistent with *Apple Computer*, and better advances the goal of copyright law of making new creative works available to the public. Because visual artists will benefit from stronger protection in works that exhibit a greater degree of creativity, those artists are given an incentive to invest their time in works which are unique and therefore beneficial to the public, instead of investing it in attempts to monopolize entire areas of subject matter via the use of a small amount of creative, protectable expression. Also, by using the aid of experts at every stage, the test insures that judicial value judgments do not cloud the outcome of cases, and makes it easier for those involved in the visual arts—usually experts themselves—to predict the scope of protection in different works of visual art. Authors are thus provided with an incentive to create a larger variety of works because they know how much creativity is needed to ensure copyright protection. In addition, more works will be created through artistic borrowing of non-protectable elements found in other works, which the authors may have previously been hesitant to use.

IV. CONCLUSION

Tiffany Design will bring the issue of substantial similarity in the context of visual art to center stage, and presents yet another opportunity for a

court to reinterpret its meaning and devise a clear path that other courts may follow in order to produce relatively consistent rulings. A creative interpretation of current case law can give the court the tools it needs to devise a workable test which better balances the competing goals of copyright law, meets the needs of the visual arts, and allows plaintiffs a reasonable prediction of the types of conduct impermissible under copyright law. A resolution of the battle of the postcards shall be anxiously awaited.

RECORDING INDUSTRY ASSOCIATION OF AMERICA, INC. V. DIAMOND MULTIMEDIA SYSTEMS, INC.

By Ines G. Gonzalez

Pity the recording industry. The major recording labels have been blindsided by new technologies embracing the Internet. New data compression technology, primarily in the form of MP3, coupled with the Internet's expanding global reach, have enabled anyone with access to computers[1] not only to listen to music on their computers, but to exchange music files with other Internet users. Concerned that the portable Diamond Rio MP3 player would further encourage piracy of sound recordings, the Recording Industry Association of America ("RIAA") and the Alliance of Artists and Recording Companies brought suit against the device manufacturer. This Note examines the decision in *Recording Industry Association of America v. Diamond Multimedia Systems, Inc.*[2] While the recording industry's legitimate concerns about piracy need to be addressed, other solutions that reflect the fundamental copyright policy of fair use should be explored.

I. BACKGROUND

A. Copyright Law and Early Digital Technology

Through copyright law, Congress attempts to balance exclusive private rights that are limited in duration against public accessibility.[3] For example, copyright law gives the exclusive right to copy[4] and to create derivative works[5] in exchange for innovation. Changes in consumer recording technology, however, have provided many opportunities to reassess the balance. For example, in *Sony Corp. v. Universal City Studios,*[6] the Supreme Court concluded that consumers have a legal right to "time-shift"

1. To take advantage of this new technology, a computer must have the proper software and be equipped with a CD-ROM drive and/or an Internet connection.
2. 180 F.3d 1072 (9th Cir. 1999).
3. *See* U.S. CONST. art. I, § 8, cl. 8 (providing that "Congress shall have the power . . . to promote the progress of science and useful arts by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries.").
4. *See* 17 U.S.C. § 106(1) (1994).
5. *See id.* § 106(2).
6. 464 U.S. 417 (1984).

when they videotape a television program to view later. The Court determined that such recording for personal use constituted fair use and that copyright owners were not likely to object to the time-shifting by consumers.[7]

Copyright owners of audiovisual programs were not the only ones affected by developments in consumer recording technology. Prior to the introduction of digital recording technology, a person wishing to make an audiocassette tape from a record or compact disc ("CD") had to use analog recording technology, usually consisting of an audiocassette tape recorder and a mixer.[8] Given this technology, a second generation copy, i.e., an audiocassette copy made from a previously copied tape, would suffer degradation of quality due to hiss and lack of clarity.[9] In the mid to late 1980s, consumer electronics companies developed technology that enables consumers to make digital copies of audio recordings.[10] Unlike audiocassettes, digital audio recording media retain the sound quality of the master

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7. *See id.* at 456.

8. For more information on the comparison of digital and analog sounds, see *Comparison of Digital and Analog* (visited Nov. 4, 1999) ⟨http://klingon.cs.iupui.edu/~aharris/mmcc/mod4/abec202.html⟩. Digital and analog sounds may be contrasted as follows:

> To record a sound, a membrane in a microphone is used to copy that wave onto some surface. . . . To replay the sound, a needle is forced through the groove created by the recording process. This needle is attached to another membrane in a speaker. When the speaker membrane vibrates, the original sound wave is recreated. The process is entirely analog. No numbers are involved, the process is completely mechanical, and there is infinite precision, but very limited accuracy and much room for error in the sound recording and reproduction process.
>
> Compact disk technology uses digital means to record and play sounds. The sound waves are read by a computer which analyzes each instance of the sound, and assigns it a numerical value. Many of these numerical values are stored each second. When the music is played back, it goes through another computer, which retranslates the numbers into the sounds that the numbers represent. As anyone who listens to CDs can attest, digital recordings seem much more accurate than analog recordings. Since they are recorded at such frequent tiny intervals, the lack of precision is not a problem, and we find digitally recorded music more accurate.

Id.

9. *See RIAA*, 180 F.3d at 1073.

10. This technology included digital audio tape (DAT) and mini-disc (DCC). *See, e.g.*, Joel L. Mckuin, *1994 Home Audio Taping of Copyrighted Works and the Audio Home Recording Act of 1992: A Critical Analysis*, 16 HASTINGS COMM. & ENT. L.J. 311, 321 (1994).

recording regardless of the number of copies produced.[11] Thus, a digital copy made from another digital copy is nearly indistinguishable from the original sound recording.[12]

Unlike the previous analog tape technology, digital recording technology presented a serious threat to the music industry.[13] The record companies feared that the availability of inexpensive, near-perfect copies of musical recordings would discourage consumers from purchasing legitimate recordings. The record companies responded by suing Sony, a manufacturer of digital audio tape.[14] The parties eventually settled and supported the passage of the Audio Home Recording Act ("AHRA") of 1992.[15]

B. Audio Home Recording Act

The AHRA prohibits the importation, manufacture, or distribution of digital audio recording devices unless two requirements are met. First, a digital audio recording device must employ a Serial Copyright Management System ("SCMS") that sends, receives, and acts upon information about the generation and copyright status of the files that it plays.[16] Second, any person importing, distributing, or manufacturing a digital audio recording device must pay a two percent royalty for each device sold to the Register of Copyrights on behalf of the copyright holders.[17]

To be subject to the AHRA, a device must be a "digital audio recording device," which the AHRA defines through a set of nested definitions.[18] The AHRA first defines a "digital audio recording device" as "any machine or device of a type commonly distributed to individuals for use by individuals . . . the recording function of which is designed or marketed for the primary purpose of, and that is capable of, making a *digital audio copied recording* for private use. . . ."[19] A "digital audio copied recording" is defined as "a reproduction in a digital recording format of a *digital musical recording*, whether that reproduction is made directly from another

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11. *See* S. REP. NO. 102-294, at 30 (1992).

12. *See* Michael Rudell, *The Rio Music Player and Home Recordings*, N.Y.L.J., June 25, 1999, at 3.

13. *See RIAA*, 180 F.3d at 1073.

14. *See* Cahn v. Sony Corp., 90 Civ. 4537 (S.D.N.Y. filed July 9, 1990).

15. Audio Home Recording Act of 1992, Pub. L. No. 102-563, § 2, 106 Stat. 4237 (1992) (codified in scattered sections of 17 U.S.C.).

16. *See id.* § 1002(a)(2).

17. *See id.* §§ 1004(a), 1005.

18. *See RIAA*, 180 F.3d at 1075.

19. 17 U.S.C. § 1001(3) (emphasis added).

digital musical recording or indirectly from a transmission."[20] The AHRA defines a "digital musical recording" as:

> a material object
> (i) in which are fixed, in a digital recording format, only sounds, and material, statements, or instructions incidental to those fixed sounds, if any, and
> (ii) from which the sounds and material can be perceived, reproduced or otherwise communicated, either directly or with the aid of a machine or device.[21]

A digital musical recording does not include a material object "in which one or more computer programs are fixed, except that a digital musical recording may contain statements or instructions constituting the fixed sounds and incidental material, and statements or instructions. . . ."[22]

C. Digital Music and the Internet

Digital music technology has significantly advanced since the passage of the AHRA. Data compression technology, for example, enables users to store copies of musical recordings as files on their computer hard drives. Users can then listen to the music on their computers or send the files as e-mail attachments. In addition, users may post the files on websites, making the copied files available for anyone to download onto their respective computers. Thus one file can be the source of many copies. Early compression formats, however, such as Musical Instrument Digital Interface ("MIDI") took hours to download over the Internet because the digital information on a single CD required hundreds of computer floppy diskettes to store.[23]

The development of Motion Picture Experts Group, Audio Layer 3 ("MP3"), represents an enormous advance over previous music compression formats like MIDI. MP3 compresses music files at a 12-to-1 ratio with near-CD quality sound.[24] The MP3 files can be transmitted relatively quickly online, making the Internet a more effective and attractive distribution channel.[25]

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20. *Id.* § 1001(1) (emphasis added).
21. *Id.* § 1001(5)(A) (emphasis added).
22. *Id.* § 1001(5)(B)(ii).
23. *See* Rudell, *supra* note 12.
24. *See* Recording Indus. Ass'n of Amer. v. Diamond Multimedia Sys., 180 F.3d 1072, 1074 (9th Cir. 1999).
25. With a high speed connection via a cable modem or a digital subscriber line, compressed music can be downloaded to a personal computer within minutes. *See* Rudell, *supra* note 12.

Based on the amount of coverage it has received in the media, MP3 seems to be very popular in the Internet community.[26] MP3's popularity has been attributed partially to the fact that it is a standard, non-proprietary algorithm that is freely distributed and widely available.[27]

MP3's popularity on the Internet threatens the recording industry's traditional distribution channels by drastically reducing record labels' traditional control over the promotion of artists. An independent recording artist can now promote her music directly to her fans by making the music available in the form of a downloadable MP3.[28] She no longer has to rely *solely* on a record label to promote her music to radio stations to reach a large potential fan base.[29] MP3 proponents therefore see the technology as the "great equalizer" because it shifts the power from a few record labels[30] to the artists and consumers.[31]

Recording artists and record labels also fear that advances in technology have led to widespread piracy[32] of music in the form of illegal copying and distribution of sound recordings.[33] CD-ripping software like MusicMatch Jukebox and MP3 Blaster32 2000 allows a person to store tracks from a CD as a digital file on her computer hard drive.[34] Although CD-ripping software enables a consumer to make a "backup" copy on her hard

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26. Articles on MP3 have appeared everywhere from the New York Times to Time and Wired magazines. *See, e.g.*, Carl S. Kaplan, *In Court's View, MP3 Player is Just a "Space Shifter,"* N.Y. TIMES ON THE WEB (July 9, 1999) ⟨http://www10.nytimes.com/library/tech/99/07/cyber/cyberlaw/09law.html⟩; Richard Gehr, *Steal This Industry*, TIME DIGITAL, Sept. 6, 1999, at 32; *It's Playback Time*, WIRED, Aug. 1999, at 122.

27. *See* Rudell, *supra* note 12.

28. *See* Brenda Sandburg, *The Online Freeway Jam*, IP WORLDWIDE (June 1999) ⟨http://www.ipmag.com/monthly/99-june/sandburg.html⟩.

29. *See id.*

30. The five major record labels are BMG Entertainment, EMI, Sony Music, Warner Music Group and Universal Music Group. *See* Rob Kenner, *The Top 5 Countdown*, WIRED, Aug. 1999, at 134-35.

31. *See, e.g.*, Gehr, *supra* note 26, at 32-33. *But see* George M. Borkowski & Robert C. Welsh, *Cyberians at the Gate?*, IP WORLDWIDE, June 1999, at ⟨http://www.ipmag.com/monthly/99-june/welsh.html⟩ (concluding that record companies will survive despite MP3 because they provide benefits such as differentiation and expertise).

32. The RIAA defines "online piracy" as the "playing or downloading from the Internet songs and lyrics without getting authorization to, and without compensating the artists." *See Piracy FAQ's* (visited Nov. 21, 1999) ⟨http://www.riaa.com/piracy/pir_faq.htm⟩.

33. *See* 17 U.S.C. § 106 (1994) (describing the exclusive rights of copyright holders).

34. For a downloader's guide to MP3, see *CNET Home Page* (visited Nov. 19, 1999) ⟨http://www.cnet.com⟩.

drive that would be considered "fair use,"[35] there is no protection mechanism currently in place to stop her from sharing that copy with others, thus infringing on the copyright holder's exclusive rights to reproduce and to distribute her copyrighted work.[36]

In addition, hundreds of pirate websites and file transfer protocol ("FTP") sites offer free downloads of copyrighted material.[37] The Recording Industry Association of America ("RIAA")[38] has responded with an anti-piracy campaign. The RIAA monitors the Internet daily and routinely attempts to shut down pirate websites by sending cease-and-desist letters and by bringing lawsuits.[39] As difficult as it is to keep on top of the new websites that are created, FTP sites represent an even more difficult target to patrol. Specifically, an FTP site can be moved easily by mapping it to a new Internet protocol ("IP") address.[40] Also, most FTP sites are not advertised. Rather, the addresses of these sites are spread via e-mail or conversations in chat rooms, making them difficult to track.[41] Furthermore, MP3 files can be saved in a file extension other than ⟨.mp3⟩ (e.g., ⟨.zip⟩, ⟨.gz⟩), making it even more difficult to find illegally copied MP3 files.[42]

The RIAA and others recently formed the Secure Digital Music Initiative ("SDMI").[43] The purpose of SDMI is "to develop open technology

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35. To determine whether a use constitutes "fair use," the "purpose and character" of the use are considered. It is also important to factor in whether the use is commercial in nature. Thus, one who distributes copies of a copyrighted song on the Internet for profit (e.g., to generate traffic to a website to attract advertisers) would be clearly liable for copyright infringement. On the other hand, a person who copies her CD onto her computer has a fair use defense since this is noncommercial, nonprofit use. *See* 17 U.S.C. § 107; *see also* Janelle Brown, *MP3 Crackdown*, SALON.COM (Nov. 17, 1999) ⟨http://www.salonmagazine.com/tech/log/1999/11/17/riaa/index.html⟩; Robin D. Gross, *Understanding Your Rights: The Public's Right of Fair Use* (visited Oct. 13, 1999) ⟨http://www.eff.org/cafe/gross1a.html⟩.

36. *See* 17 U.S.C. § 106.

37. Interview with an MP3 downloader, in Hayward, Cal. (Nov. 20, 1999) [hereinafter Interview]. This person no longer purchases music. Instead, he downloads MP3 files, burns CDs, and creates his own CD liners and notes from downloaded artwork.

38. The RIAA is a trade group consisting of members who create, manufacture or distribute 90 percent of the legal sound recordings in the United States. *See RIAA Online* (visited Nov. 21, 1999) ⟨http://www.riaa.com⟩.

39. *See* Recording Indus. Ass'n of Amer. v. Diamond Multimedia Sys., 180 F.3d 1072, 1074 (9th Cir. 1999).

40. *See* Interview, *supra* note 37.

41. *See id.*

42. *See id.*

43. SDMI boasts over 140 members including Internet service providers; information technology and consumer electronics businesses such as Hewlett Packard, Dolby

specifications for protected digital music distribution."[44] SDMI's long-term goal is to complete an overall architecture for delivery of digital music in all forms. SDMI claims two core principles—that copyrights should be respected and that those who wish to do so should be able to use unprotected formats.[45] Through its specifications, SDMI hopes to enable copyright protection for artists' work and to promote the development of new music-related businesses and technologies. In June 1999, SDMI adopted its initial standard for portable digital music devices. Three months later, SDMI announced that technology and related licensing documents needed for first generation SDMI-compliant portable devices would soon become available. Realizing that they stood to profit from the MP3 revolution, SDMI worked to ensure that the first generation of watermarking technology would be made available to enable portable device manufacturers to be able to proceed with production of portable devices for the 1999 holiday season.[46]

D. Portable MP3

The recording industry perceived portable MP3 players such as the Rio as another threat. Prior to the introduction of portable MP3 players, MP3 listeners were usually confined to listen to their downloaded digital audio files through headphones or speakers connected to their computers. The Rio PMP300 portable player ("Rio"), manufactured by Diamond Multimedia Systems, allows users with special software to transfer MP3 audio files from a computer to the player.[47] The device, which costs less than $200, is about the size of a deck of cards and allows a user to listen to her

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Laboratories, Aris Technologies, Bose, Compaq, and JVC Victor; associations of musicians; recording companies; and telecommunications providers Deutsche Telekom AG and AT&T. *See generally SDMI Home Page* (visited Nov. 21, 1999) ⟨http://www.sdmi.org⟩.

44. *SDMI FAQ* (visited Feb. 15, 2000) ⟨http://www.sdmi.org/public_doc/SDMI99070809-SDMI_FAQ.pdf⟩.

45. *See SDMI Fact Sheet* (visited Nov. 21, 1999) ⟨http://www.sdmi.org/public_doc/FinalFactSheet.htm⟩.

46. *See SDMI Announces Portable Device Technology Will Be Available* (visited Oct. 30, 1999) ⟨https://www.sdmi.org/dscgi/ds.py/Get/File-646/nyc-99-09-24-press-release.htm⟩; *see also* Euan Lawson and Andrew Steed, *Sounds Unlimited 2: Music and Copyright in Cyberspace—An Update*, COPYRIGHT WORLD, May 1999, at 16, 20 (stating that the music industry is now "gearing up" for the online distribution of sound recordings).

47. *See* Rudell, *supra* note 12, at 3.

digital music files on her portable player.[48] Thus, one no longer needs to be confined to one's computer in order to listen to music downloaded from the Internet.

The Rio can only receive digital audio files from a personal computer equipped with Rio Manager, one of the software programs provided with the Rio.[49] MusicMatch JukeBox Software, which is also bundled with the Rio, enables a user to convert music tracks from a CD to the MP3 file format "for personal use."[50] Once a digital audio file has been downloaded onto a computer hard drive from the Internet or from a CD, the Rio Manager allows the user to download the file to the Rio via a parallel port cable that connects the Rio into the computer.[51]

The typical Rio holds about an hour of music in memory chips and does not require any tape or disk. Memory cards can be added to store an additional half-hour or hour of music.[52] These memory cards can be removed from one Rio and played back in another.[53]

While the Rio downloads a serial copy of the original music file, it is important to understand that its sole output is an analog audio signal sent to the user via headphones.[54] The device alone cannot make duplicates of any digital audio file it stores, nor can it transfer or upload such a file to any destination.[55]

II. CASE DISCUSSION

A. District Court Decision

The RIAA brought suit to enjoin the manufacture and distribution of the Rio, alleging that the Rio, as a digital audio recording device, does not

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48. *See id.* At one point, online software and hardware retailer Beyond.com offered the Rio player for $49.99 after a $100 manufacturer's rebate. *See, e.g.*, *Beyond.com* (visited Sept. 8,1999) ⟨http://www.beyond.com⟩.

49. *See* Recording Indus. Ass'n of Amer. v. Diamond Multimedia Sys., 180 F.3d 1072, 1074-1075 (9th Cir. 1999).

50. *See* Diamond Multimedia Systems, Inc., RIO PMP300 USER'S GUIDE 1 (1998).

51. *See RIAA*, 180 F.3d at 1075.

52. *See id.*

53. The prohibitively high cost for a memory card makes it unlikely that someone would download a special compilation of music onto a memory card for resale. A 16MB memory card costs around $60. *See, e.g.*, MP3shopping.com, *Diamond Rio 500 portable MP3 player* (visited Feb. 15, 2000) ⟨http://www.mp3shopping.com/english/rio.htm ⟩.

54. *See RIAA*, 180 F.3d at 1075.

55. *See id.*

comply with the AHRA.[56] Specifically, the Rio does not have SCMS.[57] The RIAA also sought payment of the royalties owed by Diamond as the manufacturer and distributor of a digital audio recording device.[58] The industry group viewed the royalties as a substitute for the revenue the copyright holders would have earned from sound recordings sold to consumers. On October 16, 1998, the district court issued a temporary restraining order enjoining Diamond from manufacturing or distributing the Rio.[59] Ten days later, the district court denied the RIAA's motion for a preliminary injunction because it found that the RIAA's probability of success on the merits was mixed.[60]

Diamond argued that the Rio was not a digital audio recording device and is therefore exempt from the AHRA because the Rio copies from a file on a computer hard drive, which cannot serve as a source for a digital musical recording under the AHRA.[61] Therefore, the Rio is not capable of making a prohibited digital audio copied recording. The RIAA contended that "section (5)(B)(ii) [of the AHRA] was only intended to avoid immunizing the illegal copying of computer programs," a contention that the court found to be supported by the legislative history.[62] The court opined that if it excluded computer hard drives as a source for digital musical recordings, the AHRA would be effectively eviscerated.[63] Under its reading of the AHRA, the court determined that the Rio was "'capable of making' a reproduction of a 'digital musical recording.'"[64]

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56. *See* Recording Indus. Ass'n of Amer. v. Diamond Multimedia Sys., Inc., 29 F. Supp.2d 624 (C.D. Calif. 1998).

57. *See* S. REP. NO. 102-294, *supra* note 11, at 17. The report describes the function of the Serial Management Copy System:

> SCMS is intended to prohibit [digital audio recording devices] from recording 'second-generation' digital copies from 'first generation' digital copies containing audio material over which copyright has been asserted via SCMS. It does not generally restrict the ability of such devices to make 'first generation' digital copies from 'original' digital sources such as prerecorded commercially available compact discs, digital transmissions, or digital tapes.

Id.

58. *RIAA*, 180 F.3d at 1075.

59. *See RIAA*, 29 F. Supp.2d at 626.

60. *See id.* at 633.

61. *Id.* at 628.

62. *See id.* at 630.

63. *See id.* ("Any recording device could evade AHRA regulation simply by passing the music through a computer and ensuring that the MP3 file resided momentarily on the hard drive.").

64. *Id. at* 628.

Although the court found that the Rio is probably a "digital audio recording device," it concluded that the Rio ultimately does not violate the AHRA.[65] The court pointed out that even if the Rio incorporated SCMS, there is nothing to prevent the Rio from downloading an MP3 file from a computer's hard drive.[66] The Rio could not "act[] upon . . . copyright and generation status information" because the MP3 files do not contain this information.[67] Similarly, because the Rio does not permit downstream copying, it cannot be required to send copyright and generation status information.[68] Thus, the court asserted, it was "nonsensical" to suggest that the Rio be required to "send . . . copyright and generation status information."[69]

B. Ninth Circuit Decision

The RIAA appealed the district court's decision. The initial question on appeal was whether the Rio portable music player qualifies as a digital audio recording device subject to the restrictions of the AHRA.[70] Disagreeing with the district court's definition of a digital audio recording device, the Ninth Circuit determined that the Rio must be able to reproduce, either "directly" or "from a transmission," a "digital music recording" in order for it to be considered a digital audio recording device subject to the AHRA.[71]

The Ninth Circuit first considered whether the Rio is able to reproduce directly a digital musical recording.[72] According to the court's reasoning, the Rio cannot reproduce a "digital musical recording" because the input for the Rio comes from an MP3 file on a computer hard drive.[73] The typical computer hard drive cannot serve as the source of a "digital musical recording" because it contains various software programs and databases that are not incidental to any "fixed sound" present in an MP3 file, as required by section 1001(5)(A)(i).[74] Because the latter section is not met, the

65. *See id.* at 632.
66. *See id.*
67. *See id.*
68. *See id.*
69. *See id.*
70. *See* Recording Indus. Ass'n of Amer. v. Diamond Multimedia Sys., 180 F.3d 1072, 1075 (9th Cir. 1999).
71. *See id.* at 1076.
72. *See id.*
73. *See id*; *see also* discussion, *supra* Part I.D.
74. *See RIAA*, 180 F.3d at 1076.

court declared that the Rio cannot make a "digital audio copied recording" directly from another "digital musical recording."[75]

Even though the Rio does not "directly" reproduce a "digital musical recording," the Ninth Circuit determined that the Rio could still qualify as a "digital recording device" if it could reproduce a digital music recording "from a transmission."[76] The RIAA contended that section 1001(1) would cover direct reproductions from digital musical recordings and indirect reproductions from a transmission.[77] Diamond, on the other hand, asserted that the adverb "indirectly" modifies the recording of the underlying "digital music recording," rather than the recording "from the transmission."[78] The court concluded that Diamond's reading of AHRA was not only more logical, but that the RIAA's interpretation contradicted statutory language and common sense.[79] Under the RIAA's reading, the AHRA would restrict the indirect recording of transmissions but would allow direct recording of transmissions, such as recording songs from the radio.[80] The court also stated that the legislative history confirmed its reading of the statute that "'indirectly' modifies . . . the making of the reproduction of the underlying digital music recording."[81] The court concluded that a device falls within the AHRA's provisions if it can "indirectly copy a digital music recording by making a copy from a transmission of that recording."[82] Because the Rio cannot make copies from transmissions, but instead, can only make copies from a computer hard drive, the court held that the Rio is not a digital audio recording device.[83]

The Ninth Circuit also addressed the legislative history of the AHRA because it is consistent with the statute's plain meaning.[84] The RIAA contended that "the legislative history reveals that the Rio does not fall within the specific exemption from the digital musical recording definition of 'a

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75. *See id.*

76. *See id.*

77. *See id.* at 1080.

78. *See id.*

79. *See id.*

80. *See id.*

81. *Id.* at 1081; *See also* S. REP. NO. 102-294, *supra* note 11, at 47 ("[A] digital audio recording made from a commercially released compact disc or audio cassette, or from a radio broadcast of a commercially released compact disc or audio cassette, would be a 'digital audio copied recording.'").

82. *RIAA*, 180 F.3d at 1081.

83. *See id.*

84. *See id.* at 1077. The court emphasized that a review of the legislative history was unnecessary because the statutory language of the AHRA is clear. The court only addressed the legislative history because the parties briefed it so extensively.

material object in which one or more computer programs are fixed.'"[85] The RIAA asserted that the House Report describes the exemptions as "revisions reflecting exemptions for . . . computer programs."[86] The Ninth Circuit noted, however, that limiting the exemption to computer programs contradicts the plain meaning of the exemption because a computer program is a "literary work" that "can be fixed in a variety of material objects."[87] The court stated that the exemption's plain language excludes *any* copying from a computer hard drive from coverage under the AHRA.[88] Furthermore, the court concluded that the Rio is consistent with the purpose of the AHRA because it facilitates personal use;[89] specifically, the AHRA exempts home taping of both digital and analog music recordings.[90] The court emphasized that the Rio "merely makes copies in order to render portable, or 'space-shift,' those files that already reside on a user's hard drive."[91]

III. DISCUSSION

The recording industry brought suit against Diamond because of concerns that the Rio would increase the popularity of MP3 files. MP3 would have remained an impractical format as long as MP3 users were confined to using their computers to listen to the files.[92] By rendering the music files portable, the cassette-sized Rio made MP3 files a more attractive alternative to carrying around CDs and a CD player or to listening to the inferior sound quality of an analog tape. Consequently, the RIAA feared that MP3's increased popularity would result in more music piracy and fewer legitimate purchases of sound recordings. The recording industry was also concerned that their control over the promotion and distribution of sound recordings would be diluted. Specifically, artists would be able to distribute their music directly to their fans on the Internet and then leverage their online popularity in negotiations with the record labels.

While the recording industry's concerns about piracy remain legitimate, the Ninth Circuit correctly ruled for Diamond on both legal and policy grounds. The Rio does not infringe any of the rights created under the federal Copyright Act or the AHRA. Rather, it represents a classic in-

85. *RIAA*, 180 F.3d at 1077; *see also* 17 U.S.C. § 1001(5)(B)(ii) (1994).
86. *RIAA*, 180 F.3d at 1077 (quoting H.R. REP. NO. 102-873, at 35 (1992)).
87. *Id.* at 1077.
88. *See id.* at 1078.
89. *See id.* at 1079.
90. *See RIAA*, 180 F.3d at 1079.
91. *RIAA*, 180 F.3d at 1079.
92. This Note does not address the practice of "burning" MP3s onto a CD.

stance of fair use, a fundamental policy which should not be trumped by industry-specific goals. Moreover, other solutions may address the recording industry's concerns.

A. The Limited Applicability of the AHRA

The Ninth Circuit correctly concluded that the Rio is not subject to the AHRA because it constructed its definition of a digital audio recording device by examining the language of the statute, itself. It relied on the explicitly defined terms in section 1001 of the AHRA instead of substituting its own interpretation as the district court did. The Ninth Circuit stated that in order to be a digital audio recording device, the Rio must be able to reproduce a digital musical recording.[93] Reading directly from the statute, the court determined that a computer hard drive is excluded from the definition of digital musical recordings.[94] Although a computer hard drive is a "material object," it typically contains other files and programs that are not incidental to the "sounds" fixed in a file.[95] Because the computer hard drive from which the Rio obtains its input is not a digital musical recording, the Rio cannot reproduce a digital musical recording, and therefore cannot be a digital audio recording device. This conclusion makes sense because the Rio does not enable the serial copying that the AHRA was designed to prevent.

The legislative history also supports the Ninth Circuit's reading of the statutory language, which excluded the classification of the Rio as a digital audio recording device. Section 1001 established a new type of material object embodying musical works—a "digital musical recording."[96] This served two purposes: (1) to delineate clearly the types of devices and media subject to the AHRA, and (2) to ensure that devices dedicated to the recording of motion pictures, television programs, or multimedia works would not be covered by the act.[97] Congress defined digital musical recordings to include CDs, digital audio tape, audio cassettes, albums, digital compact cassettes and mini-discs.[98] It further considered that a computer hard drive containing programs or databases would be excluded from the definition of a digital musical recording.[99] Thus, the legislative history supports the Ninth Circuit's analysis that the Rio is not a digital

93. *See RIAA*, 180 F.3d at 1076.

94. *See id.*

95. *See id.* at 1076-78.

96. The original term drafted in the AHRA was "audiogram" but was later replaced by "digital musical recording." *See* S. REP. NO. 102-294, *supra* note 11, at 46.

97. *See id.*

98. *See id.*

99. *See id.*

audio recording device because it cannot reproduce a digital musical recording.

As a matter of policy, the Ninth Circuit's decision reflects the primary purpose of the AHRA: "to ensure the right of consumers to make analog or digital audio recordings of copyrighted music for their private, noncommercial use."[100] This right to make copies for personal use reflects the fundamental policy of fair use underlying copyright law. The AHRA represents a compromise between the recording industry and electronics device manufacturers that enabled the introduction of digital audio recording technology.[101] The recording industry had sought a ban on the import of digital audio tape recorders and blank cassettes that would have enabled consumers to make digital musical recordings for their personal use.[102] In order to get this technology in the hands of consumers, the Senate drafted the AHRA to include the SCMS system and a royalty provision.[103] The Senate recognized the importance of fair use of this technology and included a declaration in its legislative report that a consumer who makes a digital musical recording for use in her home, car or portable tape player is insulated from copyright infringement.[104]

B. Did Technology Push the Boundaries of Existing Law?

The Ninth Circuit's decision recognizes the fundamental policy of fair use that was codified from existing case law in section 107 of the Copyright Act of 1976 and reaffirmed by Congress in section 1008 of the AHRA. Under this doctrine, certain uses of copyrighted works may be found to be noninfringing. Four factors are considered in determining fair use:

> (1) the [commercial or noncommercial] purpose and character of the use . . . (2) the nature of the copyrighted work; (3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and (4) the effect of the use upon the potential market for or value of the copyrighted work.[105]

Section 1008 of the AHRA contains similar language that considers noncommercial use of a recording device or medium by a consumer to be

100. *See id.* at 30.
101. *See id.* at 33.
102. *See id.* at 32.
103. *See id.* at 33.
104. *See id.* at 51.
105. 17 U.S.C. § 107 (1994).

noninfringing.[106] Section 1008 does not consider the amount of copying that is done. Rather, it emphasizes the fundamental policy that personal use of this technology is fair use.

Because the fair use doctrine is an equitable one, Congress left the statutory terms necessarily vague. Supreme Court decisions have provided some guidance in defining the practical contours of this doctrine. An analogy relevant to the Rio technology can be found in the Court's ruling in *Sony* on personal video cassette recorders ("VCR").[107] In *Sony*, a contributory copyright infringement case, the plaintiffs alleged that consumers had infringed their copyrights by using VCRs to record their copyrighted works and that Sony was therefore liable for this infringement as the manufacturer of the recording devices.[108] The Court determined that Sony was not liable because the copying equipment that it sold was capable of substantially noninfringing uses. Specifically, the VCR could be used to record public television shows whose copyright owners would not object to having their broadcasts "time shifted" by viewers for private home use.[109] Furthermore, the Court reasoned that while VCRs could enable video piracy, a substantial number of consumers would use the devices to time-shift for personal use. Because this use was personal and not for commercial purposes, the Court determined that "time-shifting" was fair use.

Sony's VCR is similar to the Rio because both involve consumer recording technology that facilitates the consumer's enjoyment of creative works. The analysis in *Sony* is therefore appropriate. Like the VCR, the Rio is meant to facilitate personal use. The Rio format shifts, which is similar to time-shifting because the creative component of the work remains unchanged and yet the consumer can enjoy the work at her convenience. Furthermore, there may be copyright holders like those in *Sony* who would not object to the shifting of their works for the consumer's personal use. For example, unsigned bands that encourage people to download their music or Internet record labels that sell music online would probably not object to format-shifting. While the Rio may encourage the illegal copying of copyrighted musical works, a substantial number of consumers will use the Rio for personal use which the Supreme Court considered fair in *Sony*.

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106. *See id.* § 1008 ("No action may be brought under this title alleging infringement of copyright based on . . . the noncommercial use by a consumer of [a digital audio] device or medium for making digital musical recordings or analog musical recordings.").

107. *See* Sony Corp. v. Universal City Studios, Inc., 464 U.S. 417 (1984).

108. *See id.* at 417.

109. *See id.*

C. Possible Solutions

While technological advances will make piracy a growing concern, the recording industry's concerns would be better addressed by developing solutions that utilize the technology and yet respect the fundamental policy of fair use. One possible solution is to create new or to clarify existing legislation. For example, the AHRA could be revised to include the Rio. This would enable copyright holders to benefit from the royalties collected on each Rio sold in lieu of the revenue they would lose from the piracy of their sound recordings. However, this is a short-term solution to a long-term problem. Regulating devices like the Rio may result in slowing down MP3 popularity and piracy, but this would only last until portable computers with high-fidelity speakers shrunk to the size of a Rio or smaller. The recording industry would again have to deal with legislation with limited applicability. Such regulation would also conflict with the primary purpose of the AHRA: to ensure a consumer's right to record for personal use. Furthermore, too specific legislation may cause uncertainty, especially if fundamental doctrines like fair use are not treated consistently. This uncertainty could stifle the same innovation that the intellectual property system seeks to promote.

A more plausible solution may be to look at technological rather than legal solutions. For example, water-marking and encryption technology are currently being developed to protect sound recordings from illegal copying and distribution. SDMI is working with device manufacturers to develop a standard security system that will recognize copy management information in a digital music file.[110] Ideally, water-marking should allow the owner of a sound recording to reproduce a back-up copy for personal use or even to share a copy with a few friends but would disallow serial copying from a second generation copy. This restriction to a few copies would seem to be consistent with fair use. However, until a standard protection technology is developed and widely utilized, Internet music piracy will likely remain a concern. Existing MP3 files are also not likely to disappear anytime soon and may have to be treated as a generous gift to the public domain if anti-piracy campaigns prove ineffective.

While a standard is being developed, the recording industry may continue to combat piracy through existing legislation. For example, the Department of Justice recently prosecuted a college student under the No

110. *See* Christopher Jones, *Creative Secures MP3 Player*, WIRED NEWS (Nov. 12, 1999) ⟨http://www.wired.com/news/technology/0,1282,32491,00.html⟩; Christopher Jones, *Lyra Plays Secure MP3*, WIRED NEWS (Oct. 7, 1999) ⟨http://www.wired.com/news/technology/0,1282,31758,00.html⟩.

Electronic Theft (NET) Act[111] for illegally distributing pirated music on his website.[112] The Digital Millennium Copyright Act also offers additional protection for copyright holders by holding Internet Service Providers liable for copyright violations in certain cases.[113] Unfortunately, monitoring piracy requires many resources and is a perpetual battle.

IV. CONCLUSION

The *RIAA* ruling cleared the way for Diamond and other manufacturers of portable devices to take advantage of the MP3 revolution. The proliferation of MP3 has encouraged manufacturers to invent and musical artists to create. Ultimately it is the general public who wins; lesser known bands can distribute their music over the Internet without signing onto a major record label and consumers can take their music anywhere. The piracy concerns of the recording industry, while legitimate, would be better addressed through other solutions that embrace the technological advances and the fundamental policy of fair use.

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111. Pub. L. 105-147, 111 Stat. 2678 (1997) (codified in scattered sections of 17 and 18 U.S.C.).

112. *See* Brown, *supra* note 35; Jennifer Sullivan, *MP3 Pirate Gets Probation*, WIRED NEWS (Nov. 24, 1999) ⟨http://www.wired.com/news/mp3/0,1285,32276,00.html⟩. The RIAA has also settled lawsuits against operators of "MP3 archive sites" for copyright infringement. *See* Chris Nelson, *News Flash: Record Biz Rep Wins War Against Net Music Sites* (Jan. 21, 1998) ⟨http://www.addict.com/MNOTW/hifi/980122/980122_2756.shtml⟩.

113. Fearful of being held liable for copyright violations under the DMCA, universities like Carnegie Mellon and the University of South Carolina have been monitoring networks and disciplining students for the illegal use of MP3 files on campus intranets. *See* Kristen Philipkoski, *The Student Jukebox Sting*, WIRED NEWS (Nov. 9, 1999) ⟨http://www.wired.com/news/print/0,1294,32444,00.html⟩; Kristen Philipkoski, *University Snoops for MP3s*, WIRED NEWS (Nov. 13, 1999) ⟨http://www.wired.com/news/print/0,1294,32444,00.html⟩.

THE UNIFORM COMPUTER INFORMATION TRANSACTIONS ACT

By Pratik A. Shah

The U.S. economy has evolved from a tangible goods-based economy in the 1950s, when the Uniform Commercial Code ("UCC") was initially adopted, to a service-based economy in which intangible information products and services play an increasingly important role.[1] The underlying property law and ease of copying have caused sharp differences in contracting practices for computer information in comparison to traditional goods.[2] Since the UCC was not designed to address licensing of such intangible goods or service contracts, the most significant transactions in the information age are currently subject to a "complex, conflicting and uncertain body of case and statutory law."[3] To clarify this murky area of law and provide a standard set of rules to efficiently regulate transactions in the new information industry, the National Conference of Commissioners on Uniform State Laws ("NCCUSL") promulgated the Uniform Computer Information Transaction Act ("UCITA").[4]

UCITA, a model contract law statute, applies to "computer information transactions,"[5] including commercial agreements regarding use of computer software, computer databases, and Internet and online informa-

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1. *See* Carol A. Kunze, *The 2BGuide* (visited Aug. 29, 1999) ⟨http://www.2Bguide.com/handout.html⟩; UNIF. COMPUTER INFO. TRANSACTIONS ACT, Prefatory Note (July 1999 Draft) [hereinafter UCITA]. All drafts of UCITA are available from the Uniform Law Commissioner's official draft site at ⟨http://www.law.upenn.edu/library/ulc/ulc.htm#ucita⟩.

2. *See* UCITA, Prefatory Note (July 1999 Draft). For example, when goods are sold, the buyer owns an exclusive right in the item purchased. In contrast, in a computer information transaction, the buyer may own the diskette but usually not the underlying informational rights. Furthermore, the technology involved makes computer information more susceptible to copying and alteration than print media does. *See id.*

3. *Id.* Choices of applicable law include a mix of federal and state intellectual property laws, consumer protection laws, and existing UCC Article 2 provisions. The paradigmatic example of the unique nature of computer information transactions and confusion in applying existing law are shrinkwrap licenses for software, which are discussed *infra* Part I.D.

4. *See* Ed Foster, *What is UCITA?* (last modified Aug. 30, 1999) ⟨http://www.infoworld.com/cgi-bin/displayStory.pl?/features/990531ucita1.htm⟩; *see generally* UCITA, Prefatory Note (July 1999 Draft).

5. UCITA § 102(a)(11) (Oct. 15, 1999 Draft).

tion.[6] The stated purposes of UCITA are to "support and facilitate the realization of the full potential of computer information transactions in cyberspace; clarify the law governing computer information transactions; enable expanding commercial practice in computer information transactions by commercial usage and agreement of the parties; and make the law uniform among the various jurisdictions."[7]

This Note will provide a brief overview of UCITA's content, discussing its scope, mode of assent in contract formation, and mass market license regulations. The Note will explain how these provisions can potentially lead to consumer protection problems, focusing on UCITA's "opt-clauses" and its warranty coverage. The analysis then shifts to the question of federal preemption by examining the interaction between state contract law as proposed in UCITA and federal intellectual property laws. The Note concludes by arguing that the uncertainty resulting from these issues, as well as procedural variations introduced by individual states and their courts, may inhibit UCITA's overall goal of uniformity.

I. UCITA: THE PROPOSED STATUTE

A. The Drafting Process

Entirely independent of the federal government, uniform acts are adopted by the states individually after they are drafted and approved by the NCCUSL, a body of over 300 commissioners appointed by their respective states.[8] The proposed acts are drafted in committee meetings open to all but usually attended only by attorneys representing the interested groups.[9] UCITA evolved from such a project begun over a decade ago. From 1995 until the spring of 1999, UCITA was known as UCC Article 2B, as it was being drafted to be part of the UCC.[10] UCC articles are drafted and approved by the NCCUSL in conjunction with the American

6. *See* UCITA, Prefatory Note (July 1999 draft).

7. *Id.*

8. *See* Foster, *supra* note 4; *see also* Kunze, *supra* note 1.

9. *See* Foster, *supra* note 4. One recurring criticism of Article 2B, the precursor to UCITA, is that large industry groups such as software companies dominated its drafting process. Curiously, just days after NCCUSL approved UCITA, Professor Raymond Nimmer, Reporter for Article 2B/UCITA, testified as an expert witness on behalf of Microsoft in a tax case. *See* Ed Foster, *UCITA Author Does Some Moonlighting for Money, Courtesy of Microsoft* (Oct. 11, 1999) ⟨http://www.infoworld.com/articles/op/xml/99/10/11/991011opfoster.xml⟩.

10. *See* Foster, *supra* note 4.

Law Institute ("ALI").[11] Article 2B evoked a great amount of comment and criticism from industry groups,[12] academics,[13] consumer advocates,[14] governmental agencies,[15] and others,[16] and underwent several draft revi-

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11. The Reporter for Article 2B was Professor Raymond Nimmer. The Drafting Committee consisted of NCCUSL Commissioners and three ALI representatives. In addition, there were four advisors from the American Bar Association. Generally, about 50 to 80 observers also attended the meetings. Everyone was permitted to participate in the discussions, but only Committee members had voting privileges to amend the drafts. *See* The 2BGuide, *Report on the November 13-15, 1998 Drafting Committee Meeting* (visited Oct. 2, 1999) ⟨http://www.2bguide.com/nov98rpt.html⟩ [hereinafter November Meeting Report].

12. Those in the industry who objected include the Motion Picture Association of America Inc., Recording Industry Association of America Inc., Newspaper Association of America, National Association of Broadcasters, National Cable Television Association, and Magazine Publishers of America. *See* Letter from Jack Valenti, Motion Picture Association of America, et al., to John McClaugherty, President-Elect, NCCUSL (May 10, 1999), *available at* ⟨http://www.2bguide.com/docs/coalit5.html⟩ (critiquing overly broad scope of UCITA and its "one-size-fits all" approach to information transactions as potentially disrupting the well-established business practices of traditional media industries).

13. *See generally* Symposium, *Intellectual Property and Contact Law in the Information Age: The Impact of Article 2B of the Uniform Commercial Code on the Future of Transactions in Information and Electronic Commerce*, 13 BERKELEY TECH. L.J. 809 (1998); Symposium, *Intellectual Property and Contract Law for the Information Age: The Impact of Article 2B of the Uniform Commercial Code on the Future of Information Commerce*, 87 CALIF. L. REV. 1 (1999).

14. Examples include the Consumers Union, Consumer Project on Technology, and Ralph Nader. *See, e.g.*, Letter from Gail Hillebrand, Consumers Union, to Uniform Law Commissioner (June 21, 1999), *available at* ⟨http://www.2bguide.com/docs/cu699.html⟩; Letter from Ralph Nader to Uniform Law Commissioners (July 18, 1997), *available at* ⟨http://www.cptech.org/ucc/nader2.html⟩. For a discussion of the prevalent consumer concerns regarding UCITA, see *infra* Part II.

15. Government critics include 24 state attorneys general and the FTC. *See* Letter from State Attorneys General to Gene Lebrun, President, NCCUSL (July 23, 1999), *available at* ⟨http://www.2Bguide.com/docs/799ags.html/ [hereinafter State Attorneys General Letter]; Letter from State Attorneys General to Gene Lebrun, NCCUSL (July 28, 1999), *available at* /http://www.2Bguide.com/docs/799mags.html⟩; Letter from Staff of the FTC to John L. McClaugherty, Chairman, Executive Committee, NCCUSL (July 9, 1999) *available at* ⟨http://www.ftc.gov/be/v990010.htm⟩. For a discussion of their consumer-focused criticisms, see *infra* notes 57-60.

16. Among the diverse body of other parties criticizing Article 2B were library associations, see Letter from Library Associations to Gene N. Lebrun, President NCCUSL (July 12, 1999), *available at* ⟨http://www.arl.org/info/letters/lebrun7.12.html⟩ (expressing the threat Article 2B posed to the maintenance of a rich public domain); various bar association committees, see, e.g., Committee on Copyright and Literary Property of the Association of the Bar of the City of New York, *Report on a Proposal of the National Conference of Commissioners on Uniform State Laws to Adopt a Proposed Uniform Computer Information Transactions Act* (June 21, 1999), *available at* ⟨http://www.2Bguide.com/

sions. Many in the ALI were also critical of Article 2B, and in April 1999, the ALI withdrew its support of the legislation.[17] As a result, the project's status shifted from a UCC article to a freestanding uniform act called UCITA.[18] Since endorsement of uniform acts outside of the UCC depends solely on the NCCUSL, this status change enabled the NCCUSL to vote on UCITA at its July 1999 meeting,[19] where UCITA was approved by a 43-6 state count.[20] Though no longer carrying the prestigious UCC label, UCITA will now appear before legislatures in all fifty states for possible enactment this year.[21]

B. Scope

Despite much grander ambitions in its earlier Article 2B form,[22] UCITA's current scope is limited to "computer information transactions."[23] UCITA defines "computer information transaction" as "an agreement . . . to create, modify, transfer, or license computer information or information rights in computer information. . . . A transaction is not included merely because the parties' agreement includes that their communications about the transaction will be in the form of computer information."[24] Covered contracts include those to license software, create a com-

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docs/Copy.Comm1.pdf); and individual lawyers and law firms, see Letter from Hank Barry, Wilson Sonsini Goodrich & Rosati, to Uniform Law Commissioners (July 8, 1999) *available at* (http://www.2bguide.com/docs/wsgr7899.pdf).

17. *See* ALI & NCCUSL, NCCUSL to Promulgate Freestanding Uniform Computer Information Transactions Act - ALI and NCCUSL Announce that Legal Rules for Computer Information Will Not Be Part of UCC (Apr. 7, 1999) (joint press release), *available at* (http://www.2bguide.com/docs/040799pr.html).

18. *See id.*

19. *See* Foster, *supra* note 4.

20. *See* Carlyle C. Ring, Jr. & Ray Nimmer, *Series of Papers on UCITA Issues* (last modified Aug. 26, 1999) *available at* (http://www.2bguide.com/docs/q&apm.html).

21. *See* Foster, *supra* note 4. UCITA will also appear before the legislatures of the District of Columbia, Puerto Rico, and the U.S. Virgin Islands.

22. The original scope of the proposed uniform law was digital information. Later, "responding to obvious convergence in information industries and the increasing relevance of digital technology," the project expanded to cover all transactions involving information, electronic and non-electronic. U.C.C. Article 2B, Preface (Aug. 1, 1998 Draft), *available at* (http://www.law.upenn.edu/bll/ulc/ucc2b/2b898.htm). However, objections by various media industries, *see supra* note 12, forced the Committee to scale back UCITA's reach to computer information transactions only, *see* November Meeting Report, *supra* note 11.

23. *See* UCITA § 103 (July 1999 Draft).

24. *Id.* § 102(a)(12). "Computer information" means "information in electronic form that is obtained from or through the use of a computer, or that is in digital or similar form capable of being processed by a computer. The term includes a copy of information in

puter program, distribute information on the Internet, and gain access to online databases.[25] Specifically excluded are contracts over "audio or visual programming that is provided by broadcast, satellite, or cable," as well as "a motion picture, sound recording, musical work, or phonorecord."[26] UCITA does not cover these contracts even if made available over the Internet,[27] but UCITA would apply to these industries to the extent they directly competed with online companies in interactive computer information.[28]

If a contract involves both computer information and other subject matter, UCITA applies only to the part of the agreement that involves computer information, except when the computer information is the primary subject matter.[29] UCITA does not apply to software embedded in goods other than a computer or computer peripheral unless the main purpose of the transaction is to obtain the software.[30] For example, UCITA would not apply to the purchase of software embedded in a toaster.[31]

UCITA does permit parties to "opt-in" to its regime fully and thereby designate one set of rules to govern a mixed transaction, as long as the transaction materially involves computer information.[32] Similarly, parties are allowed to opt-in to UCITA for transactions involving information in a medium otherwise excluded from UCITA.[33] Thus, while UCITA's scope is limited at first inspection, it can potentially cover a much broader range of information-related transactions. This result is of special interest to traditional media industry groups, which otherwise appear to enjoy a blanket exception under section 103(d)(2). UCITA also permits parties to "opt-

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that form and any documentation or packaging associated with the copy." *Id.* § 102(a)(10).

25. *See* Ring & Nimmer, *supra* note 20.

26. UCITA § 103(d)(2) (Oct. 15, 1999 Draft).

27. *See* Ring & Nimmer, *supra* note 20.

28. *See* Carlyle C. Ring, Jr., Summary of Action at Article 2B Meeting November 13-15, 1998 (visited Feb. 9, 2000) ("If these [movies, sound recording, and broadcasting] industries compete directly in interactive computer information with software and on-line companies, only to that extent, would these industries be subject to the rules developed by Article 2B. Presently very few, if any, products of these industries are on-line with interactivity."), *available at* ⟨http://www.2bguide.com/docs/cr1198sum.html⟩.

29. *See* UCITA § 103(b) (Oct. 15, 1999 Draft). Whether computer information is the primary purpose of a transaction is determined by the "material purpose" test, which asks if computer information or other subject matter is the focus of the contract. If it is, then UCITA governs the whole transaction. *See id.* § 103, Official Comment 4(a).

30. *See id.* § 103(b)(1).

31. *See* Ring & Nimmer, *supra* note 20.

32. *See* UCITA § 104 (Oct. 15, 1999 Draft).

33. *See id.*

out" of UCITA's terms, pursuant to certain protective limits for mass-market transactions.[34]

C. Assent and Contract Formation

UCITA adopts the idea of "manifesting assent" described in the Restatement (Second) of Contracts[35] and applies it to computer information transactions.[36] Like the common law, UCITA construes any conduct as a binding manifestation of assent if the party had reason to know its acts would be treated as assent to the terms.[37] UCITA, however, explicitly adds the requirements that the licensee have an "opportunity to review" the terms *prior* to assenting and also that she reaffirm assent for electronic transactions.[38] A person has an "opportunity to review" a term only if the term is "made available in a manner that ought to call it to the attention of a reasonable person and permit review."[39] However, UCITA also recognizes an "opportunity to review" terms *after* a person becomes obligated to pay or begin performance under certain circumstances,[40] even for mass-market licenses.[41]

D. Mass-Market Licenses

Mass-market transactions include all consumer contracts as well as transactions involving other end-users if the transaction is directed to the general public or conducted under terms consistent with an ordinary retail transaction.[42] Under UCITA, mass-market licenses are typically enforceable only if the licensee manifests assent to the contract after having an opportunity to review its terms.[43] Furthermore, mass-market license terms

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34. *See id.* § 104(1), (2)(B), (3). The "opt-out" provision for mass-market transactions is limited by consumer protection statutes, unconscionability, public policy, and good faith; it also requires "conspicuous" presentation of such a clause.

35. *See* RESTATEMENT (SECOND) OF CONTRACTS § 19 (1981) ("(1) The manifestation of assent may be made wholly or partly by written or spoken words or by other acts or by failure to act. (2) The conduct of a party is not effective as a manifestation of his assent unless he . . . has reason to know that the other party may infer from his conduct that he assents. (3) The conduct of a party may manifest assent even though he does not in fact assent. In such cases a resulting contract may be voidable because of fraud, duress, mistake, or other invalidating cause.").

36. *See* UCITA §112 (Oct. 15, 1999 Draft).

37. *See id.* § 112(a)(2), (d).

38. *See id.* § 112(a), (d).

39. *Id.* § 112(e)(1).

40. *See id.* § 112(e)(3).

41. *See id.* §§ 209(b), 210(b).

42. *See id.* § 102(a)(44).

43. *See id.* § 209(b).

are limited by unconscionability, fundamental public policy, and express agreements between the parties.[44]

Shrinkwrap licenses are a special form of mass-market license. They are not revealed until after an initial agreement to acquire a product; in other words, there is no opportunity to review terms before payment.[45] One of the central issues prompting the drafting of UCITA was the enforceability of shrinkwrap software licenses under state law.[46] UCITA validates shrinkwrap licenses if three criteria are met. First, the licensee must have reason to know that additional contract terms will be proposed after the initial agreement.[47] Second, she must be given the right to return the product at the licensor's cost. Finally, the licensee must be compensated for reasonable costs of restoring the system if it is altered by the installation of license terms for review.[48] The same standard of "manifesting assent" applies as for all other licenses under UCITA.[49]

II. STATE CONTRACT LAW AND CONSUMER PROTECTION ISSUES

A. Problem of Assent

Much of the debate on UCITA's substance at the state law level centers around its contract formation rules, especially in the context of mass-market transactions. Under UCITA's contract formation provisions, a party can manifest assent to a contract by acting or even by failing to act.[50] The liberal construction of assent in UCITA undermines the fundamental contract law requirement of a "meeting of the minds" in contract forma-

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44. *See id.* §§ 209(a), 105(b).

45. *See* Ring & Nimmer, *supra* note 20; *see also* UCITA § 209, Official Comment 4 (Oct. 15, 1999 Draft).

46. *See, e.g.*, Kunze, *supra* note 1. Case authority exists on both sides for the enforceability of shrinkwrap licenses under current state contract law (i.e. UCC Article 2), but the more recent cases have validated such licenses. In *ProCD, Inc. v. Zeidenberg*, 86 F.3d 1447, 1452-53 (7th Cir. 1996), the court held shrinkwrap terms for software purchased from a retail store to be enforceable. The court characterized the shrinkwrap license as an "offer" that the buyer "accepted" by using the software without objection after having an opportunity to review the terms. *See also* Hill v. Gateway 2000 Inc., 105 F.3d 1147 (7th Cir. 1997) (same); M.A. Mortenson Co. v. Timberline Software Co., 93 Wash. App. 819 (1999) (same). *But see* Step-Saver Data Sys., Inc. v. Wyse Technology, 939 F.2d 91, 103 (3d. Cir. 1991) (holding that shrinkwrap terms are merely proposals for amending a contract of sale and *not* part of the contract for sale).

47. *See* UCITA § 208(2) (Oct. 15, 1999 Draft); *id.* § 209, Official Comment 2(a).

48. *See id.* § 209(b).

49. *See id.*

50. *See id.* § 112; Ring & Nimmer, *supra* note 20.

tion.[51] Although the efficiency from this mode of assent might make it desirable under traditional contract law, inferring assent from a failure to act allows for consumer abuse in the context of mass-market computer information licenses. The potential danger to consumers becomes especially acute for shrinkwrap licenses, in which the terms are not presented until *after* payment or use has begun. For these contracts, a mere failure to return the product can constitute assent and thus bind consumers to unintended terms. Besides the extra hassle of returning products, the failure may stem from the licensee's belief that payment had completed the transaction rather than any intention to accept additional license restrictions. Allowing such an indirect and ambiguous mode of assent is difficult to justify under any circumstance. Given the greater ability for prepresentation and prereview of contract terms in an online setting, where much computer information licensing occurs, enforcing shrinkwrap license terms based on a failure to act becomes almost indefensible.[52]

Another example in which UCITA's notion of assent may lead to consumer problems is in UCITA's "opt clauses."[53] For mass-market transactions, any terms invoking the opt provisions must be "conspicuous" in order to have effect.[54] While at first glance this seems to be a welcome requirement for consumers, a further investigation into UCITA's definition of "conspicuous,"[55] which expressly preempts any state law definition of the term,[56] reveals otherwise. UCITA's definition fails to adhere to two key principles underlying the Federal Trade Commission Act, the model

51. *See* LON L. FULLER & MELVIN ARON EISENBERG, BASIC CONTRACT LAW 348 (6th ed. 1996) ("It is very commonly asserted that a contract requires 'a meeting of the minds.'")

52. *See* Maureen A. O'Rourke, *Progressing Towards a Uniform Commercial Code for Electronic Commerce or Racing Towards Nonuniformity?*, 14 BERKELEY TECH. L.J. 635, 652 (1999) (arguing that the technology of online transactions enables licensors to present all terms up front and assures that the consumer has clicked through such terms before assent is given).

53. "Opt clauses" refers to UCITA § 104, allowing parties to "opt-in" or "opt-out" of UCITA as controlling law.

54. UCITA § 104(3) (Oct. 15, 1999 Draft).

55. *Id.* § 102(a)(14) ("'Conspicuous,' with reference to a term, means so written, displayed, or presented that a reasonable person against which it is to operate ought to have noticed it. . . . Conspicuous terms include the following: . . . (i) a heading in capitals in a size equal to or greater than, or in contrasting type, font, or color to, the surrounding text; (ii) the language in the body of a record or display in larger or other contrasting type, font, or color or set off from the surrounding text by symbols or other marks that draw attention to the language; and (iii) a term prominently referenced in an electronic record or display which is readily accessible and reviewable from the record or display. . . .").

56. *See id.* § 105(d)(3).

for most state consumer disclosure laws.[57] First, the FTC model evaluates disclosures according to how likely they are to be *communicated*, not just "noticed."[58] Second, the FTC aims to ensure that disclosures are made in a timely manner; post-purchase disclosures do not conform to this requirement.[59] By providing a relaxed standard for meeting the threshold of "conspicuous" and permitting opt clauses in shrinkwrap licenses, UCITA's definition does not further either of these important consumer protection policies. UCITA's inclusion of various "safe harbors" in its definition of "conspicuous" exacerbates the problem.[60] Given that the UCITA definition does not ensure effective communication of the opt clause, consumers may be conceding to such a term without meaningful assent.

Proponents of the opt clauses in UCITA, on the other hand, preach the "freedom of contract" philosophy.[61] The advantage of giving contracting parties choice over governing rules rests on the assumption that parties will choose the system that minimizes transaction costs and increases the net benefit of the particular transaction. The savings in costs and uncertainty are especially evident for mixed transactions, where two different regimes of contract law might otherwise operate.[62] However, given the bargaining power of most licensors over licensees in the mass-market shrinkwrap context, where adhesion contracts are the norm, this apparent efficiency could come at the licensee's expense.[63] Some licensees may not

57. *See* State Attorneys General Letter, *supra* note 15; Staff of the FTC, *supra* note 15, at n.6.

58. *See* State Attorneys General Letter, *supra* note 15.

59. *See id.*

60. *See id.*; *see also* Staff of the FTC, *supra* note 15, at n.6 ("UCITA's approach to 'conspicuous' disclosure fails to take into consideration the context in which the disclosure is given. For example, UCITA includes several broad safe harbors in its definition of 'conspicuous,' so that, for example, a disclosure which is 'in capitals in a size equal to or greater than, or in contrasting type, font, or color to, the surrounding text' (UCITA § 102(a)(14)(A)(i)) would be considered conspicuous regardless of the context of the disclosure. Thus, under UCITA a disclosure would be considered 'conspicuous' even if such a disclosure were buried amid boilerplate license text, or were printed on one of many different leaflets enclosed within a software box.").

61. *See* UCITA, Prefatory Note (July 1999 Draft) ("The first commercial law theme is that contract law should preserve freedom of contract.").

62. *See* Ring & Nimmer, *supra* note 20. The authors provide an example where a software company (governed by UCITA) and a cable company (governed by Article 2) wish to create a new business under a contract. The "opt" clauses would presumably reduce the uncertainty produced by the conflicting bodies of law.

63. *See, e.g.*, State Attorneys General Letter, *supra* note 15 ("We are concerned that the policy choices embodied in these new rules [UCITA] almost invariably favor a relatively small umber of vendors to the detriment of millions of businesses and consumers who purchase computer software and subscribe to internet services.").

even realize they are "assenting" to such terms, a danger amplified by UCITA's weak threshold of "conspicuousness." Contrary to the purpose of the opt clauses, these results imply an *absence* of a "freedom to contract." Related concerns about licensor manipulation of the applicable legal rules also arise in UCITA's choice of law and forum rules[64] as well as modification of contract formation rules for future transactions between particular parties.[65] In fact, the inadequacy of consumer consent in these provisions may be even more severe because they lack a "conspicuous" requirement to make the terms enforceable.[66]

B. Warranty Concerns

Consumer protection problems also arise in UCITA's warranty provisions. UCITA adopts several existing warranties from UCC Article 2[67] and creates new warranties specific to computer information.[68] However, subtle differences in the computer information context give rise to some concerns for licensees. First, UCITA permits licensors to disclaim the im-

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64. *See* UCITA §§ 109, 110 (Oct. 15, 1999 Draft).

65. *See id.* § 112(f) ("The provision of this section may be modified by an agreement setting out standards applicable to future transactions between the parties."). Several state attorneys general have expressed their concern as to the potential manipulation of this provision by licensors: "The Attorneys General certainly understand the need for commercial buyers and sellers to be able to determine for themselves how they will conduct business over a course of dealing. However, extending the ability to change the basis rules of contract formation to merchants doing business with consumers via mass market contracts will open the door to consumer confusion and deception." State Attorneys General Letter, *supra* note 15.

66. *See* UCITA §§ 109, 110, 112(f) (Oct. 15, 1999 Draft) (lacking any "conspicuous" requirement).

67. *See* U.C.C. §§ 2-312 (Warranty of Title and Against Infringement); 2-313 (Express Warranties by Affirmation); 2-314 (Implied Warranty: Merchantability); & 2-315 (Implied Warranty: Fitness for a Particular Purpose). The analogous UCITA warranties are § 401 (creating warranty of noninfringement and substituting Article 2's warranty of title with warranty of quiet enjoyment); § 402 (providing similar standard for creation of express warranties as Article 2 and explicitly adding advertising as basis for such warranty); § 403 (creating implied warranty of merchantability for computer programs but specifically excluding informational content); § 405 (providing similar implied warranty that product will meet reasonably known needs of licensee as in Article 2 but adding qualifications for published informational content).

68. *See* UCITA § 401 (Oct. 15, 1999 Draft) (substituting warranty of quiet enjoyment for Article 2's warranty of title); *id.* § 404 (creating new implied warranty for informational content accuracy if prepared in a "special relationship of reliance" with a licensee); *id.* § 405(c) (providing implied warranty of system integration if licensor has reason to know licensee is relying on its skill in selecting components of computer system).

plied warranties as long as such a disclaimer is "conspicuous."[69] As discussed above for the opt clauses, UCITA's broad definition of "conspicuous" can hurt unsuspecting consumers who might not have given genuine consent to the disclaimer.[70] Moreover, in nonautomated transactions, just an inconspicuous disclaimer is sufficient to nullify the warranties of quiet enjoyment and noninfringement.[71] Thus, consumers will have less certainty in their rights to use licensed computer information, since, contrary to first appearance, such information is not necessarily guaranteed to be free from competing third-party claims of infringement or misappropriation.

The second consumer protection problem is that UCITA's implied warranty on accuracy of informational content does not cover "published informational content."[72] Examples of published informational content include the content of digital newsletters, multimedia encyclopedias, and on-line databases. Proponents of the limitation argue that this class of digital information deserves the same protection as its counterpart in the print media, which the courts shield from normal tort liability.[73] Two

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69. *Id.* § 406(b)(1)(A). However, even this requirement can seemingly be circumvented. Section 406(c), which supercedes the conditions for disclaimer set forth in § 406(b), makes no mention of the "conspicuous" requirement and provides that licensors may simply use expressions like "as is" or "with all faults" to disclaim all implied warranties. *Id.* § 406(b), (c). Furthermore, the statute allows for disclaimer of implied warranties by "usage of trade." *Id.* § 406(e). Although this clause may have been appropriate for well-established industries governed by Article 2, it is premature for information transactions in which customs are still developing. UCITA would better serve licensors and licensees by guiding these customs in the direction of desirable practices. *See* O'Rourke, *supra* note 52, at 651.

70. *See supra* notes 53-60.

71. *See* UCITA § 401(d) (Oct. 15, 1999 Draft) ("[For non-automated transactions,] language in a record is sufficient if it states 'There is no warranty against interference with your enjoyment of the information or against infringement', or words of similar import.").

72. *See id.* § 404(b)(1). UCITA defines "published informational content" as "informational content prepared for or made available to recipients generally, or to a class of recipients, in substantially the same form," as opposed to a personally-tailored service. *Id.* § 102(a)(51).

Section 404(a) does offer a warranty against inaccuracies for informational content provided in a "special relationship of reliance" with the licensee if the inaccuracies are caused by the merchant's failure to use reasonable care. *Id.* § 404(a). This parallels how the *Restatement (Second) of Torts* § 552 treats information providers under tort law. *See id.* § 404, Official Comment 3(a) (citing Murphy v. Kuhn, 90 N.Y.2d 266, 682 N.E.2d 972 (N.Y. 1997)).

73. *See* UCITA § 404, Official Comment 3(b) (Oct. 15, 1999 Draft); Ring & Nimmer, *supra* note 20 (citing Cubby, Inc. v. CompuServe, Inc., 3 CCH Computer Cases 46,

strong policy justifications bolster their position. First, the risk of excessive liability could stifle the beneficial proliferation of mass digital information in cyberspace.[74] Second, UCITA's exemption for published informational content advances First Amendment values within contract law by encouraging the distribution of such information.[75]

However, these arguments fail to acknowledge the potentially overbroad scope of the exception. The digital medium includes more than just traditional newspaper or phonebook content. For example, user interfaces and source code in software products differ significantly from traditional databases, but may still qualify as published informational content under UCITA.[76] Therefore, the exception has the potential to creep into mass-marketed software and prevent consumer recovery for product defects under UCITA's implied warranties.[77] Moreover, not all published informational content is exempt from liability in traditional print media. Producers of navigational charts, for instance, have been held liable for the impact of inaccuracies on users.[78] Since the UCITA provision does not distinguish between published information that is exempt and nonexempt in the digital realm, it could provide broader immunity to sellers of this information than is available in nondigital forms, allowing them to act with less care in preparing digital information.[79]

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47 (S.D.N.Y. 1999) for their proposition that "[c]ourts have recognized that digital information deserves protection just like traditional newspapers and magazines").

74. *See* Ring & Nimmer, *supra* note 20.

75. *See id.*

76. *See* Letter from Barbara Simons, Association for Computing Machinery, to Uniform Law Commissioner (July 12, 1999) *available at* ⟨http://www.acm.org/usacm/copyright/usacm-ucita.html⟩ (arguing that designing user interfaces is part of the engineering process and that user interface errors are part of the computer program; thus, such errors should not be classified as equivalent to errors in the content of a newspaper article); *see also* Michele C. Kane, *When Is a Computer Program Not a Computer Program? The Perplexing World Created by Proposed UCC Article 2B*, 13 BERKELEY TECH. L.J. 1013, 1016-18 (1998) (arguing that other previously protected items such as source code and "off-the-shelf" software may fall victim to the warranty exception for published information).

77. *See* Kane, *supra* note 76, at 1017-19. *But see* UCITA § 404, *Reporter's Note* 6 (July 1999 draft) (claiming that UCITA neither precludes nor encourages further development of liability issues under tort law).

78. *See* Aetna Cas. & Sur. Co. v. Jeppesen & Co., 642 F.2d 339, 341-43 (1981) (holding producer of defective aeronautical chart liable for chart's role in causing airplane crash).

79. UCITA also generates other consumer protection concerns, in such areas as its electronic commerce/digital signature rules and electronic self-help provision, that also merit consideration but are beyond the scope of this paper. For a description of consumer concerns relating to digital signatures, authentication procedures, and electronic con-

III. INTERACTION WITH FEDERAL INTELLECTUAL PROPERTY LAWS

Given the nature of information licensing, a complete analysis of UCITA requires an investigation into the interaction between state contract law and federal intellectual property law.[80] For example, contracts that impose limitations on copying or distribution of information implicate values embodied in federal copyright law. The major issue facing UCITA is whether federal copyright law does (or should) preempt private information contracts governed by UCITA. While the "symbiotic" view treats federal intellectual property laws as background rules subject to alteration by contract, the preemptive view suggests that the Supremacy Clause does not permit contract provisions to trump congressional mandates. Federal

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tracting under UCITA, see generally Michael Froomkin, *Article 2B as Legal Software for Electronic Contracting—Operating System or Trojan Horse?*, 13 BERKELEY TECH. L.J. 1023 (1998). Froomkin asserts that "Article 2B [now UCITA] undermines the consumer law requirements it seeks to modernize and risks leaving consumers particularly vulnerable to more modern threats caused by hacked software and rogue electronic agents." *Id.* at 1048. He specifically points to a lack of appropriate standards to judge UCITA's contracting requirements such as the use of "reasonably configured" electronic agents. *See id.* at 1049-51. For a comparison of UCITA and the Uniform Electronic Transactions Act (UETA), and their relative merits, see Cem Kaner, *E-Commerce Provisions in the UCITA and UETA* (visited Sept. 6, 1999) ⟨http://www.badsoftware.com/uetaanducitauccbull.htm⟩ (arguing that UCITA, unlike UETA, creates several consumer dangers such as a presumption for authentication, greater consumer liability for fraudulent signatures, lack of requirement to make available downloaded contract, and mass-market choice of law and forum provisions).

For a commentary on how software vendors can abuse UCITA's self-help provisions, see Ed Foster, *Beware of Licensing Terms Giving Vendors the Right to Detonate Software Bombs* (visited Sept. 6, 1999) ⟨http://www.infoworld.com/cgi-bin/displayNew.pl?/foster/990830ef.htm⟩. For a different perspective, see Sharon Marsh Roberts & Cem Kaner, *Self-help Under UCITA* (July 23, 1999) ⟨http://www.badsoftware.com/shelp.htm⟩. These critics of UCITA argue that while the UCITA self-help provision was a good effort at compromise, it still suffers from three serious problems: (1) for vendors who legitimately need help, UCITA's 15-day delay is too long; (2) for customers, the "backdoor" access into their system poses a security risk; and (3) for small software licensors, the rules are too technical, preventing the licensors from appropriate use of self-help remedy even for good-faith attempts. *See id.* These authors also reject as inapposite comparisons of UCITA to UCC Article 9, since "self-help in the computer case does so much collateral damage." *Id*

80. *See generally* Symposium, *Intellectual Property and Contract Law in the Information Age: The Impact of Article 2B of the Uniform Commercial Code on the Future of Transactions in Information and Electronic Commerce*, 13 BERKELEY TECH. L.J. 809 (1998); Symposium, *Intellectual Property and Contract Law for the Information Age: The Impact of Article 2B of the Uniform Commercial Code on the Future of Information Commerce*, 87 CALIF. L. REV. 1 (1999).

preemption could potentially radically alter UCITA's framework for information contracts and thus demands close attention.

A. Symbiotic View

Supporters of UCITA tend to view the relationship between contract and intellectual property law as "symbiotic" rather than competitive.[81] Raymond Nimmer, Reporter for the Article 2B/UCITA project, views the relationship in the marketplace setting as one in which intellectual property law provides "default rules" for contractual dealings.[82] Federal intellectual property laws function as default rules in the sense that the effect of the rule can be altered by contract within traditional contract law limits.[83]

Fundamental to an understanding of the preemption debate is section 301(a) of the Copyright Act, which expressly preempts any "legal or equitable rights that are equivalent to any of the exclusive rights within the general scope of copyright."[84] A right is "equivalent" if the mere act of reproduction, performance, distribution, or display infringes it.[85]

Rights created by licenses of copyrightable material, such as those covered by UCITA, are not always equivalent to the exclusive rights of copyright law.[86] UCITA supporters suggest that license-created rights may be distinguished from copyright rights in two ways. First, if the right at issue is not infringed by mere reproduction, performance, distribution, or display—the actions protected against by the exclusive copyright rights—then it is not equivalent. For example, in *National Car Rental Systems, Inc. v. Computer Assoc. International, Inc.*, the court interpreted defendant's act of processing data for third parties as beyond the parameter of these rights, and thus the breach of contract action was not subject to pre-

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81. Raymond T. Nimmer, *Breaking Barriers: The Relations Between Contract and Intellectual Property Law*, 13 BERKELEY TECH. L.J. 827, 827-29 (1998); *see also generally* Joel Rothstein Wolfson, *Contract and Copyright Are Not at War: a Reply to "The Metamorphosis of Contract into Expand,"* 87 CALIF. L. REV. 79 (1999).

82. *See* Nimmer, *supra* note 81, at 844-45.

83. *See id.*

84. 17 U.S.C. § 301(a) (1994).

85. *See id.* § 106; 1 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 1.01[B] at 1-13 (1999).

86. *See* National Car Rental Sys., Inc. v. Computer Assoc. Int'l., Inc., 991 F.2d 426, 432-33 (8th Cir. 1993) (holding that contractual restriction on processing of data for third parties constitutes an additional element distinguishing this cause of action from a copyright action); Taquino v. Teledyne Monarch Rubber, 893 F.2d 1488, 1501 (5th Cir. 1990) (holding that an action for breach of contract involves an element in addition to "mere reproduction," and hence the contract right is not equivalent to a copyright right).

emption.[87] Second, even if the right falls into the general category of copyright rights, state law is not preempted under section 301(a) if it requires an "extra element" to establish the cause of action.[88] In contractual claims, the extra element may consist of proof of the contractual relationship, its terms, and the conduct that violates those terms as applicable to the particular parties.[89] In other words, if the restriction would not exist absent the parties' agreement, then the contractual restriction constitutes an "extra element," and there is no preemption.[90] From the symbiotic perspective, cases in which federal intellectual property law has been used to preempt state law can be distinguished on their lack of contract-based content.[91]

Furthermore, although one function of section 301(a) is to prevent states from giving special protection to works of authorship that Congress has decided should be in the public domain, federal intellectual property laws are not the only source of property rights.[92] For example, privacy notions and criminal law create rights to prevent a party from breaking into one's office and stealing her database, even if the database is not copyrightable.[93] In fact, trade secret law, a branch of state common law, can cover material that cannot be protected by copyright, such as a customer list of phone numbers.[94]

Another important distinction is the ubiquitous enforceability of copyright rights against all others in contrast to the targeted reach of licensed rights. Rights within the meaning of section 301(a) are rights established by law, and thus "a right against the world."[95] Private contracts, on the other hand, only affect the parties involved. Strangers are not bound by the specific license terms.[96]

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87. *See National Car Rental*, 991 F.2d at 433.

88. *See* NIMMER, *supra* note 85, § 1.01[B] at 1-13.

89. *See* Nimmer, *supra* note 81, at 862.

90. *See National Car Rental*, 991 F.2d at 433.

91. *See* Bonito Boats, Inc. v. Thunder Craft Boats, Inc., 489 U.S. 141 (1989) (invalidating state law giving property right to boat designers against third parties as preempted by federal patent law principles). *Bonito Boats* can be distinguished based on the lack of an underlying contract; that is, the statute created rights against all third parties from using design. *But see* Vault Corp. v. Quaid Software Ltd., 847 F.2d 255, 268-70 (5th Cir. 1988) (preempting state statute that had permitted licensors to limit certain copyright privileges in shrinkwrap licenses).

92. *See* ProCD, Inc. v. Zeidenberg, 86 F.3d 1447, 1453 (7th Cir. 1996).

93. *See* Nimmer, *supra* note 81, at 834.

94. *See ProCD*, 86 F.3d at 1454.

95. *Id.*

96. *See id.*

The symbiotic view maintains that private promises to pay for information may be enforced even though federal intellectual property laws (here, copyright law) do not extend protection over that material.[97] If section 301(a) is meant to abolish consensual protection of any material within the "scope of copyright" but not actually protected by copyright law, then the Supreme Court's enforcement of trade secret agreements would be severely limited. After all, many trade secret contracts encompass noncopyrightable material, such as customer lists, but such contracts are clearly assumed (and desired) to be enforceable today.[98]

More generally, the Supreme Court has read preemption clauses to leave private contracts unaffected. In *American Airlines, Inc. v. Wolens*,[99] the relevant federal statute preempted any state "law, rule, regulation, standard, or other provision" that "relat[es] to rates, routes, or services of any air carrier."[100] However, the court held the statute should not be read so broadly as to preempt the private terms of air carrier contracts. Terms and conditions offered by contract reflect private ordering, essential to the efficient functioning of markets.[101] Anti-preemptionists argue that the courts will likely show similar deference to licenses under UCITA.

B. Preemptive View

Critics of the *ProCD* decision,[102] however, argue that some mass-market information licenses jeopardize the policy goals of copyright law by impeding the flow of information into the public domain, and more specifically, by limiting the "fair use"[103] and "first sale"[104] doctrines.[105]

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97. *See, e.g.*, Aronson v. Quick Point Pencil Co., 440 U.S. 257, 262-66 (1979) (upholding royalty agreement between patent applicant and company for the manufacture and sale of device even after patent for the device was denied); Kewanee Oil Co. v. Bicron Corp., 416 U.S. 470, 492-94 (1974) (holding that agreements under state trade secret law were not preempted by patent law because the two different levels of protection could exist in harmony).

98. *See ProCD*, 86 F.3d at 1454.

99. 513 U.S. 219 (1995).

100. *Id.* at 229.

101. *See id.* at 228-32.

102. *See* ProCD, Inc. v. Zeidenberg, 86 F.3d 1447, 1449, 55 (7th Cir. 1996) (validating shrinkwrap license terms that restricted use of a non-copyrightable computer database of telephone directories).

103. *See* 17 U.S.C. § 107 (1994) ("[T]he 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 . . . scholarship, or research, is not an infringement of copyright."). The fair use doctrine "permits [and requires] courts to avoid rigid application of the copyright statute when, on occasion, it would stifle the very creativity which that law is designed to foster." Campbell v.

Preemption may be necessary, they argue, to prevent such contracts that alter the copyright balance and to ensure that the objectives of Congress are met under the U.S. Constitution's Supremacy Clause.[106]

David Nimmer distinguishes *ProCD* from the underlying cases[107] establishing the nonapplicability of the preemption doctrine to private contract terms on the basis that express copyright preemption under section 301 applies to contract claims that directly assert the reproduction right.[108] The "extra element" test, favored by the anti-preemptionists, often yields results contrary to the intent of the copyright statute, mostly due to the flexibility a court has in finding the extra element needed for state law to survive preemption.[109] More generally, critics of UCITA argue that it confers rights more akin to property than contract rights due to the market-wide restrictions imposed by mass-market shrinkwrap licensing.[110] Unlike a typical two-party contract, UCITA licenses can operate to have the same scope and effect of state copyright legislation.[111] Given the widespread impact of these mass-market limitations, preemption might be appropriate.

Broader conflict preemption[112] principles provide another argument for preemption when licenses frustrate specific objectives of Congress

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Acuff-Rose Music, Inc., 510 U.S. 569, 577 (1994) (alteration in original and citation omitted).

104. *See* 17 U.S.C. § 109(a) (1994) ("[T]he owner of a particular copy or phonorecord lawfully made under this title . . . is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that particular copy or phonorecord.").

105. *See, e.g.*, The Committee on Copyright and Literary Property of the Association of the Bar of the City of New York, *Report on a Proposal of the National Conference of Commissioners on Uniform State Laws to Adopt a Uniform Proposed Computer Information Transactions Act* at 16-21 (June 21, 1999), *available at* ⟨http://www.2Bguide.com/docs/Copy.Comm1.pdf⟩ (PDF file) [*hereinafter* NYC Bar Report].

106. *See* U.S. CONST. art. VI, cl. 2 ("This Constitution, and the Laws of the United States, which shall be made in Pursuance thereof, and all Treaties made, or which shall be made, under the Authority of the United States, shall be the supreme Law of the Land."); David Nimmer et al., *The Metamorphosis of Contract into Expand*, 87 CALIF. L. REV. 19, 40-41 (1999).

107. *See supra* note 86.

108. *See* Nimmer et al., *supra* note 106, at 50.

109. *See* Patrick McNamara, Note, *Copyright Preemption: Effecting the Analysis Prescribed by Section 301*, 24 B.C. L. REV. 963, 984-985 (1983).

110. *See* NYC Bar Report, *supra* note 105, at 17-18.

111. *See id.* at 18.

112. "Conflict preemption" occurs "when compliance with both federal and state laws is a physical impossibility or where state law stands as an obstacle to the accomplishment and execution of Congress's full purposes and objectives." *Id.* at 4.

through such terms as "*Feist*-defeating" provisions[113] and limitations on fair use and first sale rights.[114] In particular, UCITA's default rules on the duration of contractual rights and restrictions could be preempted.[115] UCITA provides that if a contract for software does not specify the duration of rights granted, those rights are "perpetual."[116] Cases such as *Brulotte v. Thys Co.*,[117] forbidding the extension of the term of federal patent protection in a patent license, and *P.C. Films Corp. v. MGM/UA Home Video Inc.*,[118] questioning the validity of a license that extends rights beyond the copyright renewal period, support the supremacy of the intellectual property laws in this area. Preemptionists can point to *Brulotte* as clear precedent that private contracts governing intellectual property cannot interfere with specific congressional objectives. The UCITA rule may conflict not only with the above case law, but also more fundamentally with the constitutional requirement, enacted via copyright law, that such works (and their licensed rights) be protected for a limited term.[119]

C. Which View is Right? Information Incentives vs. Public Domain Access

Although both sides engage in a clever reading of the cases and doctrines, the determination of which viewpoint—symbiotic or preemptive—is correct reduces to an underlying tension between promoting the burgeoning information industry and defending the public domain as set by copyright law. After the Supreme Court's ruling in *Feist Publications v. Rural Telephone Service*,[120] which denied copyright protection to com-

113. This reference is to protection, such as license in *ProCD* case, of material (i.e. telephone listing database) determined to be uncopyrightable in *Feist Publications v. Rural Telephone Service*, 499 U.S. 340 (1991).

114. *See* Nimmer et al., *supra* note 106, at 50-60. Several other potential conflicts exist between policies permitted under UCITA and those fixed by federal copyright laws. For example, the Copyright Act provides that any assignment or exclusive license of any copyright right is not valid without a writing signed on behalf of the owner. *See* NYC Bar Report, *supra* note 105, at 10-11 (citing 17 U.S.C. § 204(a)). UCITA, however, authorizes oral copyright transfers under certain conditions. *See id.* at 11 (citing UCITA § 201(f)). Another potential conflict exists between the statute of limitation under UCITA (four or five years) and the Copyright Act's three-year statute of limitations. *See id.* at 14.

115. *See* NYC Bar Report, *supra* note 105, at 13-14 (arguing that copyright law's limited term of protection is in tension with the longer duration of license restrictions permitted under UCITA).

116. *See* UCITA § 308(2) (Oct. 15, 1999 Draft).

117. 379 U.S. 29, 33-34 (1964).

118. 138 F.3d 453, 458 (2d Cir. 1998).

119. *See* U.S. CONST. art. I, § 8, cl. 8; 17 U.S.C. §§ 203, 302-304 (1994) (limiting duration of copyright and licensed rights to the term of the copyright).

120. 499 U.S. 340 (1991).

mercially valuable databases of information, the only way left for compilers to reap the benefit of assembling such information is through private agreements. Similarly, given the ease of copying and distributing software, software licensors may need contractual limitations on the first-sale doctrine to ensure viability. If these contracts were deemed unenforceable under section 301(a), the information industry might not be economically sustainable. Without adequate information incentives, the intellectual property goal of increasing the production and sharing of information with the public would ultimately suffer.[121]

While the policy aims of protecting socially desirable information services make practical sense, prudential arguments should take a back seat to Congress's balancing of the public domain as expressed through federal copyright law. Anti-preemptionists assert that the "extra element" test defeats section 301 preemption. However, under this test, no contractual variation of the exclusive rights conferred by copyright could be considered preempted, since the contract itself supposedly constitutes the necessary extra element. This would reduce the express preemption clause of section 301 to surplusage, a result certainly not intended by Congress. Furthermore, the precise issue here is not whether a private contract is subject to preemption in general, but rather whether a state law allowing certain contractual terms can be preempted. The Fifth Circuit directly addressed this question in *Vault Corp. v. Quaid Software Ltd.*[122] In *Vault*, the court struck down a state statute validating shrinkwrap license terms that imposed perpetual copying restrictions as being in conflict with section 117 of the Copyright Act.[123] Since the preempted statute governed state contract law, much like UCITA does,[124] the *Vault* decision defies the anti-preemptionists' contention that rights based on an underlying contract cannot be preempted.

Even if the "extra element" test could be applied here, constitutionally-based conflict preemption permits courts to transcend the limits of section 301 preemption and uphold congressional enactments of doctrines such as first sale and fair use. Further, contractual protection of databases under

121. *See, e.g.*, Wolfson, *supra* note 81, at 84-87 (describing the growing value of noncopyrightable material in the U.S. economy and the potential loss of such useful information without adequate protection).

122. 847 F.2d 255 (5th Cir. 1988).

123. *See id.* at 270.

124. *See id.* at 268-70. But critics try to distinguish *Vault* because the court started with the presumption that the underlying contract was unenforceable absent the state statute, so no real contract existed. *See* Nimmer, *supra* note 81, at 864. However, nothing prevents a court from following the same process and reaching the same result under UCITA.

UCITA would amount to state-law-sanctioned circumvention of *Feist*. Such an encroachment on the public domain as determined by Congress should not be tolerated under contract preemption principles.

Several federal doctrines other than preemption could also be invoked to invalidate contract terms relating to rights under copyright law.[125] Although a fuller discussion is beyond the scope of this comment, examples include First Amendment law, antitrust law,[126] copyright misuse,[127] and various other federal policy[128] doctrines.[129]

IV. EFFECT ON UNIFORMITY

As indicated by its name, UCITA's foremost goal is to create a uniform body of law to govern all computer information transactions irrespective of state boundaries. Given the inherently interstate nature of computer information transactions, variations in law from state to state impose especially heavy costs and uncertainty on such transactions. A consistent set of rules would substantially reduce uncertainty and transaction costs associated with the extra confusion, negotiation, and litigation that result from contracting under a conflicting set of laws.[130]

However, as UCITA stands now, the goal of uniformity is in serious jeopardy. From a substantive perspective, the possibility of federal preemption of select UCITA provisions[131] could create significant gaps and

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125. *See* Wolfson, *supra* note 81, at 104.

126. *See generally* 2 EARL W. KINTNER, FEDERAL ANTITRUST LAW §§ 10.19-10.38 (1980) (discussing various theories that precluded refusals to bargain under §§ 1 and 2 of the Sherman Act).

127. *See* Mark Lemley, *Beyond Preemption: The Law and Policy of Intellectual Property Licensing*, 87 CALIF. L. REV. 113, 151-58 (1999) (arguing that copyright misuse, analogous to patent misuse doctrine but distinct from antitrust law, cannot be waived by contract and may prove to be a better tool than preemption due to its fact-specific nature).

128. *See id.* at 158-63 (arguing that interpretation of contracts under federal law rather than state law for some intellectual property licenses would provide a second non-preemption limit on UCITA's ability to change rules within the federal domain). One example is the application of the federal estoppel doctrine, which supercedes state law in determining when challenges of patent validity are permitted. *See id.* at 160-61.

129. The availability of these alternatives in itself, however, can be used as an argument in favor of rejecting the broad determination that all contract terms of a certain type are automatically preempted. *See* Wolfson, *supra* note 81, at 104.

130. *See generally* UCITA, Prefatory Note (July 1999 draft).

131. For a detailed discussion on which parts of UCITA are most susceptible to federal preemption, see *supra* Part III.

render its content uncertain.[132] In fact, UCITA acknowledges this danger by explicitly stating that any of its provisions are unenforceable to the extent they are preempted by federal law.[133] On its face, UCITA takes a neutral stance to preemption questions based on the proposition that preemption is an issue to be resolved at the federal level and thus beyond UCITA's scope.[134] But this neutral stance can misleadingly induce merchants and consumers to rely on state rules that do not, in actuality, apply to their transactions.[135] Thus, regardless of one's view of their merit, the preemption issues should be directly addressed and clarified before UCITA's passage.

In addition to the uncertainty surrounding federal preemption, UCITA creates the potential for nonuniformity by deferring certain questions to other individual bodies of state law such as consumer protection laws.[136] However, as Article 2's history reveals, "federal and non-uniform state enactments in the consumer protection area effectively either preempted or modified parts of Article 2."[137] UCITA has the opportunity to directly incorporate consumer protections into its provisions, thereby avoiding the inconsistent, state-by-state changes introduced by the state law preemption that afflicted Article 2.[138] Introducing stronger consumer protections into UCITA now would ensure greater uniformity in the long run.[139]

Uniformity will also be inhibited from a procedural standpoint. Localized interests in each state will seek to influence the legislative process,

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132. Though beyond the scope of this Note, another substantive aspect of UCITA that will affect uniformity on a larger scale is its consistency with international regulations of computer information transactions. *See* O'Rourke, *supra* note 52, at 650-51, 656-58 (1999) (comparing the approach of the European Union on the relationship between contracting and intellectual property; urging international discussion to reconcile conflicting provisions).

133. *See* UCITA § 105(a) (Oct. 15, 1999 Draft).

134. *See id.* § 105, Official Comments 1, 2.

135. *See* NYC Bar Report, *supra* note 105, at 6-7.

136. *See* UCITA § 105(c) (Oct. 15, 1999 Draft) ("[I]f this [Act] conflicts with a consumer protection statute [or administrative rule], the conflicting statute [or rule] governs."); *see also id.* § 105, Official Comment 4.

137. O'Rourke, *supra* note 52, at 653.

138. *See id.*

139. *See id.* One hypothetical scenario is the potential expansion of state product liability law to fill the void left by UCITA's inadequate protection of software licensees' interests. *See* Peter A. Alces, *W(h)ither Warranty: The B(l)oom of Products Liability Theory in Cases of Deficient Software Design*, 87 CALIF. L. REV. 269, 298-99 (1999). However, if UCITA affords satisfactory consumer warranty protections, such an outcome could be avoided.

lobbying for changes that push UCITA in their favor.[140] Depending on the eventual compromises reached in each state, these resulting variations could lead to divergent statutes.[141] Even if UCITA escapes the local legislative process unscathed, judicial interpretation of the statute by fifty separate state court systems will lead to differences in how the law is applied.[142] Specifically, the state courts' varying approaches to preemption questions as well as their application of vague UCITA standards such as "fundamental public policy"[143] will result in different interpretations of the same statutory provisions.[144] A much larger impediment to uniformity will present itself if only a handful of states actually pass UCITA. Given the controversy surrounding UCITA thus far, including loss of UCC status and objections by twenty-four state attorneys general,[145] the likelihood of widespread passage is low.[146]

Finally, a premature codification of UCITA may do more harm than good.[147] Due to the quickly evolving nature of the incipient computer information industry, business practices are still in a state of flux. The drafters' statement that UCITA is "accurate and not original" is difficult to digest given this rapid change.[148] A few years' time translates into a generation for computer technology; therefore, waiting a short period would allow emerging business models to mature and allow us to assess how well the Uniform Electronic Transaction Act[149] and current laws resolve issues

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140. *See* NYC Bar Report, *supra* note 105, at 15.

141. *See id.*

142. *See id.*

143. UCITA § 105(b) (Oct. 15, 1999 Draft).

144. *See* O'Rourke, *supra* note 52, at 649-50 (describing this result as the flexibility versus uniformity trade-off).

145. *See supra* note 15 (stating opposition of 24 state attorneys general).

146. Professor Mark Lemley expects that UCITA will only pass in a few states, such as Microsoft's home state of Washington. *See* Brenda Sandburg, *UCC2B is Dead—Long Live UCITA* (May 27, 1999) ⟨http://www.callaw.com/stories/edt0527.html⟩. As a result, there may actually be a reduction in uniformity with different states having different software licensing laws. On the other hand, NCCUSL's Carlyle Ring believes "there will be a significant number of states looking for a thought-out statute," and thus they will adopt UCITA or use it as a template for their own legislation. *See id.*

147. *See generally* Jean Braucher, *Why UCITA, Like UCC Article 2B, Is Premature and Unsound* (visited Sept. 6, 1999) ⟨http://www.2Bguide.com/docs/0499jb.html⟩.

148. *See id.*

149. The Uniform Electronic Transaction Act (UETA) was aiso passed by NCCUSL in July 1999. See Carol A. Kunze, *The ETA Forum* (last modified July 29, 1999) ⟨http://www.webcom.com/legaled/ETAForum⟩. UETA has the limited objective of facilitating electronic commerce compared to the more extensive reach of UCITA over all aspects of computer information contracts. Many have praised its less drastic means and goals. *See, e.g.*, Cem Kaner, *E-Commerce Provisions in the UCITA and UETA* (visited

of concern.[150] If a few states enact UCITA, however, balanced legislation will be much harder to pass in the near future since entrenched licensor interests will not be willing to compromise their favorable status.[151]

V. CONCLUSION

Given UCITA's potentially negative impact on consumers, as well as upon the larger goals of uniformity and certainty, UCITA should be reconsidered and restructured. UCITA's scope, broadened even further by the power of the opt-in provision, engulfs too many types of mass-market information transactions without providing adequate requirements for meaningful assent and warranty protection. Furthermore, federal preemption places the coherency of UCITA's entire regime in doubt, leaving the possibility of a fragmented contract framework that still varies from state to state. Unless these concerns are carefully addressed, we may be stuck with an unworkable piece of legislation guiding a budding and valuable industry in the wrong direction.

Sept. 6, 1999) ⟨http://www.badsoftware.com/uetaanducitauccbull.htm⟩ (briefly discussed *supra* note 79).

150. *See* Braucher, *supra* note 147.

151. *See id.*

WMS GAMING INC. V. INTERNATIONAL GAME TECHNOLOGY

By Bradley D. Baugh

In 1952, Congress amended 35 U.S.C. § 112 to allow patent applicants to claim an element in a combination claim using means-plus-function language.[1] The amendment was in response to *Halliburton Oil Well Cementing Co. v. Walker*[2] in which the Supreme Court held that means-plus-function language was ambiguous and overbroad.[3] To prevent the overbreadth and ambiguity problems noted by the Supreme Court, Congress added a provision that the means-plus-function language would be restricted to the structure disclosed in the specification or its equivalent.[4] Since its enactment, many disputes have centered around the application of this structural limitation provision.[5]

In *WMS Gaming Inc. v. International Game Technology*,[6] the Federal Circuit confronted an intriguing question related to claim construction of a software-related patent drafted in means-plus-function format. The crucial question faced by the court was whether a disclosed algorithm was properly part of the means for performing the identified function. The court answered in the affirmative.[7]

The potential effects of the court's decision are both severe and pervasive. Restricting a software-related means-plus-function claim by a disclosed algorithm may severely reduce the scope of the claim.[8] And, because means-plus-function claims are prevalent in software-related patents, a large number of patents may be affected.[9] One likely result of the

1. *See* Valmont Indus., Inc. v. Reinke Mfg. Co., 983 F.2d 1039, 1042 (Fed. Cir. 1993).
2. 329 U.S. 1 (1946).
3. *See id.* at 12.
4. *See Valmont*, 983 F.2d at 1042.
5. See Paul M. Janicke, *Means-Plus-Function Claims in Modern Patent Law*, C785 ALI-ABA 297, at 300 (1992).
6. 184 F.3d 1339 (Fed. Cir. 1999). Judge Rich heard oral arguments in this case but died on June 9, 1999. The case was decided by the remaining judges, Judge Rader and Judge Schall. Judge Schall wrote the opinion.
7. *See id.* at 1349.
8. *See* 35 U.S.C. § 112 ¶ 6 (1994).
9. *See infra* Part I.C.

court's holding is that patent attorneys and companies will re-evaluate the scope and validity of their own and others' software-related patents.[10]

I. BACKGROUND

A. Claims and Means-Plus-Function Claims

The second paragraph of section 112 of the Patent Act requires that the "specification . . . conclude with one or more claims particularly pointing out and distinctly claiming the subject matter which the applicant regards as his invention."[11] This requirement fulfills two purposes. First, it provides "a clear measure of what applicants regard as the invention so that it can be determined whether the claimed invention meets all the criteria for patentability."[12] Second, it clearly establishes the scope of the claims so the public knows what constitutes infringement of the patent.[13]

Means-plus-function claims allow a patent applicant to express an element in a patent claim "as a means or step for performing a specific function without the recital of structure, material, or acts in support thereof."[14] Although some patent drafters prefer this claim format, their choice comes at a cost.[15] Such a claim does not cover every means for performing a specified function, but is limited to the "corresponding structure, material, or acts described in the specification and equivalents thereof."[16]

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10. *See infra* Part III.B.; *see also* Chris Ford, *Playing the Odds*, CAL. L. BUS., Sept. 20, 1999, at 10 ("The ruling likely will change considerably the approach counsel must take when drafting patents or developing intellectual property strategy.").

11. 35 U.S.C. § 112 ¶ 2.

12. U.S. DEP'T OF COMMERCE, MANUAL OF PATENT EXAMINING PROCEDURE § 2173 (7th ed. 1998).

13. *See* Bandag, Inc. v. Al Bolser's Tire Stores, Inc., 750 F.2d 903 (Fed. Cir. 1984) (holding that claims are the measure of the protected right); Environmental Instruments, Inc. v. Sutron Corp., 877 F.2d 1561 (Fed. Cir. 1989) (holding that the language of the claims defines the bounds of the patentee's exclusive rights); *see also* Wiener v. NEC Elec., Inc., 102 F.3d 534 (Fed. Cir. 1996).

14. 35 U.S.C. § 112 ¶ 6. The full text of the paragraph reads: "An element in a claim for a combination may be expressed as a means or step for performing a specific function without 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."

15. *See* Valmont Indus., Inc. v. Reinke Mfg. Co., 983 F.2d 1039, 1042 (Fed. Cir. 1993) (holding that § 112 ¶ 6 permits the use of means-plus-function language in claims, but with the proviso that the claims are limited to the structure, material, or acts disclosed in the specification and their equivalents).

16. 35 U.S.C. § 112 ¶ 6.

B. Claim Construction and Infringement

During the prosecution of a patent application, the Patent and Trademark Office examiner must interpret the claims in the application to determine whether they meet the requirements for patentability.[17] After the patent has issued, an infringement action requires the court to interpret the claims again.[18] In either event, the task of interpreting the claims is taxing. Unique words and phrases, complex subject matter, and ambiguities in language and drafting make even well-written patent claims unclear.[19] Claims drafted in means-plus-function language add to the already difficult task of construing claims.

Construing a means-plus-function claim involves determining, as a matter of law, the claimed function and the structure corresponding to that function.[20] The claim language itself defines the functional aspect of a means-plus-function claim limitation.[21] After the function is identified, the means are identified by looking to the specification for the structure corresponding to the claimed function.[22] In theory, construing means-plus-function claims seems almost mechanical in application. In practice, however, such analysis can be problematic and complex.[23] Evidence of this complexity appears in *WMS Gaming* in which a key dispute was how to construe a means-plus-function claim.[24]

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17. The PTO examiner must determine, among other things, if what is claimed is useful (35 U.S.C. § 101), novel (35 U.S.C. § 102), and nonobvious (35 U.S.C. § 103).

18. Interpreting patent claims is a matter of law reserved entirely for the court. *See* Markman v. Westview Instruments, Inc., 517 U.S. 370 (1996). Thus, a judge has the burden of determining the scope of the patent since the claims define the metes and bounds of the patent grant. *See id.* at 373.

19. *See id.* at 388-89 (holding that the judge, rather than the jury, should perform the complex task of claim construction because judges have special training, discipline, and experience); *see also* Slimfold Mfg. Co., Inc. v. Kinkead Indus., Inc., 810 F.2d. 1113, 1117 (Fed. Cir. 1987) ("'The specification and claims of a patent . . . constitute one of the most difficult legal instruments to draw with accuracy.'" (quoting Topliff v. Topliff, 145 U.S. 156, 171 (1892))).

20. *See* Chiuminatta Concrete Concepts, Inc. v. Cardinal Indus., Inc., 145 F.3d 1303, 1308 (Fed. Cir. 1998).

21. *See id.* ("A determination of the claimed function [is] a matter of construction of specific terms in the claim.").

22. *See id.*

23. *See* Thomas L. Creel and Thomas McGahren, *Use of Special Masters in Patent Litigation: A Special Master's Perspective*, 26 AIPLA Q.J. 109 (1998) (arguing for greater use of special masters in patent infringement cases because of the complexities related to claim construction).

24. *See infra* Part II.C.1.

Properly identifying and construing the claims directly affects an infringement analysis because it determines the scope of the claim.[25] Following claim construction, the court must determine whether the claims, as construed, read on the accused device.[26] For a means-plus-function limitation to read literally on an accused device, the accused device must employ means identical or equivalent to the structures, material, or acts described in the patent specification, and the accused device must also perform the identical function as specified in the claim.[27] The test for determining whether the structure in an accused devise is equivalent to the structure in the means-plus-function claim is whether the differences between the two structures are insubstantial.[28]

C. Enablement and Definiteness

1. Enablement

A patent disclosure must enable one skilled in the relevant art to make and use the invention.[29] Although the law requires the specification to be "full, clear, concise, and exact,"[30] it allows disclosure that requires one skilled in the art to engage in some experimentation before being able to make or use the invention.[31] The law, however, does not allow disclosure

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25. *See* Corning Glass Works v. Sumitomo Elec. U.S.A., Inc., 868 F.2d 1251, 1257-58 (Fed. Cir. 1989) ("A claim in a patent provides the metes and bounds of the right which the patent confers on the patentee to exclude others from making, using, or selling the protected invention.").

26. *See* Cybor Corp. v. FAS Techs., Inc., 138 F.3d 1448, 1456 (Fed. Cir. 1998) (en banc).

27. *See* Valmont Indus., Inc. v. Reinke Mfg. Co., 983 F.2d 1039, 1042 (Fed. Cir. 1993); *see also* Pennwalt Corp. v. Durand-Wayland, Inc., 833 F.2d 931, 934 (Fed. Cir. 1987) (en banc) ("To determine whether a claim limitation is met literally, where expressed as a means for performing a stated function, the court must compare the accused structure *with the disclosed structure*, and must find equivalent *structure* as well as *identity* of claimed *function* for that structure.") (emphasis in original).

28. *See* Chiuminatta Concrete Concepts, Inc. v. Cardinal Indus., Inc., 145 F.3d 1303, 1309 (Fed. Cir. 1998).

29. The statutory basis for this requirement is section 112, first paragraph, which states that the "specification shall contain a written description of the invention, and of the manner and process of making and using it, in such full, clear, concise, and exact terms as to enable any person skilled in the art . . . to make and use the same." 35 U.S.C. § 112 ¶ 1 (1994).

30. 35 U.S.C. § 112 ¶ 1.

31. *See* Amgen, Inc. v. Chugai Pharm. Co., 927 F.2d 1200, 1212 (Fed. Cir. 1991) ("That some experimentation is necessary does not constitute a lack of enablement; the amount of experimentation, however, must not be unduly extensive."), *cert. denied*, 502 U.S. 856 (1991).

that requires undue experimentation.[32] Because the patent claims define what "invention" must be enabled,[33] the "scope of the claims must bear a reasonable correlation to the scope of enablement provided by the specification."[34] If the patent claims more than what is enabled in the specification, the claim is invalid.[35]

2. *Definiteness*

In addition to promoting "the Progress of Science and useful Arts"[36] by enabling others to make and use the invention, patents serve an important notice function. A patent provides the public with notice by delineating the limits of the patent grant.[37] To ensure this notice function, patent law demands certainty whenever possible.[38] For example, section 112 paragraph 2 requires that the subject matter be claimed "distinctly."[39] This requirement allows the public to determine which areas are left open to them and which areas they enter at the risk of infringement.[40] Without clearly demarcated boundaries, a penumbra around the patent scope may discourage others from entering the fringe.[41] If claims fail to define the legal scope of the patent, then the claims are invalid due to indefiniteness.[42] Whether a claim is invalid for indefiniteness depends on whether

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32. *See id.*

33. *See* Phillips Petroleum Co. v. United States Steel Corp., 673 F. Supp. 1278, 1292 (D. Del. 1987), *aff'd*, 865 F.2d 1247 (Fed. Cir. 1989).

34. *In re* Fisher, 427 F.2d 833, 839 (C.C.P.A. 1970).

35. *See In re* Hyatt, 708 F.2d 712, 714-15 (Fed. Cir. 1983).

36. U.S. CONST. art. I, § 8, cl. 8.

37. *See* Permutit Co. v. Graver Corp., 284 U.S. 52, 60 (1931) ("The statute requires the patentee not only to explain the principle of his apparatus and to describe it in such terms that any person skilled in the art to which it appertains may construct and use it after the expiration of the patent, but also to inform the public during the life of the patent of the limits of the monopoly asserted, so that it may be known which features may be safely used or manufactured without a license and which may not."); McClain v. Ortmayer, 141 U.S. 419, 424 (1891) ("The object . . . is not only to secure to [the patentee] all to which he is entitled, but to apprise the public of what is still open to them.").

38. *See* United Carbon Co. v. Binney & Smith Co., 317 U.S. 228, 236 (1942) ("A zone of uncertainty which enterprise and experimentation may enter only at the risk of infringement [sic] claims would discourage invention only a little less than unequivocal foreclosure of the field.").

39. 35 U.S.C. § 112 ¶ 2 (1994) ("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.").

40. *See* Athletic Alternatives, Inc. v. Prince Mfg., Inc., 73 F.3d 1573, 1581 (Fed. Cir. 1996).

41. *See id.*

42. *See* Miles Laboratories, Inc. v. Shandon Inc., 997 F.2d 870, 874-75 (Fed. Cir. 1993); *see generally* 3 DONALD S. CHISUM, CHISUM ON PATENTS § 8.03 (1999).

those skilled in the art would understand its scope when read in light of the specification.[43]

D. Software Patents

Historically, algorithms embodied in software were not considered patentable subject matter.[44] Software's journey to recognition as patentable subject matter was at best convoluted. Its circuitous path generated a vast and complex network of legal doctrines, and a discussion of this area of law exceeds the scope of this paper.[45] One significant result of this complex body of case law was that a large number of software patents were claimed in means-plus-function language.[46] Means-plus-function claims are common in software-related patents because this format presents an inventive algorithm as part of a physical apparatus rather than as just an abstract idea. This practice has its origins in the seminal case *In re Alappat*.[47]

In *Alappat*, the patent applicants appealed from a reconsideration decision of the Board of Patent Appeals and Interferences which sustained the examiner's rejection of claims 15-19 as being unpatentable subject matter.[48] The rejected claims, written in means-plus-function format, were directed to a "rasterizer"—a mathematical algorithm-based invention for

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43. *See Miles Laboratories*, 997 F.2d at 875 (Fed. Cir. 1993) ("The test for definiteness is whether one skilled in the art would understand the bounds of the claim when read in light of the specification.").

44. *See* Gottschalk v. Benson, 409 U.S. 63, 71-73 (1972) (holding that a computer program that embodied an algorithm for converting binary coded decimal into pure binary numbers was not patentable subject matter). The key statute defining statutory subject matter is 35 U.S.C. § 101 (1994) which states: "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."

45. For articles that discuss patentability of software-related inventions, see, for example, Lawrence Kass, *Computer Software Patentability and the Role of Means-Plus-Function Format in Computer Software Claims*, 15 PACE L.J. 787 (1995); Alan D. Minsk, *The Patentability of Algorithms: A Review and Critical Analysis of the Current Doctrine*, 8 SANTA CLARA COMPUTER & HIGH TECH. L.J. 251 (1992); Pamela Samuelson, Benson *Revisited: The Case Against Patent Protection for Algorithms and Other Computer Program-Related Inventions*, 39 EMORY L.J. 1025 (1990).

46. *See* Mark D. Janis, *Who's Afraid of Functional Claims? Reforming the Patent Law's § 112, ¶ 6 Jurisprudence*, 15 COMPUTER & HIGH TECH. L.J. 231, 235 (1999) ("Claims drafted in means-plus-function [language] are especially prevalent in patents on software-related inventions, where the format has been thought useful for complying with the subject matter eligibility requirement.").

47. 33 F.3d 1526 (Fed. Cir. 1994) (en banc).

48. *See id.* at 1531.

displaying smooth waveform data on an oscilloscope.[49] On appeal, the Federal Circuit, sitting en banc,[50] addressed whether Alappat's invention was statutory subject matter under 35 U.S.C. § 101.[51]

On the merits of the case, a majority of the Federal Circuit judges declared that the Board erroneously failed to apply 35 U.S.C. § 112 ¶ 6 when construing Alappat's means-plus-function claims.[52] Judge Rich, writing for the majority, construed the claims to include the proper corresponding structural limitations as disclosed in the specification.[53] Once properly construed, the patent application claimed an electronic machine that was patentable subject matter under 35 U.S.C. § 101.[54]

The Board of Patent Appeals and Interferences had also rejected Alappat's claim 15 as being unpatentable subject matter because the means-plus-function claim read on a general purpose computer programmed to perform the algorithm.[55] Judge Rich dismissed the Board's rejection by reminding it that the Federal Circuit had previously held that a general purpose computer running a program "creates a new machine, because a general purpose computer in effect becomes a special purpose computer once it is programmed to perform particular functions."[56]

It is important to note that the court only addressed the patentability of the invention. The Federal Circuit did not focus on the exact scope of the claims—such a rigorous analysis is typically only performed as part of an infringement suit. This issue remained to be decided in *WMS Gaming*.

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49. *See id.* at 1537-39. An oscilloscope is an instrument used to measure or display electronic waveforms. The device displays on a screen, like a TV screen, the amplitude versus time graph of an electronic signal inputted into the oscilloscope.

50. In *South Corp. v. United States*, 690 F.2d 1368, 1370-71 (Fed. Cir. 1982) (en banc), the Federal Circuit announced in its first case that the precedent of the Court of Customs and Patent Appeals (the predecessor court to the Federal Circuit) would be binding on the Federal Circuit and that any conflict with such precedent only could be resolved by the Federal Circuit court sitting en banc. Thus, any case decided en banc clearly overrules any conflicting precedent of the Court of Customs and Patent Appeals.

51. *See Alappat*, 33 F.3d at 1541-44.

52. *See id.* at 1540-41. The court reaffirmed its unanimous en banc decision in *In re Donaldson*, 16 F.3d 1189 (Fed. Cir. 1994), holding that the PTO must limit claims written in means-plus-function language to the corresponding structure disclosed in the specification, i.e., the PTO is bound by 35 U.S.C. § 112 ¶ 6.

53. *See Alappat*, 33 F.3d at 1541.

54. *See id.*

55. *See id.* at 1544-45.

56. *Id.* at 1545.

II. WMS GAMING INC. V. INTERNATIONAL GAME TECHNOLOGY

A. Procedural Background

In May 1994, International Game Technology ("IGT") sent a cease and desist letter to WMS Gaming Inc. ("WMS") indicating that the WMS 400 slot machine infringed United States Patent No. 4,448,419, issued to Inge S. Telnaes (the "Telnaes patent").[57] WMS responded by filing an action seeking a declaratory judgment that their slot machine did not infringe the Telnaes patent and that the Telnaes patent was invalid.[58] IGT counterclaimed against WMS for willful infringement.[59] After a bench trial, the district court held that the Telnaes patent was not invalid and that WMS had willfully infringed the patent.[60] WMS appealed the decision.[61]

B. Technical Background

The dispute centered on a slot machine design that electronically manipulates the odds of winning.[62] To maintain and increase appeal to play-

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57. *See* WMS Gaming Inc. v. International Game Technology, 184 F.3d 1339, 1345 (Fed. Cir. 1999); U.S. Patent No. 4,448,419 (issued May 15, 1984) [hereinafter Telnaes patent].

58. *See id.*

59. *See id.*

60. *See id.*

61. *See id.* at 1346. WMS also appealed a district court order denying its motion for a new trial based on newly discovered information. *See id.* After the trial, WMS obtained an unpatented slot machine that allegedly functioned in a manner similar to the Telnaes patent but had been sold several years before the application for the Telnaes patent was filed. *See id.* After a two-day hearing on the matter, the district court denied WMS' motion for a new trial on the grounds that WMS had not been diligent in discovering the unpatented slot machine. *See id.* In reaching this conclusion, the district court extended the due diligence requirement to both WMS and its attorneys. *See id.* at 1361-62. Because one of WMS' employees, who later found the prior art slot machine, did not attempt to locate prior art before or during the trial, the district court held that WMS failed to show diligence of its own employees. *See id.* at 1362. Applying the law of the regional circuit where the appeal would normally lie, the Federal Circuit did not find abuse of discretion by the district court. *See id.* at 1361-62. Although this matter raises interesting questions related to due diligence, space constraints prohibit any further discussion of this matter other than highlighting the issue in this footnote.

62. *See* WMS Gaming Inc. v. International Gaming Tech., No. 94-C3062, 1996 WL 539112, at *1 (N.D. Ill. Sept. 20, 1996). A slot machine contains a series of wheels, or reels, which spin about a common axis. *See id.* Displayed on the periphery of each reel are indicia or symbols, such as cherries, bells, bars, plums and blanks, which coincide with the stopping positions of the reel. *See id.* A typical slot machine has three reels, each with the same number of stop positions per reel, usually between 18 and 22. *See id.* The

ers, the market demanded slot machines with higher payoffs.[63] To generate higher payoffs, without decreasing the slot machine's profitability, the probabilities of winning had to be decreased.[64] To decrease the payout odds for a mechanical slot machine, either more reels or larger reels with more stop positions must be added.[65] This approach would not increase the machine's appeal since players perceive physically larger machines or machines with more reels "as being less 'good' in terms of winning and payout chances."[66] As a result, designers sought to increase the payouts without increasing the physical size of the machine.[67]

1. The Telnaes patent

The Telnaes patent discloses an electronically-controlled slot machine that decreases the probability of winning while maintaining the external appearance of a standard slot machine.[68] To decrease the probability of winning, the control circuitry extends the reel "virtually" to include a range of numbers greater than the number of actual stop positions, and then maps these numbers non-uniformly to the actual stop positions.[69] When in play, the control circuitry randomly determines the stop position of each reel and then stops the reels at the randomly determined positions.[70] The reels' only function is to display the randomly chosen result.[71]

For example, if a reel with twenty-two stop positions contains a cherry symbol in two positions, the probability of stopping at a cherry is two out of twenty-two or 0.0909.[72] If the reel were "virtually" extended to include forty-four virtual stop positions, with the cherry symbol mapped to numbers seven, twenty-two, and thirty-seven, then the probability of stopping

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slot machine dispenses coins or credits by correlating the symbols that align with the "pay line" after the reels stop spinning with the machine's "pay table." *See id.*

63. *See* Telnaes patent, *supra* note 57, at col. 2, ll. 10-26.

64. *See id.*

65. *See id.* at col. 2, ll. 3-9.

66. *Id.* at col. 2, ll. 24-26.

67. *See id.* at col. 2, ll. 19-24.

68. *See* WMS Gaming Inc. v. International Gaming Tech., 184 F.3d 1339, 1343 (Fed. Cir. 1999); Telnaes patent, *supra* note 57, at col. 2, ll. 10-26.

69. *See* Telnaes patent, *supra* note 57, at col. 4, l. 51 - col. 5, l. 4. The non-uniform mapping of numbers is such that some stop positions are allocated more numbers than other stop positions but each stop position is assigned at least one number. *See id.* at col. 6, ll. 32-33, 45-46.

70. *See WMS Gaming*, 184 F.3d at 1343; Telnaes patent, *supra* note 57, at col. 3, ll. 1-4.

71. *See WMS Gaming*, 184 F.3d at 1343; Telnaes patent, *supra* note 57, at col. 3, ll. 10-12.

72. *See* Telnaes patent, *supra* note 57, at col. 4, ll. 53-67.

at the cherry is three out of forty-four or 0.0681.[73] Thus, the probability of stopping on the cherry symbol is reduced without altering the physical appearance of the slot machine.

2. *The Durham patent*

WMS based its WMS 400 slot machine after the design disclosed in the patent issued to Timothy Durham, entitled "Method for Determining Payoffs in Reel-Type Slot Machines" (the "Durham patent").[74] Because the parties stipulated that the Durham patent describes the accused device, the court's discussion of the accused device referred to the Durham patent.[75]

Unlike the Telnaes patent apparatus, which determines the stop positions first and then determines the payoff based on those stop positions, the Durham patent apparatus calculates the payoff first and then chooses stop positions that represent that payoff.[76] The Durham patent method begins by randomly selecting a number from a range of 1 to 632.[77] Once selected, that number is mapped to a first multiplier listed in a ROM table.[78] Next, a second number is randomly selected from a second range of 1 to 632,[79] and, once selected, it is mapped to a second multiplier listed in a different ROM table.[80] The two multipliers are then multiplied together to determine the payout value.[81] If there is only one way to display the payout, then the reels are stopped on those symbols.[82] If, however, there is more than one arrangement of symbols that can indicate the payout, then a

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73. *See id.*

74. *See WMS Gaming*, 184 F.3d at 1344; U.S. Patent No. 5,456,465 (issued Oct. 10, 1995) [hereinafter Durham patent].

75. *See id.*

76. *See WMS Gaming*, 184 F.3d at 1344; Durham patent, *supra* note 74, at col. 1, ll. 40-54.

77. *See WMS Gaming*, 184 F.3d at 1344; Durham patent, *supra* note 74, at col. 3, ll. 13-16.

78. *See WMS Gaming*, 184 F.3d at 1344; Durham patent, *supra* note 74, at col. 3, ll. 16-17 and at Figure 5. A ROM table is a table of data stored in a Read Only Memory (ROM) computer chip.

79. *See WMS Gaming*, 184 F.3d at 1344; Durham patent, *supra* note 74, at col. 3, ll. 18-19.

80. *See WMS Gaming*, 184 F.3d at 1344; Durham patent, *supra* note 74, at Figure 6.

81. *See WMS Gaming*, 184 F.3d at 1344; Durham patent, *supra* note 74, at col. 3, ll. 28-37.

82. *See* Durham patent, *supra* note 74, at col. 3, ll. 56-58 and at Figure 4.

third random number is necessary.[83] This third random number determines which one of the possible reel arrangements will be displayed.[84]

C. The Federal Circuit's Discussion

1. Claim construction

WMS contended that the district court erred in its claim construction and that the WMS 400 slot machine would not infringe properly construed claims of the Telnaes patent.[85] Because the parties agreed that claim 1 of the Telnaes patent controlled the infringement issue for all remaining claims, the Federal Circuit infringement analysis focused exclusively on that claim.[86] Claim 1 of the Telnaes patent reads as follows:

> A game apparatus, comprising:
>
> [1] a reel mounted for rotation about an axis through a predetermined number of radial positions;
>
> [2] means to start rotation of said reel about said axis;
>
> [3] indicia fixed to said reel to indicate the angular rotational position of said reel;
>
> [4] means for assigning a plurality of numbers representing said angular positions of said reel, said plurality of numbers exceeding said predetermined number of radial positions such that some rotational positions are represented by a plurality of numbers;
>
> [5] means for randomly selecting one of said plurality of assigned numbers; and
>
> [6] means for stopping said reel at the angular position represented by said selected number.[87]

The parties agreed that the accused device contained the first three claim limitations.[88] The parties' dispute centered on the last three elements of claim 1.[89]

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83. *See WMS Gaming*, 184 F.3d at 1344-45; Durham patent, *supra* note 74, at col. 4, ll. 1-7. More than one way of displaying the result is possible if, for example, the same symbol appears more than once on a single reel. In such a case, displaying either symbol indicates the desired payout. Therefore, the slot machine control circuitry must select one of them. *See id.* at col. 3, l. 60 to col. 4, l. 7.

84. *See WMS Gaming*, 184 F.3d at 1344-45; Durham patent, *supra* note 74, at col. 4, ll. 1-7.

85. *See WMS Gaming*, 184 F.3d at 1346.

86. *See id.*

87. *See* Telnaes patent, *supra* note 57, at col. 5, ll. 36-53.

88. *See WMS Gaming*, 184 F.3d at 1347.

89. *See id.*

Regarding the fourth claim limitation, the "means for assigning" limitation, WMS argued that the district court incorrectly identified the means corresponding to the identified function.[90] The district court, relying on the parties' stipulation that the Telnaes patent disclosed "a microprocessor, or computer, to control the operation of the slot machine,"[91] held that the means for the claim limitation was "*an* algorithm executed by a computer."[92] Under the district court's construction, the "means for assigning" limitation covered "*any* table, formula, or algorithm"[93] that performed the claimed function.

The Federal Circuit refrained from questioning the parties' stipulation[94] and held that the district court erred in not limiting the claim to the disclosed algorithm.[95] The proper claim construction restricted the invention to a computer performing the algorithm illustrated in Figure 6 of the Telnaes patent.[96] The Federal Circuit held that "[i]n a means-plus-function claim in which the disclosed structure is a computer, or microprocessor, programmed to carry out an algorithm, the disclosed structure is not the general purpose computer, but rather the special purpose computer programmed to perform the disclosed algorithm."[97] A general purpose com-

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90. *See id.* at 1348.

91. *Id.* at 1347.

92. WMS Gaming Inc. v. International Gaming Tech., No. 94-C3062, 1996 WL 539112, at *10 (N.D. Ill. Sept. 20, 1996) (emphasis added).

93. *Id.* at *11 (emphasis added).

94. *See* WMS Gaming Inc. v. International Gaming Tech., 184 F.3d 1339, 1348 (Fed. Cir. 1999). The Federal Circuit noted that the written description of the Telnaes patent was "almost completely devoid of any structure to support [the "means for assigning"] limitation." *Id.* Although the Federal Circuit court did not find anything in the Telnaes patent that limited the "means for assigning" to a computer, the Federal Circuit refused to raise the issue sua sponte. *See id* at n.2. The Federal Circuit's refusal to question this stipulation is problematic because the proper time to remedy problems in patent disclosures is during the prosecution of the patent application or during a reissue examination under 35 U.S.C. § 251, not during infringement litigation. Since parties in litigation have strong self-interested motives and since no one is present to represent society's interests, the court should have challenged the stipulation to ensure that the patent deserved the exclusive grant given it by the law. *See* Seal-Flex, Inc. v. Athletic Track & Court Constr., 172 F.3d 836 (Fed. Cir. 1999) (J. Rader, concurring) (stating that the court should review whether a stipulation is proper).

95. *See id.*

96. *See id.* at 1348-49 ("Figure 6 illustrates an algorithm in which a plurality of single numbers are assigned to stop positions such that: 1) the range of single numbers exceeds the number of stop positions; 2) each single number is assigned to only one stop position; 3) each stop position is assigned at least one single number; and 4) at least one stop position is assigned more than one single number.").

97. *Id.* at 1349.

puter, or processor, programmed with an algorithm creates "a new machine, because a general purpose computer in effect becomes a special purpose computer once it is programmed to perform particular functions pursuant to instructions from program software."[98] The software program's instructions that perform the algorithm change the general purpose computer electrically by creating electrical paths within the device.[99] "These electrical paths create a special purpose machine for carrying out the particular algorithm."[100]

The dispute regarding the second and third disputed claim limitation centered on the interpretation of the function of each claim limitation. WMS argued that "selecting *one* of said . . . numbers"[101] must be limited to selecting single numbers rather than combinations of numbers.[102] The district court had interpreted the functions of both claim limitations to include combinations of numbers.[103] The Federal Circuit agreed with WMS and restricted both claim limitations to performing functions with single numbers.[104]

2. *Infringement analysis—comparing the construed claim to the accused device*

After construing claim 1 of the Telnaes patent, the Federal Circuit determined whether the claim read on the accused device literally or under the doctrine of equivalents.[105] In its literal infringement analysis, the Federal Circuit noted that the two structures were not identical because "the microprocessor disclosed in the Telnaes patent [was] programmed differently from the microprocessor disclosed in the Durham patent."[106] Because the two structures were not identical, the issue of literal infringement, regarding the structural limitations, turned on whether the accused device had structural equivalents to the two penultimate claim limitations.[107] The Federal Circuit stated that whether the Telnaes and Durham

98. *Id.* at 1348 (quoting *In re* Alappat, 33 F.3d 1526, 1545 (Fed. Cir. 1994)).
99. *See id.* at 1348.
100. *Id.*
101. *See* Telnaes patent, *supra* note 57, at col. 5, ll. 49-51 (emphasis added).
102. *See WMS Gaming*, 184 F.3d at 1349-50.
103. *See id.* at 1350.
104. *See id.* "[T]he functions [of the last two claim limitations] are: . . . 2) randomly selecting *one* of the numbers assigned to stop positions; and 3) stopping the reel at the stop positions that corresponds to the [*one*] selected number." *Id.* at 1349 (emphasis added).
105. *See id.* at 1350-54.
106. *Id.* at 1350.
107. *See id.* at 1350-51.

algorithms were structurally equivalent was a "close question"[108] but it did not overturn the district court's ruling that that they were equivalent.[109]

Although the accused device was ruled to have equivalent structure, the Federal Circuit reversed the district court's finding of literal infringement.[110] The court reversed the finding of literal infringement because the WMS 400 did not perform the identical function—the WMS 400 selected combinations of numbers, not single numbers as required by the function in claim 1 of the Telnaes patent.[111] However, because the doctrine of equivalents does not require identical function, the Federal Circuit affirmed the district court's finding of insubstantial differences between the claimed invention and the accused device.[112] Reversing the finding of literal infringement, the Federal Circuit remanded to the district court to reconsider the issue of willfulness.[113]

III. DISCUSSION

A. The Federal Circuit's Holding is Consistent with Legal and Scientific Principles

In *WMS Gaming*, the Federal Circuit held that in a means-plus-function claim in which the disclosed structure is a computer programmed to perform an algorithm, the disclosed structure is the computer as programmed to perform the disclosed algorithm.[114] The Federal Circuit's holding represents a logical extension from its legal precedent and a logical application of scientific principles.

1. Consistent legal precedent

The Federal Circuit has consistently cut back the scope potentially granted by section 112 paragraph 6. This trend first expressly appeared in 1987[115] and has continued since then.[116] The Federal Circuit recently ex-

108. *Id.* at 1352.
109. *See id.*
110. *See id.*
111. *See id.*
112. *See id.* at 1352-54.
113. *See id.* at 1355.
114. *See id.* at 1349.
115. See Paul M. Janicke, *The Crisis in Patent Coverage: Defining Scope of an Invention by Function*, 8 HARV. J.L. & TECH. 155 (1994) (stating that this "cutting back" effect was first expressly observed by the Federal Circuit in 1987 in *Data Line Corp. v. Micro Tech., Inc.*, 813 F.2d 1196, 1201 (Fed. Cir. 1987) and in *Pennwalt Corp. v. Durland-Wayland, Inc.*, 833 F.2d 931, 934 (Fed. Cir. 1987)).

tended this trend in *Chiuminatta Concrete Concepts, Inc. v. Cardinal Industries, Inc*,[117] in which the court limited the scope of means-plus-function claims further by restricting the application of the doctrine of equivalents to such claims.[118] The court's tendency continued in *WMS Gaming* when it restricted the structure of a software-related means-plus-function claim limitation by including the disclosed algorithm.[119] This tendency of the court reflects an alignment of the patent scope with what the patentee actually invented and disclosed.[120] The alternative for the Federal Circuit would have been to invalidate the claim.

If the Federal Circuit had not included the algorithm as part of the structure or means, claim 1 of the Telnaes patent would have been unduly over broad and would be invalid for lack of enablement. A claim construed as IGT wanted would be structurally "limited" to a general purpose computer and its equivalent.[121] Such a claim would cover any method that performed the same function by use of a computer or its equivalents[122]—even if a method achieved the result in a significantly different manner. To warrant such broad scope, the patent disclosure must enable those skilled in the art to make and use, without undue experimentation, all the inventions that fall within that scope.[123] If the scope of the enabling disclosure is not commensurate with the scope of the protection sought by the claim, then the claim is invalid for lack of enablement.[124]

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116. *See, e.g.*, Johnston v. IVAC Corp., 885 F.2d 1574, 1580 (Fed. Cir. 1989) (holding that section 112 paragraph 6 "operates to cut back on the types of means which could literally satisfy the claim language"); Jonsson v. Stanley Works, 903 F.2d 812, 819 (Fed. Cir. 1990) (same); *In re* Donaldson, Co., 16 F.3d 1189, 1194-95 (Fed. Cir. 1994) (en banc) (holding that the PTO must limit claims written in means-plus-function language to the corresponding structure disclosed in the specification).

117. 145 F.3d 1303 (Fed. Cir. 1998).

118. *Id.* at 1310 (holding that "a finding of a lack of literal infringement for lack of equivalent structure under a means-plus-function limitation may preclude a finding of equivalence under the doctrine of equivalents.").

119. *See WMS Gaming*, 184 F.3d at 1348-49.

120. *See* 35 U.S.C. § 112 (1994).

121. *See WMS Gaming*, 184 F.3d at 1348.

122. *See id.* ("The district court construed the 'means for assigning' limitation of claim 1 to cover 'any table, formula, or algorithm' [for performing the specified function].").

123. *See In re* Wright, 999 F.2d 1557, 1561 (Fed. Cir. 1993) ("[T]he specification . . . must teach those skilled in the art how to make and use the *full scope* of the claimed invention without 'undue experimentation.'") (emphasis added); *see also*, U.S. DEP'T OF COMMERCE, MANUAL OF PATENT EXAMINING PROCEDURE § 2164.08 (7th ed. 1998).

124. *See In re* Hyatt, 708 F.2d 712, 714 (Fed. Cir. 1983).

A good example of undue breadth in claiming is *O'Reilly v. Morse*.[125] The case involved the validity of Samuel Morse's patent on the telegraph. The Supreme Court had "difficulty" with the last claim of the patent,[126] wherein Morse asserted rights to all methods of communicating at a distance by use of electromagnetism.[127] The Court recognized that if the claim was maintained, every system or method of communicating at a distance by means of electrical current would infringe the patent, even a much better system that employed none of the processes disclosed by Morse.[128] The Court invalidated the claim as "too broad"[129] and held that a patentee cannot claim "an exclusive right to use a manner and process which he has not described and indeed had not invented."[130]

In *WMS Gaming*, the Federal Circuit could either extend its trend on restricting the broad scope of the section 112 paragraph 6 claims or invalidate the entire claim. The court's choice represents a balance between protecting the patentee's grant and protecting the public's interest.

2. *Consistent and Proper Application of Technical Principles*

Besides being consistent with precedent, the Federal Circuit's decision is also consistent with technical realities. A software program is properly part of the computer means because a general purpose computer needs a program to operate. Also, a software program is properly part of the computer means because the program alters the computer.

A software program that embodies an algorithm is an essential element of a general purpose computer programmed to perform a specific function.[131] A general purpose computer is what its name implies,[132] a computer designed such that it can be adapted to accomplish many functions without having to be physically rewired.[133] However, a computer cannot

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125. 56 U.S. (15 How.) 62 (1853).

126. *Id.* at 112.

127. *Id.* at 86.

128. *See id.* at 113.

129. *Id.*

130. *Id.*

131. *See In re* Alappat, 33 F.3d 1526, 1545 (Fed. Cir. 1994) (stating that a general purpose computer becomes a special purpose computer once programmed to perform a specific function).

132. *See* Larry D. Tindell, *Microcomputer*, *in* COMPUTER SCIENCE SOURCE BOOK 38, 40 (Sybil P. Parker ed., 1988) ("Taken as is, the microcomputer [does] not appear to have much to offer.").

133. See JOHN CASE, DIGITAL FUTURE: THE PERSONAL COMPUTER EXPLOSION—WHY IT'S HAPPENING AND WHAT IT MEANS 79-84 (1985) (reciting that historically one of the reasons why computers developed as they did was because changing the operation of

perform these functions or any "useful work without first being given a program" to direct the actions of the machine.[134] Thus, an algorithm makes the otherwise ineffectual computer effective by providing the additional means necessary to perform the function.[135]

An algorithm is a fundamental part of the computer means because the algorithm programmed into a microprocessor electrically alters the microprocessor.[136] Modern microprocessors contain a countless number of interconnected transistors that act as electronic switches.[137] These transistors form complex arrays of circuits that perform the decisions within the microprocessor.[138] The transistors either open or close according to the instructions given by the program.[139] The opening and closing of the transistors creates electrical pathways in the processor causing it to perform the specified function of the instructions that embody the algorithm.[140] This electrical alteration makes the general purpose computer equivalent to an electronic apparatus specifically designed to achieve the desired function. "[F]rom a computer science perspective, any distinctions between hardware-implemented and software-implemented solutions to technological problems are arbitrary and artificial. . . . [A] software-based solution can be 'translated' into an equivalent hardware solution, and vice versa."[141] Thus, a program becomes part of the computer means for achieving a desired result by electrically adapting the microprocessor into a special purpose machine.

B. Repercussions of *WMS Gaming v. International Game Technology*

One result of the Federal Circuit's holding in *WMS Gaming* is that software-related means-plus-function claim limitations similar to the one in *WMS Gaming* are limited by any disclosed algorithms.[142] Patent drafters

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early computers involved physically changing the machine which was costly, time consuming, and error prone).

134. *See* Tindell, *supra* note 132, at 40.

135. *See id.*

136. *See WMS Gaming*, 184 F.3d at 1348 n.3.

137. *See* Neil Randall, *Dissecting the Heart of Your Computer*, PC MAGAZINE, June 9, 1998, at 254-55.

138. *See id.*

139. *See id.*

140. *See id.; see also WMS Gaming*, 184 F.3d at 1348.

141. Ronald S. Laurie & Joseph K. Siino, *A Bridge Over Troubled Waters? Software Patentability and the PTO's Proposed Guidelines (Part II)*, COMPUTER LAW., Oct. 1995, at 18; *see also In re* Alappat, 33 F.3d 1526, 1544-45 (Fed. Cir. 1994) (stating that Alappat's hard-wired apparatus was equivalent to a general purpose computer programmed to achieve the same result as the hard-wired apparatus).

142. *See WMS Gaming*, 184 F.3d at 1347-49.

must be aware of this result when drafting patent applications, and companies must consider this result when reviewing theirs or others' patent portfolios.

For those whose technology or products have been restricted by another's software-related patent, *WMS Gaming* provides a possible escape. An apparatus that uses a substantially different algorithm can avoid infringing the means-plus-function claim both literally and under the doctrine of equivalents.[143] This escape route, however, is not without dangers. Whether two algorithms are equivalent involves factual issues, such as whether one skilled in the art would consider the differences to be insubstantial.[144] Factual issues create uncertainty. For example, in *WMS Gaming*, the Federal Circuit indicated that the two algorithms may be substantially different; however, it refused to reverse the district court's ruling that the two algorithms were equivalent.[145] Added to the factual uncertainty is procedural uncertainty because the Federal Circuit has not resolved the question of "whether a determination of equivalents under § 112, para. 6 is a question of law or fact."[146] Therefore, one may avoid the trap of infringement by employing a different algorithm only to be ensnared by factual or legal uncertainties.

One way to ameliorate the claim limiting effect of *WMS Gaming* is to include alternate algorithms, either expressly or implicitly,[147] in patent specifications. However, at least one practitioner has argued that less, rather than more, disclosure would grant the patentee broader coverage.[148]

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143. *See WMS Gaming*, 184 F.3d at 1350-54 (analyzing the literal infringement of the means-plus-function claim where the means used are not identical); Jason Schultz, Note, *Chiuminatta Concrete Concepts, Inc. v. Cardinal Industries, Inc. & Dawn Equipment Co. v. Kentucky Farms, Inc.*, 14 BERKELEY TECH. L.J. 173 (1999) (explaining the application, and restrictions on its application, of the doctrine of equivalents to means-plus-function claims).

144. *See id.* at 1351 (referring to the district court's reliance on an expert who stated the difference between the two algorithms was minor).

145. *See id.* at 1352.

146. Markman v. Westview Instruments, Inc., 52 F.3d 967, 977 n.8 (Fed. Cir. 1995) (en banc); *see also* Chiuminatta Concrete Concepts, Inc. v. Cardinal Indus., Inc., 145 F.3d 1303, 1309 (Fed. Cir. 1998).

147. The amount of disclosure necessary is measured by one skilled in the art. *See* Miles Laboratories, Inc. v. Shandon Inc., 997 F.2d 870, 875 (Fed. Cir. 1993). In the some cases it may be possible to incorporate several algorithms without disclosing any specific one. *See In re* Dossel, 115 F.3d 942, 946-47 (Fed. Cir. 1997) (holding that reference to algorithms which were known in the art was sufficiently definite).

148. *See* Chris Ford, *Playing the Odds*, CAL. L. BUS., Sept. 20, 1999, at 11 (relating that Mr. Robert Krupka, attorney for International Gaming Technologies, indicated that

Providing less disclosure may narrowly avoid the hurdle of *WMS Gaming*, but such action collides with other patent law requirements that are premised on benefiting society by providing disclosure.[149] First, by limiting the disclosure, a patent may run afoul of the enablement requirement by failing to provide enough information to enable the invention.[150] Second, even if the disclosure enables an embodiment of the invention, if the scope of enablement is not commensurate with scope of the claim, the claim is invalid.[151] Third, a means-plus-function claim that has very little corresponding structure is more susceptible to novelty and obviousness challenges since the lack of structure in the specification makes any apparatus that performs that specified function prior art.[152] Finally, under *WMS Gaming*, if a patent that uses means-plus-function language to describe a software-related invention does not sufficiently disclose an algorithm, then the patent may be invalidated as indefinite because the scope of the claims would be unclear.[153] Although providing less disclosure may avoid the effects of *WMS Gaming*, such action runs headlong into other patent law barriers.

"his client [IGT] would have better protected its invention by being vague in its description of how the slot machine's computer generates numbers").

149. *See* Bonito Boats Inc. v. Thunder Craft Boats, Inc., 489 U.S. 141, 150-152 (1989) ("The federal patent system thus embodies a carefully crafted bargain for encouraging the creation and disclosure of new, useful, and nonobvious advances in technology and design in return for the exclusive right to practice the invention for a period of years.... We have long held that after the expiration of a federal patent, the subject matter of the patent passes to the free use of the public as a matter of federal law.").

150. If the disclosure is so sparse that the claimed invention cannot be made or use by some skilled in the art without undue experimentation, then the patent is invalid. *See* 35 U.S.C. § 112 ¶ 1 (1994).

151. *See supra*, Part III.A.1.; *see also*, *In re* Hyatt, 708 F.2d 712, 714-15 (Fed. Cir. 1983).

152. *See* U.S. DEP'T OF COMMERCE, MANUAL OF PATENT EXAMINING PROCEDURE § 2185 (7th ed. 1998) (stating that where a means-plus-function limitation is not supported by corresponding structure, material, or acts in the specification, rejections should be considered under 35 U.S.C. § 102 or § 103 where the prior art anticipates or renders obvious the claimed subject matter, the theory being that since there is no corresponding structure in the specification to limit the means-plus-function limitation, an equivalent is *any* element that performs the specified function).

153. When an element is claimed in means-plus-function language, the specification becomes integrated into the claim since the means-plus-function element is limited by the disclosure in the specification. *See* 35 U.S.C. § 112 ¶ 6 (1994). If a patent specification fails to define the *means*, the scope of the claim is unclear and may lose its legal protection due to indefiniteness. *See In re* Dossel, 115 F.3d 942, 946 (Fed. Cir. 1997) (stating that a claim containing a means-plus-function element will generally be held indefinite if the specification does not contain an adequate disclosure of structure corresponding to the function of the claims).

IV. CONCLUSION

In *WMS Gaming*, the Federal Circuit answered an interesting question related to claim construction when it held that a means-plus-function claim limitation that employs a computer programmed to carry out an algorithm must include the algorithm as part of the structure or means.[154] The court's decision reflects a proper extension of its trend to restrict the scope of means-plus-function claims and a proper application of technical understanding. Given this added restriction placed on software-related means-plus-function claims, patent prosecutors and companies with software-related patents should seriously review their current patents and patent applications. They may also need to adjust their approach in the future if they wish to capitalize upon or to minimize the impact of this ruling.

154. *See* WMS Gaming Inc. v. International Gaming Tech., 184 F.3d 1339, 1349 (Fed. Cir. 1999).

FINNIGAN CORP. V. INTERNATIONAL TRADE COMMISSION

By Nick Gallo

In order to effect its constitutional goal,[1] United States patent law has formalized a rule that awards patent rights for a process, machine, manufacturer, or composition of matter only if the applicant was the first to invent.[2] The issuance of a patent, though, is not conclusive evidence that the applicant was the first to invent because the Patent and Trademark Office ("PTO") does not consider all potentially anticipatory art for every application. Such a comprehensive search would be unreasonable especially in light of the increasing number of patents applications that are filed each year.[3]

Limited examinations by the PTO result in fierce priority battles over those inventions that ultimately prove to be valuable. A patent infringer can avoid infringement damages by demonstrating that the infringed patent is invalid. Invalidity can be established by showing the patent to be anticipated, or previously invented, by the infringer or by a third party.[4] This is often accomplished using prior art that was not considered by the patent examiner during prosecution.[5]

Courts have grappled with determining the appropriate burden that is required to overcome the presumed validity of an issued patent.[6] A high burden encourages early public disclosure by promising strong patent rights against invalidity allegations. Prompt disclosure furthers the pur-

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1. Patent rights derive from the Article I power given to the Congress "[t]o promote the Progress of Science and useful Arts." U.S. CONST. art. I, § 8, cl. 8.

2. *See* 3 DONALD S. CHISUM, CHISUM ON PATENTS § 10.03[1] (1999) ("The first person to conceive the subject matter in question is the first inventor provided he exercises reasonable diligence in reducing to practice from a time just prior to when the first person to reduce to practice enters the field."); 35 U.S.C. § 102(g) (1994).

3. The number of patents applications filed annually increased from 188,099 to 237,045 between 1993 and 1997. 1997 U.S. PAT. & TRADEMARK OFF. ANN. REP. 84 tbl.1, *available at* ⟨http://www.uspto.gov/web/offices/com/annual/1997/97reptab.pdf⟩.

4. *See* 35 U.S.C. § 102.

5. David W. Okey, *Issued Patents and the Standard of Proof: Evidence Clear and Convincing or Merely Ponderous?*, 17 J. MARSHALL J. COMPUTER & INFO. L. 557, 577 (1999) ("As many as eighty percent of litigated patent cases uncover prior art not previously examined by the PTO.").

6. *See infra* notes 68-69.

pose of patent law by enabling the public to benefit sooner from the patentee's work. An excessive burden, however, encourages a race to the PTO and threatens to deny rights to the true inventor. If a patent's presumptive validity is unreasonably strong, a true inventor that is late filing may be unable to present sufficient evidence to overcome the issued patent's validity.

Finnigan Corp. v. International Trade Commission[7] exemplifies judicial attempts to establish the appropriate evidentiary standard required to invalidate a patent due to anticipation. Judge Lourie defined the applicable threshold to be the "clear and convincing evidence" standard.[8] He then applied that standard to the corroboration requirement to exclude unsubstantiated testimony by an alleged third-party prior inventor.[9] The Federal Circuit's decision in *Finnigan* exemplifies a continued emphasis on presumed patent validity, a presumption that withstands inventor testimony that lacks unambiguous corroboration.

This Note first discusses the *Finnigan* decision. It analyzes the current "clear and convincing evidence" standard and justifies that standard using the social disutility theory. The Note then applies the standard to the corroboration requirement for inventor testimony, first examining when and to what extent corroboration is required and finally how this requirement affects patent rights.

I. CASE SUMMARY

A. Background Facts

Finnigan Corporation ("Finnigan") is the assignee of US patent 4,540,884 entitled "Method of mass analyzing a sample by use of a quadrupole ion trap" ("the '884 patent").[10] The '884 patent discloses a method whereby a quadrupole ion trap is used to trap sample ions for analysis.[11] The '884 patent designates ions as stable or unstable depending on each ion's mass-to-charge ratio and several parameters of the trapping electric field.[12] A Mathieu stability diagram is used to illustrate graphically the conjunction of the parameters and the resulting ion designation.[13] Ions of a

7. 180 F.3d 1354 (Fed. Cir. 1999).

8. *See id.* at 1365 (quoting SSIH Equip., S.A. v. Int'l Trade Comm'n, 718 F.2d 365, 375 (Fed. Cir. 1983)).

9. *See id.* at 1365-66.

10. *See* U.S. Patent No. 4,540,884 (issued Sept. 10, 1985).

11. *See Finnigan*, 180 F.3d at 1357.

12. *See id.* at 1358.

13. *See id.* at 1357.

stable sample are selectively ejected from the electric field by scanning the field parameters, thereby making some formerly stable ions map outside the stable region of the Mathieu diagram.[14]

The Bruker ESQUIRE-LC spectrometer, accused of infringing the '884 patent, also traps ions for analysis using the same approach, but uses a different technique for ejecting ions from the trapping field.[15] Instead of the non-resonance method disclosed by the '884 patent, the Bruker technique uses resonance ejection, in which an ion is ejected by matching the ion's orbital frequency with the driving frequency of an electromagnetic field, or a harmonic of that frequency, thereby achieving resonance and increasing the kinetic energy of the ion until ejection.[16] This resonance method requires a supplementary AC voltage to be applied to an end cap of the trap to generate the electromagnetic field.[17] The '884 patent does not show a similar AC voltage but rather shows the two end caps electrically grounded.[18]

B. ITC Decision

Finnigan brought a complaint before the International Trade Commission ("ITC") alleging violations of 19 U.S.C. § 1337(a)(1)(B) by Bruker-Franzen Analytik GmbH, Bruker Instruments, Inc., and Hewlett-Packard Company (collectively "Bruker").[19] The statute forbids "[t]he importation into the United States, the sale for importation, or the sale within the United States after importation . . . of articles that . . . infringe a valid and enforceable United States patent."[20] As the statute further authorizes,[21] the

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14. *See id.* at 1358. Claim 1 of the '884 patent recites:

> The method of mass analyzing a sample which comprises the steps of defining a three dimensional quadrupole field in which sample ions over the entire mass range of interest can be simultaneously trapped introducing or creating sample ions into the quadrupole field whereby ions within the range of interest are simultaneously trapped changing the three dimensional trapping field so that the simultaneously trapped ions of consecutive specific masses become sequentially unstable and leave the trapping field and detecting the sequential unstable ions as they leave the trapping field and providing an output signal indicative of the ion mass.

'884 patent, *supra* note 10, at col. 9, ll. 13-27.

15. *See Finnigan*, 180 F.3d at 1359.

16. *See id.*

17. *See id.*

18. *See* Certain Ion Trap Mass Spectrometers and Components Thereof, Investigation No. 377-TA-393, 1998 WL 223430 at § III(B) (U.S.I.T.C. Feb. 25, 1998) (initial determination) [hereinafter Initial Determination].

19. *See id.* § I(A).

20. 19 U.S.C. § 1337(a)(1)(B) (1994).

ITC ordered an investigation to determine if Bruker violated the section by importing and selling the Bruker ESQUIRE-LC device and infringing the '884 patent.[22]

Pursuant to 19 C.F.R. § 210.42(a), an administrative law judge ("ALJ") administered hearings on the matter and listed his findings in an Initial Determination which was subsequently adopted by the ITC.[23] The Initial Determination rejected Finnigan's literal infringement claim because of the discrepancy in ejection methods. It also concluded that five of the '884 patent's claims were anticipated by prior public use by Dr. Keith Jefferts, a third party, and an article written by Jefferts describing his work.[24] Independent claims 1 and 8 of the '884 patent recite "changing" or "scanning" the field parameters so that "trapped ions . . . become sequentially unstable" and escape the trapping field.[25] The ITC rejected Finnigan's argument that "an 'unstable' ion is any ion that escapes the quadrupole field,"[26] reasoning that the specification and prosecution history teach contrary to that definition.[27] Instead, the ITC found that the '884 patent teaches the word "unstable" to be defined by the Mathieu diagram.[28] Under that interpretation, the Bruker device does not infringe the claims because the resonance technique ejects ions that are not unstable, that is they map within the stable region of the Mathieu diagram.[29] Further, the ITC found "that, because the specification does not disclose the resonance ejection technique, the claims may not be interpreted to encompass it without running afoul of the written description and enablement requirements of 35 U.S.C. § 112, § 1."[30]

C. Federal Circuit Decision

Finnigan appealed the ITC ruling to the Federal Circuit, which has jurisdiction pursuant to 28 U.S.C. § 1295(a)(6).[31] Finnigan contested the

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21. *See* 19 U.S.C. § 1337(b)(1).

22. *See* Initial Determination, 1998 WL 223430 § II. Finnigan also asserted infringement of its U.S. Reissue Patent No. 34,000. *See id.* This issue did not reach the Federal Circuit.

23. *See Finnigan*, 180 F.3d at 1360. The ITC did not adopt the ALJ's finding "that claims 12, 14, and 17 of the '884 patent were invalid for obviousness under 35 U.S.C. § 35." *Id.* at 1360 n.3.

24. *See id.* at 1360-61.

25. '884 patent, *supra* note 10, at col. 9, ll. 21-24, 63-66.

26. *Finnigan*, 180 F.3d at 1363.

27. *See* Initial Determination, 1998 WL 223430 § III.

28. *See id.* § III(B).

29. *See id.*

30. *Finnigan*, 180 F.3d at 1363.

31. *See id.* at 1361.

ALJ's conclusions on claim construction which were adopted by the ITC and the sufficiency of Jefferts' testimony for invalidating the '884 patent.[32]

Because claim construction is a matter of law and therefore subject to de novo review on appeal,[33] the *Finnigan* court reviewed the ALJ's construction of independent claims 1 and 8.[34] Ultimately, the court adopted the commission's conclusions on those claims.[35] Finnigan further argued "that claim 17 does not contain the term 'unstable' and that the ALJ therefore erred in construing this claim to be commensurate in scope with claims 1 and 8, which do contain this limitation."[36] Despite the possible legitimacy of Finnigan's claim, the Federal Circuit declined to review it because the argument was not raised in Finnigan's petition for review to the ITC.[37] The court reasoned that allowing the argument at that point would be akin to permitting Finnigan to effect a "moving target" strategy and summarized that "as a general rule . . . courts should not topple over administrative decisions unless the administrative body not only has erred but has erred against objection made at the time appropriate under its practice."[38]

Finnigan conceded that the a finding of infringement was inevitable if the ALJ's claim construction were accepted.[39] Therefore, the Federal Circuit affirmed the ITC holding that the Bruker device did not infringe the Finnigan '884 patent.

Moving to the second ground of Finnigan's appeal, the Federal Circuit ruled that the clear and convincing standard should be applied as the burden of proving anticipation.[40] Applying this standard to the corroboration requirement, the court echoed concerns about the accuracy of testimony regarding priority.[41] In previous cases, oral testimony has been scrutinized and held insufficient for proving anticipation, even when the testimony

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32. *See id.* at 1362-65.

33. *See* Cybor Corp. v. FAS Techs., Inc., 138 F.3d 1448, 1451 (Fed. Cir. 1998).

34. *See Finnigan*, 180 F.3d at 1364.

35. *See id.*

36. *Id.* at 1362. The ALJ determined that "[t]he specification is particularly important in understanding claims 1 and 17 which require that trapped ions be made 'unstable' but provides no detail about how that is to be done beyond use of the terms 'changing' or 'scanning.'" Initial Determination, 1998 WL 223430 § III(B).

37. *See Finnigan*, 180 F.3d at 1362-63.

38. *Id.* at 1363.

39. *See id.* at 1364.

40. *See id.* at 1365.

41. *See id.* at 1366-69.

was that of a disinterested party.[42] In the present case, the court found that Jefferts' testimony required corroboration beyond his own ambiguous article describing his work.[43]

For a determination of anticipation, a patent is presumed to be valid, and "[t]he burden is on the party asserting invalidity to prove it with facts supported by clear and convincing evidence."[44] The evidence provided with regard to the invalidity challenge consisted of testimony by Jefferts concerning his research at Bell Telephone Laboratories in the 1960's and an article published by Jefferts describing his work.[45] Based on these two evidentiary pieces, the ITC concluded that Jefferts had publicly used the method disclosed by the '884 patent.[46] Judge Lourie reversed this finding, citing an insufficiency of evidence to meet the "substantial evidence standard"[47] which requires "'such relevant evidence as a reasonable mind might accept as adequate to support a conclusion.'"[48] The opinion reiterates reasoning cited in numerous other Federal Circuit decisions, namely that testimony concerning one's own inventions normally requires some type of corroboration because of the risk of making intentional or good-faith mistakes when testifying to one's own work.[49] Even the testimony of disinterested parties or witnesses is subject to scrutiny and usually requires

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42. *See* E.I. du Pont de Nemours & Co. v. Berkley & Co., 620 F.2d 1247, 1261 (8th Cir. 1980) ("Oral testimony alone has been held insufficient to prove prior use."); Deering v. Winona Harvester Works, 155 U.S. 286, 301 (1894) (stating that unsupported oral testimony is open to grave suspicion); The Barbed Wire Patent, 143 U.S. 275, 284 (1892) ("Witnesses whose memories are prodded by the eagerness of interested parties to elicit testimony favorable to themselves are not usually to be depended upon for accurate information.").

43. *See Finnigan*, 180 F.3d at 1364.

44. *Id.* (quoting SSIH Equip., S.A. v. United States Int'l Trade Comm'n, 718 F.2d 365, 375 (Fed. Cir. 1983)).

45. *See id.* Jefferts' article, "Rotational Hfs Spectra of H_2^+ Molecular Ions," was published by the American Physical Society in 1968. *See* Initial Determination, 1998 WL 223430 § IV(B)(1).

46. *See Finnigan*, F.3d at 1361.

47. *Id.* at 1370.

48. *Id.* at 1362 (quoting Surface Tech., Inc. v. United States Int'l Trade Comm'n, 801 F.2d 1336, 1340-41 (Fed. Cir. 1986)).

49. *See Finnigan*, 180 F.3d at 1368-69; *see also* Price v. Symsek, 988 F.2d 1187, 1194 (Fed. Cir. 1993) (noting the temptation to commit perjury and the difficulty of rebutting claims of prior conception); Eibel Process Co. v. Minnesota & Ontario Paper Co., 261 U.S. 45, 60 (noting the possibility of errors in oral testimony and the temptation to remember facts favorably). Judge Lourie reasons that although the requirement of corroboration has typically been applied to priority disputes, it should apply equally to all of the subsections of 35 U.S.C § 102, which outlines the novelty requirement for acquiring a patent. *Finnigan*, 180 F.3d at 1367.

support.[50] For an inventor, such support typically includes notes or records kept during the process of refining the invention.[51] Because notes or prototype equipment normally track the invention process, a complete lack of such documentation casts the testimony in an unfavorable light.[52]

Jefferts testified that he had previously implemented the non-resonance ejection method disclosed by the '884 patent,[53] but the Federal Circuit found his testimony unsupported and, hence, unconvincing.[54] In order for a prior art reference to be deemed anticipatory, it must disclose "either expressly or inherently, all of the limitations of the claim."[55] Although Jefferts' article included a description of his work, it did not describe the ejection method.[56] As such, it failed to specifically show that he used a non-resonance ejection technique in his method.[57] Although Jefferts testified that he had used both resonance and non-resonance ejection techniques, the diagram published in Jefferts' article provided only a general reference to his technique.[58] In fact, Jefferts used the *same* diagram to illustrate a variety of test versions, some of which allegedly used a non-resonance ejection technique and some of which used a resonance technique.[59]

II. DISCUSSION

A. Justifying an Enhanced Presumption of Patent Validity

Priority disputes often arise in the contexts of infringement suits and interference proceedings. An interference proceeding is a formal action in the PTO initiated "to resolve the question of priority of invention when more than one applicant seeks a patent on substantially the same invention."[60] The parties may be opposing applicants or an applicant and a patentee.[61] The patent holder, or earlier filer, is designated the "senior party"

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50. *See Finnigan*, 180 F.3d at 1368.
51. *See id.* at 1366-67.
52. *See id.*
53. *See id.* at 1361.
54. *See id.* at 1369-70.
55. *Id.* at 1365 (citing Kalman v. Kimberly-Clark Corp., 713 F.2d 760, 771 (Fed. Cir. 1983)).
56. *See id.* at 1365-66.
57. *See id.* at 1365.
58. *See id.* at 1365-66.
59. *See id.*
60. 3 CHISUM, *supra* note 2, § 10.09[1][a].
61. *See id.* There may be multiple junior parties in an interference proceeding. *See id.*

and the later filing party is the "junior party."[62] The senior party has established the date of his invention to be at least as early as the date of filing.[63] The junior party, then, has the burden of persuasion in showing priority over the senior party.[64]

If a patent has not been issued to the senior party at the time of the junior party's filing, the civil standard of preponderance of the evidence applies to the junior party.[65] If the patent office has already issued a patent, to the senior party in an interference action, the patent is presumed to be valid and the burden of proof is on the junior party.[66] Similarly, when an accused infringer defends the infringement claim by attempting to defeat the patent's validity, the patent is assumed valid and the burden is on the accused infringer.[67] The strength of that presumption determines, in part, the value of the patent. As the presumption is heightened, the patent is put at less risk of being found invalid and the patentee, or assignee, can more easily rest assured that his patent rights, gained in return for his disclosure, are protected.

The elucidation of the evidentiary showing that is required to overcome the presumed validity of a patent has evolved in a long judicial journey. While the stating of the rule has included words as strong as the criminal standard of "every reasonable doubt,"[68] Judge Lourie, in *Finnigan*, recites the prevailing standard as clear and convincing,[69] a standard

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62. *See id.* § 10.03[1][c][ii].

63. *See id.* § 10.03[1][c][i]. The senior party may establish an earlier date of invention but must satisfy the burden of proof to do so. *See id.*

64. *See id.* § 10.03[1][c][ii].

65. *See id.* § 10.03[1][c][iii].

66. *See id.* (citing Price v. Symsek, 988 F.2d 1187 (Fed. Cir. 1993), where the Federal Circuit applied the clear and convincing evidence standard in an appeal from an interference proceeding). Alternatively, "[i]f the junior party filed his application while the application of the senior party was still pending the burden of persuasion is the normal civil one of proof by a preponderance of the evidence." *Id.*

67. *See* 35 U.S.C. § 282 (1994).

68. Coffin v. Ogden, 85 U.S. 120, 124 (1873) (holding that "every reasonable doubt should be resolved against [the defendant]"); *see also* Deering v. Winona Harvester Works, 155 U.S. 286, 301 (1894) (requiring "such anticipations to be proven by evidence so cogent as to leave no reasonable doubt in the mind of the court"); The Barbed Wire Patent, 143 U.S. 275, 284 (1892) (citing "the unsatisfactory character of such testimony, arising from the forgetfulness of witnesses, their liability to mistakes, their proneness to recollect things as the party calling them would have them recollect them, [and] the temptation to actual perjury" and holding "that the proof shall be clear, satisfactory and beyond a reasonable doubt").

69. *See Finnigan*, 180 F.3d at 1365; *see also* Eibel Process Co. v. Minnesota & Ontario Paper Co., 261 U.S. 45, 60 (1923) (stating that "evidence to prove prior discovery must be clear and satisfactory"); Oney v. Ratliff, No. 98-1591, 1999 U.S. App. LEXIS

that falls somewhere between those of "every reasonable doubt" and "a preponderance of the evidence."[70] The Federal Circuit had previously applied the clear and convincing evidence standard in *Price v. Symsek*, an appeal from an interference proceeding.[71] In justifying this standard, a burden less strict than the stringent "beyond a reasonable doubt" standard used previously by the Board of Patent Appeals and Interferences, Judge Nies outlined the components of Justice Harlan's "social disutility" analysis:

> (1) the factfinder can rarely, if ever, acquire unassailably accurate knowledge of what happened—a belief of what probably happened is generally the best that can be achieved, and (2) the factfinder, even after the most diligent of efforts, will sometimes reach the wrong factual conclusion. . . . Because the standard of proof affects the comparative frequency of [the possible] erroneous outcomes, the choice of the standard to be applied in a particular kind of litigation should, in a rational world, reflect an assessment of the comparative social disutility of each.[72]

Under Justice Harlan's analysis, the burden needed to convict in a criminal case is high—beyond a reasonable doubt—because the social disutility of convicting an innocent person greatly outweighs the disutility of allowing a guilty person to go free.[73] Alternatively, the burden in a civil case where monetary damages are sought is low—a preponderance of the evidence—because the social disutility of both possible erroneous outcomes are similar. In other words, there is not a great difference in societal costs between awarding damages where no damages are due and refusing to award damages where an award is just.[74] By extension, it can be in-

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18698, at *6 (Fed. Cir. Aug. 12, 1999) (requiring "clear and convincing evidence"); Price v. Symek, 988 F.2d 1187, 1191-94 (Fed. Cir. 1993) (stating that a showing of priority requires evidence that is "clear and convincing" but not beyond a reasonable doubt); Trans-World Mfg. Corp. v. Al Nyman & Sons, Inc., 750 F.2d 1552, 1559 (Fed. Cir. 1984) (same); E.I. du Pont de Nemours & Co. v. Berkley & Co., 620 F.2d 1247, 1261 (8th Cir. 1980) (stating that the burden is "satisfied only by evidence clear, cogent, and convincing" and listing eight factors to consider when evaluating oral testimony).

70. *See Price*, 988 F.2d at 1191 ("A requirement of proof by clear and convincing evidence imposes a heavier burden upon a litigant than that imposed by requiring proof by preponderant evidence but a somewhat lighter burden than that imposed by requiring proof beyond a reasonable doubt.").

71. *See id.*

72. *See id.* at 1192-1193 (citing *In re* Winship, 397 U.S. 358 (1970) (Harlan, J., concurring)).

73. *See id.* at 1193.

74. *See id.*

ferred that the Federal Circuit measures the difference in possible erroneous outcomes of a patent invalidity case as being between the differences of the criminal and civil examples above. Errors in patent invalidation cases are understandably less troublesome than errors in criminal cases. The rationale for using a higher burden in patent cases than in some civil cases may be less apparent, especially in light of the high monetary and policy stakes of many civil trials. The reason lies in the fact that the detriment of erroneously depriving a patent holder of his patent rights goes well beyond the loss to the patentee: The promise of patent rights provides the incentive for an inventor to disclose his work. Any apparent reduction in the value of patent protection threatens to discourage such disclosure and impair the promotion of science and the useful arts.

It seems likely that a strong presumption of patent validity encourages the prompt filing of patent applications. While other countries have adopted first-to-file patent systems, the United States has thus far retained a first-to-invent system.[75] The first-to-invent regime honors notions of property justice but provides less incentive for inventors to rush their inventions to the patent office. The presumption of validity awarded in *Finnigan* strikes a compromise between the first-to-file and a first-to-invent system. It creates an incentive to file by giving patentees a presumption of validity, but still allows a first inventor to gain priority through "clear and convincing evidence" of his prior work.

Although *Price* did not determine whether this intermediate standard would be extended to cases where the infringer's challenge is made before the patent issues,[76] the Federal Circuit has since denied the clear and convincing evidence standard in that situation.[77] Thus, the court provides the benefit of presumed validity only after a patent has been successfully prosecuted to issuance and publicly disclosed.

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75. *See* ROBERT P. MERGES, PATENT LAW AND POLICY 37-38 (2d ed. 1997).

76. Now the $64,000 question is whether, by its broad language concerning "a[n] interference involving an already issued patent," the [Price] court has sought to raise the standard in those interferences [where the junior party files his application before the senior party's patent issues] to the intermediate level at the same time that it lowered the standard to the intermediate level in the relatively rare situation that was actually before it.

Charles L. Gholz, *A Critique of Recent Opinions of the Federal Circuit in Patent Interferences*, 76 J. PAT. & TRADEMARK OFF. SOC'Y 649, 667 (1994).

77. *See* Bosies v. Benedict, 27 F.3d 539, 541-42 (Fed. Cir. 1994) ("It is well settled that where an interference is between a patent that issued on an application that was copending with an interfering application, the applicable standard of proof is preponderance of the evidence.").

B. Applying the "Clear and Convincing" Standard to the Corroboration Requirement

The application of a standard is just as determinative as the statement of the rule itself. In *Finnigan*, the ITC employed the same clear and convincing evidence standard used by the Federal Circuit,[78] but the Federal Circuit opinion differed from that of the ITC on what that standard requires with respect to corroboration of inventor testimony.

Finnigan was not the first time that a court struggled with evaluating the merits of oral testimony in a patent suit. Courts have often recognized the danger of relying solely on oral testimony, citing the "unsatisfactory character of such testimony, arising from the forgetfulness of witnesses, their liability to mistakes, their proneness to recollect things as the party calling them would have them recollect them, aside from the temptation to actual perjury."[79] In *The Barbed Wire Patent*,[80] an early infringement case concerning the invention of barbed wire fencing, the Supreme Court held the infringer to a heightened standard and discounted the testimony of twenty-four witnesses who verified the infringer's prior invention.[81] As the burden on the alleged prior inventor has been relaxed, several factors have emerged in the judicial evaluation of oral testimony. In *E.I. du Pont de Nemours & Co. v. Berkley & Co.*,[82] the Eighth Circuit summarized these factors as including:

> (1) delay between event and trial, (2) interest of witness, (3) contradiction or impeachment, (4) corroboration, (5) witnesses' familiarity with details of alleged prior structure, (6) improbability of prior use considering state of the art, (7) impact of the invention on the industry, and (8) relationship between witness and alleged prior user.[83]

1. Whose testimony requires corroboration?

The factors listed by the *du Pont* court integrate considerations made by other courts in a long line of cases.[84] The Federal Circuit has avoided a

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78. *See Initial Determination*, 1998 WL 223430, § IV(A).
79. The Barbed Wire Patent, 143 U.S. 275, 284 (1892).
80. 143 U.S. 275 (1892).
81. *See id.*
82. 620 F.2d 1247 (8th Cir. 1980).
83. *Id.* at n.20.
84. *See* Eibel Process Co. v. Minnesota & Ontario Paper Co., 261 U.S. 45, 60-61 (1923) (citing temptation to remember as needed or requested); The Barbed Wire Patent, 143 U.S. 275 (1892) (finding the disputed, delayed testimony of twenty-four witnesses insufficient); Coffin v. Ogden, 85 U.S. 120 (1873) (finding the testimony of five wit-

comprehensive balance test that weighs each of the factors. Instead, one line of cases has relied on a simpler per se rule that the fourth factor, corroboration, is required when the testimony is that of the alleged prior inventor.[85]

Price v. Symsek[86] arose from an interference action brought to determine priority on a system for recovering heat in a process heater.[87] Price, the junior party, testified that he was the first to conceive and offered a drawing of his system as evidence.[88] A corporate secretary had witnessed the drawing on a sufficiently early date, and Price sought to use her declaration to establish that date for priority.[89] The Board held Price to the "beyond a reasonable doubt" standard[90] under which the drawing was insufficient because it lacked corroboration.[91] The secretary's testimony was discounted "because she did 'not attribute the drawing to the applicant Price or indicate that she had any understanding of its content or that anyone explained the significance of the drawing to her.'"[92] The Federal Circuit, however, used a less stringent "rule of reason" analysis, under which it evaluated "all pertinent evidence . . . so that a sound determination of the credibility of the inventor's story may be reached."[93] Ruling for the Federal Circuit, Judge Nies vacated and remanded, holding that under the

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nesses sufficient); Berry Sterling Corp. v. Pescor Plastics, Inc., No. 98-1381, 1999 U.S. App. LEXIS 20789, at *10-11 (Fed. Cir. Aug. 30, 1999) (recognizing corroboration by testimony of inventor's brother); Oney v. Ratliff, No. 98-1591, 1999 U.S. App. LEXIS 18698, at *10 (Fed. Cir. Aug. 12, 1999) (holding that uncorroborated testimony of alleged inventor and his "close associates would be insufficient"); Cowles Co. v. Frost-White Paper Mills, 174 F.2d 868, 871 (2d Cir. 1949) (stating that oral testimony may be sufficient, especially when not that of a rival inventor).

85. *See, e.g.*, Price v. Symsek, 988 F.2d 1187, 1194 (Fed. Cir. 1993) ("[T]he case law is unequivocal that an inventor's testimony respecting the facts surrounding a claim of derivation or priority of invention cannot, standing alone, rise to the level of clear and convincing proof.").

86. 988 F.2d 1187 (Fed. Cir. 1993).

87. *See id.* at 1189.

88. *See id.* at 1195.

89. *See id.*

90. The Board of Patent Appeals and Interferences "required Price to prove the necessary elements of either theory, derivation or priority, beyond a reasonable doubt." *Id.* at 1190.

91. *See id.* at 1195.

92. *Id.* (quoting the Board of Patent Appeals and Interferences).

93. *Id.* at 1195 ("A 'rule of reason' analysis is applied to determine whether the inventor's prior conception testimony has been corroborated. . . . An evaluation of all pertinent evidence must be made so that a sound determination of the credibility of the inventor's story may be reached.").

clear and convincing evidence standard "[o]nly the inventor's testimony requires corroboration before it can be considered."[94]

In *Thomson S.A. v. Quixote Corp.*,[95] Judge Rich further narrowed the application of the corroboration requirement, stating

> corroboration is required only when the testifying inventor is asserting a claim of derivation or priority of his or her invention *and is a named party, an employee of or assignor to a named party, or otherwise is in a position where he or she stands to directly and substantially gain* by his or her invention being found to have priority over the patent claims at issue.[96]

Consonant with the *Price* opinion, Judge Rich effectively rejected the corroboration requirement where the second and eighth factors, relating to the witness' interest and relationship, are not at issue.[97] In *Thomson*, the uncorroborated testimony was made by two employees of a non-party.[98] There was some question regarding the two employees' role as inventors, but the opinion left the point moot because, even as inventors, the employees lacked the requisite self-interest "to justify triggering application of the corroboration rule."[99]

The *Thomson* court did not comment on whether the distinction of being recognized as the inventor could ever rise to the requisite level of direct and substantial gain. Indeed this may have been the case in *Finnigan*. Jefferts was not a party, nor did he have any ostensible interest in the outcome, but he did stand to benefit in repute by being recognized as the first to use the non-resonance ejection technique.[100]

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94. *Id.* (citing Holmwood v. Sugavanam, 948 F.2d 1236, 1239 (Fed. Cir. 1991)).
95. 166 F.3d 1172 (Fed. Cir. 1999).
96. *Id.* at 1176 (emphasis added).
97. *See id.*
98. *See id.* at 1174.
99. *Id.* at 1176.
100. *See Finnigan*, 180 F.3d at 1368.

> It is not surprising that the cases have held that testimony concerning a witness's own anticipatory activities must be corroborated. A witness who testifies to antedating the invention of the patent-in-suit can be expected to derive a sense of professional or personal accomplishment in being the first in the field, and in this sense is not uninterested in the outcome of the litigation, even if that witness is not claiming entitlement to a patent.

Id.

2. *What must corroboration demonstrate?*

Even where the testimony is that of the alleged inventor, corroboration is not necessarily required for all aspects of the testimony.[101] If that were the case, the testimony itself may become superfluous. For example, in *Krindl v. McCormick*[102] Judge Lourie concluded that where other aspects of an invention were corroborated, no additional proof was necessary on the issue of utility.[103] The interference concerned recombinant DNA technology, specifically the use of antisense DNA used to achieve viral resistance.[104] The Federal Circuit affirmed the Board's ruling for McCormick because "the antisense constructs do 'speak for themselves' inasmuch as use to confer viral resistance was their only tenable utility and the conception of that utility was consistent with all of the other corroborated evidence . . . even though that evidence lacked explicit corroboration of the conception of antiviral utility."[105]

The corroboration requirement stems from continued judicial concern that even if testifying inventors are unwilling to engage in outright forgery of documents, they nonetheless may be tempted to "remember facts favorable to their case."[106] Thus physical evidence often provides a reliable source of corroboration for oral testimony. To be sufficiently corroborative, a reference must go toward establishing the truth of the very testimony that would invalidate the infringed patent. In *Finnigan*, it was the non-resonance technique that made Finnigan's device patentable over prior art during prosecution.[107] Therefore, Jefferts' alleged use of the non-resonance technique was a key issue that required corroboration. Without showing Jefferts' prior use of this technique, Bruker could not establish that his work anticipated the '884 patent.

Missing technical details do not render a reference insufficient for corroboration if "the common knowledge of . . . [the missing] technological facts are known to those in the field of the invention."[108] Thus, the inher-

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101. *See* Trans-World Mfg. Corp. v. Al Nyman & Sons, Inc., 750 F.2d 1552 (Fed. Cir. 1984) (holding that oral testimony and corroborating, but undated, photographs were sufficient for proving priority).

102. 105 F.3d 1446 (Fed. Cir. 1997).

103. *See id.* at 1451.

104. *See id.* at 1448.

105. *Id.* at 1451.

106. Mahurkar v. C.R. Bard, Inc., 79 F.3d 1572, 1577 (Fed. Cir. 1996) ("[The corroboration] requirement arose out of a concern that inventors testifying in patent infringement cases would be tempted to remember facts favorable to their case by the lure of protecting their patent or defeating another's patent.").

107. *See Finnigan*, 180 F.3d at 1360-61.

108. *Id.* at 1365.

ency doctrine allows "modest flexibility in the rule that 'anticipation' requires that every element of the claims appear in a single reference."[109] For example, in *Continental Can Co., U.S.A. v. Monsanto Co.*,[110] the Federal Circuit was confronted with an infringement suit concerning a design for plastic bottles. Continental's patent was preceded by a similar patent that did not teach the ribs at its base to be hollow.[111] The accused infringer argued "that convention blow molding [taught in the prior art] would inherently produce hollow ribs."[112] The court remanded, ordering the trial court to consider whether hollow ribs would necessarily result from blow molding.[113]

Despite this "modest flexibility," the inherency doctrine does require that "the missing descriptive matter is necessarily present in the thing described in the reference, and that it would be so recognized by persons of ordinary skill."[114] Jefferts' article did not specify the non-resonance ejection method, and neither Bruker nor Jefferts offered further evidence that the diagram in Jefferts' article must have represented resonance or non-resonance ejection.[115] Therefore, the *Finnigan* court determined that Jefferts' article was not sufficient.[116]

C. Beyond *Finnigan*

Since *Finnigan*, the Federal Circuit has enforced the corroboration requirement for inventor testimony in at least two cases.[117] In both cases, corroboration was offered in the form of other oral testimony. Evaluating the corroborative value of that testimony, the court diverged on the issue relating to the eighth *du Pont* factor, the relationship between the witness and the alleged prior user.

In *Oney v. Ratliff*,[118] Oney appealed a summary judgment invalidating his patent on a shirt with a free-hanging flap that reveals different images

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109. *Id.*

110. 948 F.2d 1264 (Fed. Cir. 1991).

111. *See id.* at 1268.

112. *Id.*

113. *See id.* at 1269.

114. *Finnigan*, 180 F.3d at 1365 (citing *In re* Oelrich, 666 F.2d 578, 581 (CCPA 1981)).

115. *See id.* at 1369-70.

116. *See id.*

117. *See* Berry Sterling Corp. v. Pescor Plastics, Inc., No. 98-1381, 1999 U.S. App. LEXIS 20789, at *10-11 (Fed. Cir. Aug. 30, 1999) (holding inventor's testimony to be sufficiently corroborated by his brother's testimony); Oney v. Ratliff, No. 98-1591, 1999 U.S. App LEXIS 18698, at *10 (Fed. Cir. Aug. 12, 1999) (holding that uncorroborated testimony of alleged inventor and his "close associates would be insufficient").

118. No. 98-1591, 1999 U.S. App. LEXIS 18698 (Fed. Cir. Aug. 12, 1999).

when raised and lowered.[119] Ratliff, the accused infringer, testified to prior use and introduced corroboration in the form of testimony of four business associates.[120] Judge Kelly reviewed the district court decision de novo and reversed. He reiterated the clear and convincing evidence standard used in *Finnigan* and further stated that "[t]he uncorroborated oral testimony of Mr. Ratliff, as the inventor, and his close associates would be insufficient to prove invalidity."[121]

A second case, *Berry Sterling Corp. v. Pescor Plastics, Inc.*,[122] involved an infringement suit for a design patent on a plastic Coca-Cola cup.[123] Pescor, the alleged infringer, argued that parts of two prior Pescor cups were physically combined by its president, Kevin Kilpatrick, to form a primary reference before the creation of the patented design.[124] The Federal Circuit, quoting *Finnigan*, stated "corroboration is required of any witness whose testimony alone is asserted to invalidate a patent, regardless of his or her level of interest,"[125] but upheld the validity of Kilpatrick's testimony, concluding that his testimony was sufficiently corroborated by the testimony of his brother.[126]

D. Strengthening Patent Law with Corroboration

As outlined under Justice Harlan's social disutility framework,[127] inevitably courts will occasionally arrive at erroneous factual conclusions. Some of those erroneous decisions are more costly than others, however, and therefore should be avoided at a greater cost than less harmful errors. Thus, it is logical to strengthen those rights which, when eroded through erroneous factual conclusions, result in the highest social costs. To the extent that the protection of patent rights is a legitimate social concern, the corroboration requirement is a logical method of establishing a suitable standard. *Finnigan* presents a typical anticipation concern in that respect. Disregarding the infringement question, the case tests the judicial measure

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119. *See id.* at *1-2.

120. *See id.* at *3-4. Ratliff's business associates included his sample maker, silk-screen printer, and two retailers. One of the retailers retracted her testimony regarding a prior purchase of the shirts after sales data relied upon by Ratliff was shown to be flawed. *See id.*

121. *Id.* at *10. Instead of reversing the trial court, though, the Federal Circuit remanded, citing Oney's failure to depose the witnesses to establish their relationships with Ratliff. *Id.* at *10-11.

122. No. 98-1381, 1999 U.S. App. LEXIS 20789 (Fed. Cir. Aug. 30, 1999).

123. *See id.* at *2.

124. *See id.* at *7-8.

125. *Id.* at *10 (quoting *Finnigan*, 180 F.3d at 1369).

126. *See id.* at *10-11.

127. *See supra* Part II.A.

of the social utility and disutility of the possible results. If the '884 patent was not anticipated by Jefferts' work, an injustice would be committed by depriving Finnigan of its issued patent. Moreover, society would suffer a harm, namely by a reduced incentive for innovation and disclosure. The court's application of any standard of validity that is higher than a preponderance of evidence indicates that this type of harm is perceived by the court to be worse than the alternative erroneous result, validating the '884 patent despite genuine anticipation by Jefferts.

Additionally, the corroboration requirement effectively parallels the disclosure requirement in that, even if an original inventor does not seek a patent, some disclosure—and an existing record of such disclosure—is required to prevent others from patenting the invention. The corroboration requirement does not necessitate that the invention be made public, but if the invention resides only in the mind of inventor, the purpose of promoting progress of science and the useful arts has not been fulfilled. Further, the availability of patent rights to others can still serve as incentive to promote their progress in the area.

III. CONCLUSION

The *Finnigan* court reiterated the clear and convincing evidence standard set forth in *Price* and applied that standard to the corroboration requirement. Although the Federal Circuit seems to vacillate at times on the issue, the *Finnigan* opinion represents part of a systematic refinement to this area of patent law, a refinement process that has gained momentum since *Price*. While increasing complexity of patent cases has led to rejection of some per se rules for more comprehensive determinations of justice, *Finnigan* demonstrates a continued enhanced presumption of patent validity that withstands uncorroborated inventor testimony. The court's clear and convincing standard strengthens the rights vested in an issued patent and furthers the purpose of patent law.

SIGNTECH USA LTD. V. VUTEK INC.

By Thomas M. Hardman

Patent drafters frequently use structural terms to specifically identify a claimed invention. Sometimes, however, structural terms are unnecessarily cumbersome or inadequate to describe an element of a claim. In 1952, Congress addressed this problem by allowing a claim to be written in terms of what it does rather than in terms of its structure. In particular, Congress provided in 35 U.S.C. § 112 ¶ 6 that a claim element could be expressed as a "means or step for performing a specified function."[1] While this statutory provision eliminates the need to recite structure in the limitation itself, the applicant must describe in the patent specification some structure which performs the specified function.[2] This structure, and its equivalents, determine the scope of the so-called "means-plus-function" claim element.[3]

Although means-plus-function claims can be useful, the Federal Circuit's decision in *Signtech USA Ltd. v. Vutek Inc.*[4] ("*Signtech*") illustrates that patent drafters must be cautious when invoking section 112, paragraph 6. In *Signtech*, the Federal Circuit construed the means-plus-function claim at issue to cover nothing more than the invention's preferred embodiment. There were two reasons for the Federal Circuit's narrow construction. First, Signtech used unnecessary, limiting language throughout the specification of the patent at issue. Second, the Federal Circuit requires "structural equivalence" as a prerequisite for infringement under section 112, paragraph 6. This Note will examine both reasons for Signtech's failure, explain how Signtech could have broadened the scope of its means-plus-function claims, and discuss how the Federal Circuit's judicially created "structural equivalence" requirement has the effect of eliminating the phrase "and equivalents thereof" from the statutory language.

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1. *See* 35 U.S.C. § 112 ¶ 6 (1994) ("An element in a claim for a combination may be expressed as a means or step for performing a specified function without the recital of structure, material, or acts in support thereof, and such claim shall be construed to cover the corresponding structure, material, or acts described in the specification and equivalents thereof.").

2. *See id.*

3. *See, e.g.*, Valmont Indust., Inc. v. Reinke Mfg Co., Inc., 983 F.2d 1039, 1041-42 (Fed. Cir. 1993) (explaining the history and limiting effect of 35 U.S.C. § 112 ¶ 6).

4. 174 F.3d 1352 (Fed. Cir. 1999).

I. BACKGROUND

Signtech owns U.S. Patent No. 5,376,957 ("the '957 patent"), which discloses an ink sprayhead design for inkjet printers.[5] The novel feature of the improved sprayhead is that it enables dual-sided, mirror image printing of large images without ink accumulating in the nozzle.[6] Claim 1 of the '957 patent, which was the claim at issue in the case, includes several limitations that relate to an "ink delivery means." Specifically, claim 1 of the '957 patent provides:

> An apparatus for reproducing an image on a first side of a substrate and a mirror image on a second side of said substrate, comprising:
>
> a frame;
>
> means for generating control signals representative of said image;
>
> *ink delivery means* positioned on opposite sides of said substrate, said *ink delivery means* fluidly communicating with an ink source;
>
> means mounted on said frame for supporting said *ink delivery means*;
>
> means mounted on said frame for driving said *ink delivery means* relative to said substrate; and
>
> means, responsive to said control signals, for controlling said *ink delivery means* to produce said image on said first side of said substrate and said mirror image on said second side of said substrate.[7]

The fact that the "ink delivery means" limitation contains the word "means" strongly suggests that section 112, paragraph 6 applies, and that the limitation should be construed as a means-plus-function claim.[8] Means-plus-function claim elements are construed to cover the corresponding structure described in the specification and equivalents thereof.[9] There are two descriptions of "ink delivery means" in the '957 patent specification.[10] The first design utilizes two high pressure air sources: one

5. *See id.* at 1354.

6. *See id.*

7. *Id.* at 1354-55 (emphasis added).

8. *See* discussion, *infra* note 28.

9. *See, e.g.*, Kahn v. General Motors Corp., 135 F.3d 1472, 1476 (Fed. Cir. 1998) ("Claims written in means-plus-function form are interpreted to cover the structure set forth in the specification and its equivalents.").

10. *See* U.S. Patent No. 5,376,957, at col. 3, ll. 29-48; col. 10, ll. 30-47 (issued December 27, 1994).

to apply ink, and another to continuously clean the ink nozzle during printing.[11] This design—specifically, the use of the two air sources—is referred to repeatedly in the background and summary of the invention sections of the '957 patent as distinguishing the invention from prior art.[12] The second design described in the specification utilizes just one pressurized air source with a pulse-width modulated air flow.[13]

Vutek owns U.S. Patent No. 4,914,522 ("the '522 patent"), which is prior art to Signtech's '957 patent.[14] Signtech's '957 patent explicitly distinguishes Vutek's '522 patent, stating that the ink sprayhead design disclosed in the '522 patent has only one air source.[15] Vutek's ink jet printers contain a structure identical to the one disclosed in the '522 patent.[16]

Signtech sued Vutek for infringement of the '957 patent.[17] Vutek counterclaimed for infringement of its '522 patent.[18] Signtech stipulated to infringement of Vutek's '522 patent if valid.[19]

II. PROCEDURAL HISTORY

A. District Court Decision

By consent, the parties tried their claims before a United States magistrate judge in the United States District Court for the Western District of Texas.[20] There was no dispute between the parties that the "ink delivery means" limitation in claim 1 of the '957 patent is a "means-plus-function" claim element. Because of the repeated reference to the dual air source in the '957 specification, the magistrate construed the "ink delivery means" limitation as an ink sprayhead containing two pressurized air sources.[21] The magistrate therefore held that Vutek's printers, which contain only one air source, do not infringe Signtech's '957 patent.[22] In addition, the magistrate found Vutek's '522 patent valid and Signtech's infringement of

11. *See* Signtech USA Ltd. v. Vutek Inc., 174 F.3d 1352, 1357 (Fed. Cir. 1999).
12. *See id.* at 1356-57.
13. *See id.*
14. *See id.*
15. *See id.*
16. *See id.*
17. *See id.* at 1354.
18. *See id.*
19. *See id.* Signtech and Vutek stipulated to basic damages of $140,000. *See id.*
20. *See id.*
21. *See id.* at 1355.
22. *See id.*

the '522 patent willful.[23] The magistrate also entered an injunction prohibiting Signtech from "any further infringement of the '522 patent."[24]

B. Federal Circuit Decision

Signtech appealed the finding of noninfringement of the '957 patent, the vagueness of the injunction, and the amount of damages awarded to Vutek for Signtech's infringement of its '522 patent.[25] The Federal Circuit affirmed the magistrate's findings with respect to the '957 patent and upheld the magistrate's injunction.[26]

1. Noninfringement of the '957 patent

The Federal Circuit affirmed the district court's construction of the "ink delivery means" recited in claim 1 of the '957 patent.[27] According to the Federal Circuit, a means-plus-function claim element is typically presumed when the term "means" appears with a function in a claim limitation.[28] "Ink delivery" is a function; therefore, the district court properly identified the "ink delivery means" limitation in the '957 patent as a means-plus-function claim element. Because the "ink delivery means" limitation is a means-plus-function claim element, the district court properly consulted the specification of the '957 patent in construing that limi-

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23. *See id.* Because the infringement was found to be willful, the magistrate trebled the basic damages of $140,000. The magistrate, however, added the $420,000 enhanced damages to the stipulated $140,000 basic damages award. *See id.*

24. *Id.* at 1356.

25. *See id.* at 1354.

26. *See id.* The Federal Circuit reversed a portion of the district court's decision with respect to damages, clarifying that the $140,000 damage award should have been included within the $420,000 enhanced damage award. *See id.* at 1359.

27. *See id.* at 1356.

28. It is unclear whether use of the word "means" invokes a presumption that section 112, paragraph 6 applies. The Federal Circuit first alluded to such a presumption in *Greenberg v. Ethicon Endo-Surgery, Inc.*, 91 F.3d 1580, 1584 (Fed. Cir. 1996) ("[I]t is fair to say that the use of the term 'means' (particularly as used in the phrase 'means for') generally invokes section 112(6) and that the use of a different formulation generally does not."). In *York Products, Inc. v. Central Tractor Farm & Family Center*, 99 F.3d 1568 (Fed. Cir. 1996), the Federal Circuit stated that "the use of the word 'means' triggers a presumption that the inventor used this term advisedly to invoke the statutory mandates for means-plus-function clauses." *Id.* at 1573. However, in *Cole v. Kimberly-Clark Corp.*, 102 F.3d 524 (Fed. Cir. 1996), the majority stated that use of the word "means" with a named element "does not automatically make the element a 'means-plus-function' element" and denied the existence of a "presumption to the contrary." *Id.* at 531. Judge Rader, in dissent, argued that the majority had either ignored or misapplied the presumption. He argued that "[s]ome claim language describing the location of the structure should not be sufficient to overcome [the] presumption [that section 112, paragraph 6 should apply]." *Id.* at 533 (Rader, J., dissenting).

tation.[29] Throughout the specification—in the background and summary of invention sections, and in describing the preferred embodiment—Signtech repeatedly describes its invention as an ink sprayhead containing *two* pressurized air sources.[30] The specification also states, repeatedly, that the use of two air sources constitutes the invention's improvement over the prior art.[31] Therefore, the Federal Circuit agreed with the district court's construction of "ink delivery means" as an ink sprayhead containing two pressurized air sources.[32]

In upholding the district court's claim construction, the Federal Circuit dismissed two separate arguments from Signtech. First, Signtech argued that it was incorrect for the magistrate to construe the "ink delivery means" limitation as including two air sources, because a portion of the '957 patent specification described an "ink delivery means" with only one air source.[33] Second, Signtech argued that the district court's construction was unfair in light of the prosecution history of the '957 patent.[34]

The Federal Circuit summarily dismissed the first argument, noting that there were significant differences between Signtech's alternative embodiment and Vutek's accused device. Specifically, the Federal Circuit pointed out that Signtech's alternative embodiment described a "single constant air flow and a pulse-width modulated ink flow" to control ink delivery.[35] In contrast, Vutek's device used "pulse-width modulated constant pressure air flow" to control ink delivery.[36] These differences, according to the Federal Circuit, were so striking that no reasonable jury could find Vutek's ink delivery means equivalent to that described in Signtech's alternative embodiment.[37] Accordingly, even if the "ink delivery means" limitation were construed to cover Signtech's alternative embodiment, it would still not cover Vutek's device.[38]

Signtech's second argument, based on the '957 patent's prosecution history, was slightly more complicated. Signtech also owns U.S. Patent No. 5,294,946 ("the '946 patent"), which is the parent to the '957 patent.[39] Signtech included claim elements for the use of two pressurized air

29. *See* Signtech USA Ltd. v. Vutek Inc., 174 F.3d 1352,1356 (Fed. Cir. 1999).
30. *See id.* at 1357.
31. *See id.* at 1356-57.
32. *See id.* at 1357.
33. *See id.*
34. *See id.* at 1357-58.
35. *See id.* at 1357.
36. *See id.*
37. *See id.*
38. *See id.*
39. *See id.*

sources in the application that eventually issued as the '946 patent ("the '946 patent application").[40] During prosecution of the '946 patent application, the Examiner directed Signtech to choose between prosecuting "[a] two side ink jet printer with two pressure flows" and "[a] two side ink jet printer."[41] The former claim element was selected for the '946 patent application.[42] Signtech filed a continuation application with the latter claim element; this application eventually issued as the '957 patent.[43] Signtech argued that it was unfair to give the '957 patent a meaning no broader than its parent, even though the Examiner required separation into different applications.[44] The Federal Circuit acknowledged that a patent's prosecution history is relevant to the construction of a claim written in means-plus-function form.[45] However, the Federal Circuit rejected Signtech's argument in the present case, holding that the specification of the '957 patent limits the scope of the claim at issue, regardless of the patent's prosecution history.[46]

After upholding the district court's construction of Signtech's "ink delivery means" limitation, the Federal Circuit also affirmed the district court's finding that Vutek's accused device did not infringe the '957 patent.[47] For a means-plus-function limitation to read on an accused device, the accused device must perform an identical function through equivalent means.[48] Because Signtech had stated that Vutek's device was incapable of achieving the desired results of the invention, the "ink delivery means" employed by Vutek's device were not equivalent to the "ink delivery means" covered by Signtech's patent.[49]

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40. *See id.* at 1358.
41. *See id.* at 1357-58.
42. *See id.* at 1358.
43. *See id.*
44. *See id.*
45. *See id.*
46. *See id.*
47. *See id.*
48. *See, e.g.,* Micro Chemical, Inc. v. Great Plains Chemical Co., Inc., 103 F.3d 1538, 1547 (Fed. Cir. 1997) ("Literal infringement of a claim containing a means clause requires that the accused device perform the identical function as that identified in the means clause and do so with structure which is the same as or equivalent to that disclosed in the specification.").
49. *See* Signtech USA Ltd. v. Vutek Inc., 174 F.3d 1352, 1357 (Fed. Cir. 1999). The parties did not present evidence concerning infringement under the doctrine of equivalents. *See id.* at 1358.

2. *Injunction*

Signtech argued that the magistrate's order was too broad, encompassing not only those products which had been shown to infringe Vutek's '522 patent (and trivial variations thereof), but also including any product which could even theoretically infringe Vutek's '522 patent.[50] The Federal Circuit disagreed and upheld the injunction, finding it unlikely that unwarranted contempt actions would be brought against Signtech in light of "the detailed record on which this injunction was entered."[51]

III. DISCUSSION

A. Avoiding Limitation to the Preferred Embodiment

In *Serrano v. Telular Corp.*,[52] the Federal Circuit held that patentees are not necessarily limited to their preferred embodiment.[53] Because the Federal Circuit limited Signtech's means-plus-function claim to the structure of its preferred embodiment, it appeared to ignore *Serrano* in deciding the present case. However, as will be discussed below, Signtech was properly limited to its preferred embodiment because of limiting language in the '957 patent specification. Accordingly, *Signtech* underscores the importance of carefully drafting the patent specification when using means-plus-function claims.

In *Serrano*, like the present case, the main issue was interpretation of a means-plus-function claim.[54] The patents at issue in *Serrano* concerned a method and apparatus for interfacing a communications device (e.g., a telephone) with a radio transceiver (e.g., a cellular telephone).[55] Telular's patent claimed means for determining the last digit dialed on the communications device ("determining means").[56] The "determining means" disclosed in Telular's preferred embodiment used a "digit analysis" approach, implemented in discrete logic.[57] The structure disclosed in the preferred embodiment would not cover Telular's accused device, which used a "time-out" approach, implemented with a microprocessor-based system.[58]

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50. *See id.* at 1359.
51. *See id.*
52. 111 F.3d 1578 (Fed. Cir. 1997).
53. *See id.* at 1583 (holding that alternative embodiment stated in disclosure is within scope of claim).
54. *See id.* at 1582.
55. *See id.* at 1580.
56. *See id.*
57. *See id.* at 1580-81.
58. *See id.* at 1583.

However, Telular pointed to a portion of the specification which disclosed an alternative embodiment that used a "time-out" approach.[59] The specification also stated that one skilled in the art should recognize that a microprocessor-based system could be used in place of discrete logic.[60] The Federal Circuit agreed with Telular and upheld the district court's ruling, on summary judgment, that Serrano's accused device infringed Telular's patent.[61] The Federal Circuit held that a means clause must be construed to cover the disclosed structure and equivalents thereof, and stated: "Disclosed structure includes that which is described in a patent specification, including any alternative structures identified."[62]

At first glance, *Signtech* seems to conflict with *Serrano*. In *Signtech*, the Federal Circuit affirmed the magistrate's interpretation of Signtech's "ink delivery means."[63] The magistrate held that Signtech's "ink delivery means cannot be interpreted apart from the essential, cleaning, high-pressure air source," which was an integral part of its preferred embodiment.[64] But in the specification for the '957 patent, Signtech also disclosed an alternative embodiment that did not contain the second, high-pressure air source.[65] Therefore, *Signtech* appears to stand for the proposition that patentees are restricted to their preferred embodiment, which would be in direct conflict with the *Serrano* holding.

Throughout the '957 patent specification—in the abstract, background of the invention ("background"), and summary of the invention ("summary") sections—Signtech describes the second air pressure source as being the most important feature of the invention. One novel feature of Signtech's invention is the ability to produce a printed image, in color, with only one spray cycle.[66] This feature is desirable because subsequent spray cycles distort the color of previously printed pixels.[67] According to

59. *See id.* at 1582-83.
60. *See id.* at 1583.
61. *See id.*
62. *Id.*
63. *See* Signtech USA Ltd. v. Vutek Inc., 174 F.3d 1352, 1356 (Fed. Cir. 1999).
64. *Id.* at 1355.
65. *See id.* at 1357.
66. *See* '957 patent, *supra* note 10, at col. 3, ll. 26-28.
67. The specification of Signtech's '957 patent states:

> Excess ink on the spray gun nozzles cause extra ink to be applied to the paper during subsequent spray cycles. The excess ink changes the color density of subsequent pixels. That is, the actual color of the pixels is incorrect from the desired color, thus changing the color of the entire image. The color changes are noticeable to the human eye and result in a reproduced image of poor quality.

'957 patent, *supra* note 10, at col. 1, ll. 52-59.

Signtech, previous ink jet printers were unable to accomplish this result because ink would accumulate and clog the sprayhead nozzles.[68] Throughout the specification of the '957 patent, Signtech attributes the novel feature of its invention to the presence of a second, high-pressure air source, which prevents ink jet clogging. For example, the abstract mentions only a sprayhead with two air sources:

> [t]he present invention is further provided with *dual air sources* to apply the ink. A first source is pulse width modulated to control the amount of ink sprayed onto the substrate. A *second air pressure source is continuously applied to the ink jet spray nozzles to remove the excess ink* that accumulates about the nozzles during print operations.[69]

Similarly, the background states that two air sources are used to overcome the ink accumulation problem.

> [T]he ink jet printer system of the present invention implements a design which *overcomes the problem of ink accumulation* on the spray head nozzles. The present invention is provided with *dual pressure sources, a low volume high pressure constant air source to prevent the accumulation of excess ink on the nozzles,* and a high volume low pressure constant air source for drawing the ink from the nozzles for application to the imaging medium.[70]

In addition, the background specifically states that ink sprayheads with only one constant air pressure source are incapable of preventing ink jet clogging.

> The [invention disclosed in a prior patent] *does not solve the ink accumulation problem because it uses a single constant air pressure source.* The single constant air pressure source applies the ink onto the imaging medium with sufficient force to cause misting, but *is of insufficient force to prevent the ink from accumulating on the nozzles.*[71]

The summary also describes how the second air source constitutes the invention's improvement over the prior art.

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68. *See id.* at col. 2, ll. 10-24.
69. *Id.* at abstract (emphasis added).
70. *Id.* at col. 2, ll. 56-64 (emphasis added).
71. *Id.* at col. 2, ll. 13-20 (emphasis added).

> [T]he utilization of the second air source makes the present invention a significant improvement over conventional ink jet printer systems.[72]

Finally, the summary section reemphasizes how crucial the second air source is to the invention.

> [T]he present invention is capable of producing a sectioned image on the substrate in one continuous print because its sprayhead design prevents ink jet clogging. The sprayheads of the present invention are connected to two separate air pressure sources which operate to apply the ink and prevent the ink jets from becoming clogged.[73]

The alternative embodiment with only one air source is mentioned only once in the '957 patent.[74] The sprayhead in the alternative embodiment is "coupled to a constant air pressure source . . . which provides a continuous supply of air across [the] ink jet . . . ."[75] There is no mention of how—or even if—this single air source design solves the ink accumulation problem.

The way the means-plus-function limitation is described in Signtech's '957 patent is much different from the description in the patents at issue in *Serrano* ("the *Serrano* patents"). As stated above, *Serrano* involved the interpretation of a "determining means" limitation. Although the abstract and background sections of the *Serrano* patents identify the function performed by the means-plus-function claim element (i.e., determining the last digit dialed on the communications device), these sections do not de-

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72. *Id.* at col. 3, ll. 46-48.

73. *Id.* at col. 3, ll. 26-32.

74. The alternative embodiment is described in the specification of the '957 patent as follows:

> Ink sprayhead 70 differs from the ink sprayheads of the preferred embodiment because the ink flow is modulated to control the color density rather than the air supply. Ink sprayhead 70 comprises ink jet 71 coupled to a constant air pressure source (not shown) via passage 72 which provides a continuous supply of air across ink jet 71. Ink sprayhead 70 further comprises ink valve 73 disposed between ink jet 71 and the ink reservoirs described with reference to FIG. 4. At the beginning of a pixel print, ink valve 73 opens to allow the flow of ink to ink jet 71. The air stream delivered past ink jet 71 picks up the ink and applies it to the substrate. When the desired pixel density is reached, ink valve 73 closes, and the flow of ink from ink jet 71 ceases. Thus, the modulation of ink valve 73 controls the pixel print densities.

Id. at col. 10, ll. 32-47.

75. *Id.* at col. 10, ll. 35-38.

scribe how that function might be performed.[76] The alternative "time-out" approach is introduced and discussed in the same paragraph as the "digit analysis" approach used in the preferred embodiment.[77] And even though the *Serrano* patents disclose both the "digit analysis" and "time-out" features as being implemented in discrete logic circuitry, the specification explicitly states that a microprocessor-based system could also be used.[78]

Analysis, therefore, reveals that *Signtech* and *Serrano* are consistent with one another. Signtech was limited to its preferred embodiment in the present case because the specification repeatedly emphasizes one implementation of the "ink delivery means" as being the novel feature of the invention. The *Serrano* patents do not suffer from this inadequacy.

Thus, one important lesson that *Signtech* teaches is the importance of carefully drafting the specification when using means-plus-function claims. Because the specification determines the scope of the means-plus-function claims,[79] patent drafters should avoid using any language that identifies one embodiment of the claimed means as encompassing the only important feature of the invention. In addition, patent drafters should disclose as many alternative embodiments as possible, being careful to fully explain how each alternative embodiment possesses the novel features of the invention.

B. Structural Equivalence

A means-plus-function limitation is construed to cover the structure disclosed in the specification "and equivalents thereof."[80] The definition of "equivalents," however, remains unclear. It could be argued in the present case that Vutek's accused device contains an "ink delivery means" that is "equivalent" to that disclosed in Signtech's alternative embodiment. Still, the Federal Circuit abruptly held, without explanation, that no reasonable jury could find Vutek's accused device equivalent to Signtech's alternative embodiment.[81] This holding is consistent with recent Federal Circuit

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76. *See* U.S. Patent No. 4,775,997 (issued Oct. 4, 1988); U.S. Patent No. 4,922,517 (issued May 1, 1990).

77. *See* '517 patent, *supra* note 76, at col. 10, ll. 15-29 (discussing digit analysis approach); col. 10, ll. 30-37 (discussing time-out approach).

78. *See* Serrano v. Telular Corp., 111 F.3d 1578, 1583 (Fed. Cir. 1997).

79. *See* Kahn v. General Motors Corp., 135 F.3d 1472, 1476 (Fed. Cir. 1998) ("Unlike the ordinary situation in which claims may not be limited by functions or elements disclosed in the specification, but not included in the claims themselves, in writing a claim in means-plus-function form, a party is limited to the corresponding structure disclosed in the specification and its equivalents.").

80. *See* 35 U.S.C. § 112 ¶ 6 (1994).

81. *See* Signtech USA Ltd. v. Vutek Inc., 174 F.3d 1352, 1357 (Fed. Cir. 1999).

decisions, which suggest that structural equivalence is necessary for finding equivalence under section 112, paragraph 6. The structural equivalence requirement, however, has the effect of eliminating the phrase "and equivalents thereof" from the language of section 112, paragraph 6.

1. *Structural equivalence in* Signtech

In *Signtech*, the Federal Circuit had little difficulty finding that Signtech's alternative embodiment was not equivalent to Vutek's accused device, in spite of similarities in the "ink delivery means" used by the two devices. Both Signtech's alternative embodiment and Vutek's accused device use a constant pressure air source to spray air over the ink jets, thereby causing ink to be applied onto a recording medium.[82] Both devices interrupt the flow of ink after each pixel is printed.[83] The only difference between the two "ink delivery means" is that Signtech's device controls the supply of ink to the ink jets by modulation of the opening and closing of ink valves, whereas Vutek's device controls the supply of ink to the ink jets by modulation of the air source.[84] Still, the Federal Circuit held, with-

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82. Vutek's accused device is identical to the embodiment disclosed in its '522 patent. The abstract of the Vutek '522 patent states: "A flow of constant-pressure air is pulse-width modulated in accordance with the control signals and passed over an ink meniscus maintained on the end of a small nozzle. *The pulse-modulated air* flowing across the meniscus causes the ink to be sprayed onto the recording medium." U.S. Patent No. 4,914,522, at abstract (issued April 3, 1990) (emphasis added). The specification of the Signtech '957 patent states:

> Ink sprayhead 70 comprises ink jet 71 coupled to a constant air pressure source (not shown) via passage 72 which provides a continuous supply of air across ink jet 71. . . . At the beginning of a pixel print, ink valve 73 opens to allow the flow of ink to ink jet 71. *The air stream delivered past ink jet 71 picks up the ink and applies it to the substrate.*

'957 patent, *supra* note 10, at col. 10, ll. 35-43 (emphasis added).

83. The specification of the Vutek '522 patent states: "[I]n the present system, the ink flow is interrupted at the end of each pixel and the system allowed to come to equilibrium before the ink is again turned on." '522 patent, *supra* note 82, at col. 3, ll. 44-46. The specification of the Signtech '957 patent states:

> At the beginning of a pixel print, ink valve 73 opens to allow the flow of ink to ink jet 71. The air stream delivered past ink jet 71 picks up the ink and applies it to the substrate. When the desired pixel density is reached, ink valve 73 closes, and the flow of ink from ink jet 71 ceases.

'957 patent, *supra* note 10, at col. 10, ll. 40-45.

84. The specification of the Signtech '957 patent states: "Ink sprayhead 70 differs from the ink sprayheads of the preferred embodiment because *the ink flow is modulated* to control the color density rather than the air supply." '957 patent, *supra* note 10, at col. 10, ll. 32-35 (emphasis added). The specification of the Vutek '522 patent states: "A flow of constant-pressure air is pulse-width modulated in accordance with the control signals and passed over an ink meniscus maintained on the end of a small nozzle. The *pulse-*

out explanation, that "Signtech's alternative structure is so different from Vutek's accused device that no reasonable jury could find it an equivalent structure."[85]

The Federal Circuit's abrupt dismissal of equivalence in Signtech may seem surprising in light of the similarities between the alternative embodiment and the accused device. The Federal Circuit seemed to conclude that because Vutek's device did not possess a structure equivalent to Signtech's alternative embodiment, it could not be an "equivalent" under section 112, paragraph 6. This supposed requirement of "structural equivalence" is supported by an analysis of recent Federal Circuit cases, which shows that structural equivalence has become an important element of section 112, paragraph 6 equivalence.

2. *Section 112, paragraph 6 equivalence in recent Federal Circuit cases*

In *Valmont Industries, Inc. v. Reinke Manufacturing Co., Inc.*,[86] another case involving interpretation of a means-plus-function claim, the Federal Circuit reversed a district court's finding of infringement because the accused device was structurally different than the means disclosed in the patent specification.[87] In that case, Valmont sued Reinke for infringing its patent, which covered a device for watering the corners of a field missed by a center pivot irrigator.[88] Both Valmont's means for a self-propelled irrigation apparatus and the means of Reinke's accused apparatus used electric signals.[89] The difference between the two devices was the source of the electric signals: Valmont's control means sensed the angular relations between the main arm and the extension arm, while Reinke's structure sensed electromagnetic signals from a buried cable.[90] Although the district court found infringement, the Federal Circuit reversed, reasoning that "the structures generating [the electric] signals are strikingly different."[91] There was no discussion of what made the structures sufficiently different to result in a finding of noninfringement.[92]

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modulated air flowing across the meniscus causes the ink to be sprayed onto the recording medium." '522 patent, *supra* note 82, at abstract (emphasis added).

85. *Signtech* at 1357.
86. 983 F.2d 1039 (Fed. Cir. 1993).
87. *See id.* at 1045.
88. *See id.* at 1040.
89. *See id.* at 1044.
90. *See id.*
91. *Id.*
92. *See id.*

The Federal Circuit reached a similar result in *Chiuminatta Concrete Concepts, Inc. v. Cardinal Industries, Inc.*[93] In that case, Chiuminatta sued Cardinal for infringement of its patented apparatus for cutting concrete.[94] The claim at issue recited "means . . . for supporting the surface of the concrete."[95] Chiuminatta's patent specification disclosed the use of a flat, hard plate fixedly attached to the saw, called a "skid plate," to support the concrete.[96] The support means in Cardinal's accused device were soft, round wheels that were rotatably mounted onto the saw.[97] Chiuminatta argued that the wheels of the accused device were equivalent to a skid plate because "in use, [Cardinal's] wheels compress[ed] to form flattened planes on each side of the saw blade, coinciding with the structure of a skid plate."[98] The Federal Circuit disagreed, however, concluding that Chiuminatta's skid plate and Cardinal's wheels were "substantially different" from each other.[99] As in *Valmont*, there was little discussion of what made the structures so different as to result in a finding of noninfringement.

Another case illustrating the importance of structural equivalence in means-plus-function caselaw is *Alpex Computer Corp. v. Nintendo Co. Ltd.*[100] In that case, Alpex sued Nintendo for infringement of a patent for a microprocessor-based home video game system.[101] Nintendo's expert testified that both the accused Nintendo system and Alpex's disclosed device stored data and eventually displayed an image on the whole screen.[102] The Federal Circuit rejected the expert testimony, however, because it "was based only on a functional, not a structural, analysis."[103] This suggests that Nintendo escaped infringement because the structure of its product was different from the structure disclosed in Alpex's specification.

These cases demonstrate that for a means-plus-function claim to read on an accused device, the accused device must possess structure that is equivalent to some structure disclosed in the patent specification. The Federal Circuit was faithful to this principle in *Signtech*, finding noninfringement because Vutek's accused device was structurally different from

93. 145 F.3d 1303 (Fed. Cir. 1998).
94. *See id.* at 1305.
95. *Id.*
96. *See id.* at 1308.
97. *See id.* at 1309.
98. *Id.*
99. *See id.*
100. 102 F.3d 1214 (Fed. Cir. 1996).
101. *See id.* at 1215-16.
102. *See id.* at 1222.
103. *Id.*

anything disclosed in Signtech's specification. As will be argued below, however, this requirement of "structural equivalence" has the effect of eliminating the phrase "and equivalents thereof" from the language of section 112, paragraph 6.

3. Rethinking structural equivalence

The concept of structural equivalence, as applied to means-plus-function claims, was judicially created by the Federal Circuit.[104] The language of section 112, paragraph 6 does not refer to structural equivalence.[105] The Court of Claims and Patent Appeals, which heard patent appeals before the Federal Circuit was created, and whose decisions bind the Federal Circuit,[106] stated: "We take the characterization 'functional' . . . to indicate nothing more than the fact that an attempt is being made to define something . . . by what it does rather than by what it is (as evidenced by specific structure or material, for example)."[107] In fact, according to one commentator, even the Federal Circuit did not begin to speak of structural equivalence until 1988.[108]

The Federal Circuit's structural equivalence requirement has been criticized. In *Baltimore Therapeutic Equip. Co. v. Loredan Biomedical, Inc.*,[109] Judge Rich commented, in a concurring opinion, that section 112, paragraph 6 "does not necessarily mean that a structural equivalent of what the specification discloses must be used."[110] In *De Graffenried v. United States*,[111] the United States Claims Court argued that "the term 'equivalent' in section 112 should not be interpreted as being limited to structures that are 'equivalent' to the physical structure of the 'means' disclosed in a patent."[112] And it has been argued that the "structural equiva-

104. *See* Mark D. Janis, *Who's Afraid of Functional Claims? Reforming the Patent Law's § 112, ¶ 6 Jurisprudence*, 15 SANTA CLARA COMPUTER & HIGH TECH L.J. 231, 259 (1999) ("Prior to the Federal Circuit era, courts referred to structural equivalency only rarely and in passing, and never, insofar as I have been able to determine, in the context of § 112, ¶ 6 determinations.").

105. Rather, it speaks of "the corresponding structure, material, or acts described in the specification and equivalents thereof." 35 U.S.C. § 112 (1994).

106. *See* South Corp. v. United States, 690 F.2d 1368, 1369 (Fed. Cir. 1982) ("We hold that the holdings of . . . the United States Court of Customs and Patent Appeals . . . shall be binding as precedent in this court.").

107. *In re* Swinehart, 439 F.2d 210, 212 (C.C.P.A. 1971) (emphasis added).

108. *See* Janis, *supra* note 104, at 260 n.104.

109. Nos. 93-1301, 93-1331, 1994 WL 124022 (Fed. Cir. April 12, 1994) (unpublished opinion).

110. *Id.* at *7.

111. 20 Cl. Ct. 458 (Cl. Ct. 1990).

112. *Id.* at 479-80.

lence" requirement undermines the usefulness of means-plus-function claims.[113]

These criticisms arise from the same concern, namely that competitors can avoid literal infringement of a means-plus-function claim by simply replacing the structures specifically described in the patent specification with different structures that operate in substantially the same way.[114] Considering its recent means-plus-function caselaw, it is questionable whether the Federal Circuit has in fact allowed accused devices with trivial, structural differences to avoid infringement of means-plus-function claims. In *Valmont* the difference was the source of the electric signals.[115] In *Chiuminatta* the difference was the kind of supporting surface.[116] And in *Signtech*, the difference was the structure that controlled the supply of ink to the ink jets.[117] Whether these changes are meaningful or trivial is colorable, and should be analyzed, not inferred as a result of structural differences.

It might be argued that any trivial differences between the patentee's disclosure and the accused device would be addressed by the doctrine of equivalents. That is, if Vutek's modulation of an air source, as opposed to modulation of ink valves, was nothing more than "an insubstantial change which adds nothing of significance,"[118] Signtech could have proven infringement under the doctrine of equivalents.[119] The Federal Circuit, however, has held that patentees are precluded from presenting evidence regarding infringement of a means-plus-function claim under the doctrine of equivalents.[120] In the present case, such a holding makes the question of

113. *See* Janis, *supra* note 104, at 262.

114. *See id.*

115. *See* Valmont Indust., Inc. v. Reinke Mfg. Co., Inc., 983 F.2d 1039, 1044 (Fed. Cir. 1993).

116. *See* Chiuminatta Concrete Concepts, Inc. v. Cardinal Indus., Inc., 145 F.3d 1303, 1309 (Fed. Cir. 1998).

117. *See supra* note 84.

118. Valmont Indus. v. Reinke Mfg., 983 F.2d 1039, 1043 (Fed. Cir. 1993). The Federal Circuit in *Valmont* stated: "[t]he word 'equivalent' in section 112 invokes the familiar concept of an insubstantial change which adds nothing of significance."

119. In *Signtech*, the parties did not present evidence concerning infringement under the doctrine of equivalents. *See* Signtech USA Ltd. v. Vutek Inc., 174 F.3d 1352, 1358 (Fed. Cir. 1999).

120. *See Chiuminatta*, 145 F.3d at 1311 ("[A] finding of non-equivalence for section 112, paragraph 6, purposes should preclude a contrary finding under the doctrine of equivalents."). Other cases have reached the opposite conclusion. *See, e.g.*, Kahn v. General Motors Corp., 135 F.3d 1472 (Fed. Cir. 1998) (finding infringement of a means-plus-function claim element under the doctrine of equivalents, even though the defendant's accused device did not literally infringe).

the "insubstantiality" of the differences between Vutek's modulation of an air source and Signtech's modulation of an ink valve wholly irrelevant. And in general, such a holding limits the patentee to structures that are explicitly disclosed in the patent specification—not trivial modifications of those structures, and certainly not the "equivalents" contemplated in section 112, paragraph 6.

Consequently, the Federal Circuit should either eliminate the structural equivalence requirement, or clarify that the doctrine of equivalents does apply to means-plus-function claim elements. If the former, then competitors could not escape literal infringement by making trivial, structural modifications to their accused devices. And if the latter, then certainly such trivial modifications would be found liable of infringement under the doctrine of equivalents. Either way, means-plus-functions claims would be construed to "cover," for purposes of determining infringement, the "equivalents" contemplated in section 112, paragraph 6.

IV. CONCLUSION

After *Signtech*, patent drafters have reason to be both encouraged and slightly dismayed. Many of Signtech's problems could have been avoided with careful, deliberate drafting of the patent specification. At the same time, however, *Signtech* added to the growing list of cases that require structural equivalence for literal infringement of a means-plus-function claim. With infringement under the doctrine of equivalents possibly unavailable for means-plus-function claims, the language of section 112, paragraph 6 may become like Signtech's "ink delivery means"—mere words that have little value in a court of law.

AT&T CORP. V. EXCEL COMMUNICATIONS, INC.

By Cathy E. Cretsinger

In *AT&T Corp. v. Excel Communications, Inc.*,[1] the Federal Circuit formally put an end to an apparent dichotomy in the treatment of patent claims involving computer software. Since 1994, the Federal Circuit has regarded machine claims drafted in means-plus-function format as patentable subject matter, provided that the inventor disclosed some supporting structure.[2] At the same time, a trio of aging Supreme Court decisions[3] indicated that patents claiming processes involving mathematical algorithms must incorporate a significant, if ill-defined, physical component. With its decision in *Excel*, the Federal Circuit eliminated the requirement of physical elements or limitations for process claims, undermining the Supreme Court's attempt to preclude the patenting of abstract ideas or thought processes. This Note contends that after *Excel*, the goal of preventing patents on thought can be achieved by relying on other provisions of existing patent law.

I. BACKGROUND

Courts have broadly interpreted 35 U.S.C. § 101, which establishes the scope of patentable subject matter.[4] In the famous words of *Diamond v. Chakrabarty*,[5] "Congress intended statutory subject matter to include 'anything under the sun that is made by man.'"[6] The Supreme Court has

1. 172 F.3d 1352 (Fed. Cir. 1999), *cert. denied*, 120 S. Ct. 368 (1999).

2. *See In re* Alappat, 33 F.3d 1526 (Fed. Cir. 1994) (holding that a means-plus-function claim to a computer operating pursuant to software constituted patentable subject matter).

3. Diamond v. Diehr, 450 U.S. 175 (1981) (holding that a claim to a process for curing rubber that involved repeatedly solving a mathematical equation constituted patentable subject matter); Parker v. Flook, 437 U.S. 584 (1978) (holding unpatentable a claim to a process for updating alarm limits by repeatedly solving a mathematical equation); Gottschalk v. Benson, 409 U.S. 63 (1972) (holding unpatentable a claim to a process for converting binary coded decimal numbers to binary).

4. "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).

5. 447 U.S. 303 (1980).

6. *Id.* at 309 (quoting S. REP. NO. 82-1979, at 5 (1952); H.R. REP. NO. 82-1923, at 6 (1952)).

consistently read this statute to exclude laws of nature, natural phenomena, and abstract ideas.[7]

With the rise of the digital computer, courts have repeatedly confronted claims involving mathematical algorithms, usually defined as "procedure[s] for solving a given type of mathematical problem."[8] In analyzing the patentability of these claims, the Supreme Court has consistently stated that, while a mathematical algorithm standing alone is an unpatentable abstract idea, a useful process that incorporates an algorithm may be patentable subject matter.[9] The courts have had considerably more difficulty in distinguishing abstract algorithms from useful processes.[10]

A. The Supreme Court Cases

The Supreme Court has addressed the patentability of processes involving mathematical algorithms in three cases—*Gottschalk v. Benson*,[11] *Parker v. Flook*,[12] and *Diamond v. Diehr*[13]—without clearly establishing the criteria for patentability of such processes.

In *Gottschalk v. Benson*,[14] Benson sought patent protection for a method of converting binary-coded decimal numbers into the binary numbers used by digital computers.[15] The Court held that the method was unpatentable subject matter.[16] Summarizing its reasoning "in a nutshell," the Court explained that Benson's algorithm had no application outside of digital computing and therefore allowing the patent would "wholly preempt the mathematical formula," making it in effect a patent on an ab-

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7. *See, e.g.*, *Diehr*, 450 U.S. at 185.

8. *See* Gottschalk v. Benson, 409 U.S. 63, 65 (1972).

9. *See, e.g.*, Diamond v. Diehr, 450 U.S. 175, 187 (1981) ("It is now commonplace that an application of a law of nature or mathematical formula to a known structure or process may well be deserving of patent protection." (citations omitted)); Parker v. Flook, 437 U.S. 584, 590 (1978) ("[A] process is not unpatentable simply because it contains a law of nature or a mathematical algorithm.").

10. *See, e.g.*, *Flook*, 437 U.S. at 589 ("The line between a patentable 'process' and an unpatentable 'principle' is not always clear."). For a survey of lower-court decisions making such distinctions, see 1 DONALD S. CHISUM, PATENTS: A TREATISE ON THE LAW OF PATENTABILITY, VALIDITY, AND INFRINGEMENT § 1.03[6].

11. 409 U.S. 63 (1972).

12. 437 U.S. 584 (1978).

13. 450 U.S. 175 (1981).

14. 409 U.S. 63 (1972).

15. A "binary-coded" decimal number is a representation of a base-ten number in which each digit is replaced by four binary (base-two) digits representing the decimal number. For instance, the base-ten number 53 would be represented by the binary-coded decimal 0101 0011. *See id.* at 66-67.

16. *See id.* at 73 (reversing the lower court decision that the method was patentable).

stract idea—i.e., the algorithm.[17] Thus, the unpatentability of Benson's algorithm followed from the premise that "one may not patent an idea."[18]

In *Parker v. Flook*,[19] the Supreme Court determined that process patents that did not preempt an algorithm were equally problematic. Flook claimed a method for updating alarm limits on process variables, such as temperature and pressure, that are used to monitor and control catalytic conversion of hydrocarbons.[20] The claimed method included steps of determining the present value of a process variable, using a mathematical algorithm to calculate a new value for the alarm limit based on the present value, and updating the limit using the calculated value.[21] Although the claims did not pre-empt the algorithm,[22] the Court ruled that they were not statutory subject matter.[23] The Court rejected the idea that "conventional or obvious" post-solution activity can transform an unpatentable principle into a patentable process.[24]

In *Diamond v. Diehr*,[25] the Supreme Court seemed to shift its attitude toward patenting mathematical algorithms. Diehr claimed a method for curing rubber articles in a mold, using a well-known equation to calculate how long the mold should remain closed.[26] In its analysis, the Court interpreted its earlier decisions in *Benson* and *Flook* as standing for no more than the exclusion of patent protection for laws of nature, natural phenomena, and abstract ideas.[27] Diehr had claimed not an abstract algorithm for calculating curing time,[28] but an industrial process of the type patents have

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17. *See id.* at 71-72.

18. *See id.* at 71.

19. 437 U.S. 584 (1978).

20. During catalytic conversion processes, "process variables" such as temperature, pressure, and flow rates, are continually monitored. Alarms are set off to signal a problem whenever any of these variables exceeds some limit. That limit is called the alarm limit. *See id.* at 585.

21. *See id.*

22. *See id.* at 589.

23. *See id.* at 594 ("Respondent's process is unpatentable under § 101.").

24. *See id.* at 590 (explaining that "[a] competent draftsman could attach some form of post-solution activity to almost any mathematical formula").

25. 450 U.S. 175 (1981).

26. Diehr's process claims included steps of repeatedly monitoring the temperature of the mold, using a well-known equation to calculate the required cure time from the temperature, and automatically opening the mold when the elapsed time equaled the calculated time. *See id.* at 179 and 180 n.5.

27. *See id.* at 185. According to the *Diehr* Court, Benson had tried to patent an abstract formula, and Flook had tried to circumvent the rule against patenting abstract formulas by including a field of use limitation and trivial post-solution activity. *See id.* at 191-92.

28. *See id.* at 187.

historically protected.[29] In dissent, Justice Stevens observed that the patentability of Diehr's process depended on whether the Court chose to characterize it as a process for curing rubber or a process for determining a curing time.[30] He also lamented the lack of clear rules to guide attorneys in attempting to patent computer-related inventions and the ambiguity in the term "algorithm," which could, in principle, be applied to any process.[31]

B. The Court of Customs and Patent Appeals

The Court of Customs and Patent Appeals ("CCPA"), predecessor of the Federal Circuit, developed its own trio of cases in response to the various Supreme Court decisions. *In re Freeman*[32] established that claims that directly or indirectly recited a mathematical algorithm were statutory subject matter unless they wholly preempted the algorithm.[33] In *In re Walter*,[34] the CCPA modified the test to allow claims under section 101 only if the mathematical algorithm was used in a machine claim "to define structural relationships between . . . physical elements" or in a process claim "to refine or limit claim steps."[35] Finally, after *Diehr*, the CCPA broadened the test in *In re Abele*[36] to require "no more than that the algorithm be 'applied in any manner to physical elements or process steps,'" but noted that field of use limitations and trivial post-solution activity were insufficient to satisfy the standards.[37]

C. The Federal Circuit

For over a decade, the Federal Circuit attempted to apply the Supreme Court's standards and the *Freeman-Walter-Abele* test, with confusing results.[38] Then, in 1994, in its en banc decision in *In re Alappat*,[39] the Fed-

29. *See id.* at 184.

30. *See Diehr*, 450 U.S. at 206-07 (Stevens, J., dissenting).

31. *See id.* at 219. Stevens advocated sharply restricting the patentability of computer-related inventions and defining "algorithm" as used in *Benson* and *Flook* to mean "computer program." *See id.*

32. 573 F.2d 1237 (C.C.P.A. 1978).

33. *See id.* at 1245.

34. 618 F.2d 758 (C.C.P.A. 1980).

35. *See id.* at 767.

36. 684 F.2d 902 (C.C.P.A. 1982).

37. *See id.* at 907 (quoting *In re* Walter, 618 F.2d 758, 767 (1980)).

38. For a detailed discussion, see Ronald S. Laurie & Joseph K. Siino, *A Bridge over Troubled Waters? Software Patentability and the PTO's Proposed Guidelines (Part I)*, COMPUTER LAW., Sept. 1995, at 6. Laurie and Siino classify each Federal Circuit judge as a "traditionalist," "literalist," or "radical" with regard to software patentability and explain the discrepancies in various decisions based on the compositions of the panels that reached them.

39. 33 F.3d 1526 (Fed. Cir. 1994) (en banc).

eral Circuit announced a new and broader test, at least with regard to machine claims. Alappat claimed a machine that created a smooth waveform display for a digital oscilloscope.[40] Judge Rich, writing for the majority, noted that in *Benson*, *Flook*, and *Diehr*, the Supreme Court had not designated mathematical algorithms as a distinct category of unpatentable subject matter.[41] Instead, the Supreme Court had simply explained that mathematical subject matter represents nothing more than an abstract idea and is thus not entitled to patent protection until it is "reduced to some type of practical application."[42] Therefore, Judge Rich concluded, the "proper inquiry" regarding mathematical subject matter was "whether the claimed subject matter as a whole is a disembodied mathematical concept, . . . which in essence represents nothing more than a 'law of nature,' 'natural phenomenon,' or 'abstract idea.'"[43] If it was, then the subject matter would be unpatentable.[44] Applying this test, the court upheld Alappat's claim on the grounds that "a specific machine to produce a useful, concrete, and tangible result" could not be characterized as an abstract idea.[45]

Four years later, in *State Street Bank & Trust Co. v. Signature Financial Group, Inc.*,[46] the Federal Circuit confirmed that the mathematical algorithm exception no longer applied to machine claims. Relying on *Alappat*, the court held that an application of an algorithm is patentable if it produces a "useful, concrete, and tangible result."[47] The court then concluded that a claimed data processing system for managing investment accounts produced such a result: "a final share price momentarily fixed for recording and reporting purposes."[48] The court rejected the *Freeman-Walker-Abele* test's requirement of physical limitations as having "little, if any applicability to determining the presence of statutory subject matter" in light of *Diehr* and *Diamond v. Chakrabarty*.[49]

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40. *See id.* at 1537, 1541. Because Alappat's claims used means-plus-function language, there was some dispute over whether Alappat had in fact claimed a machine or a process. For a discussion of this aspect of the case, see Bradley D. Baugh, Note, *WMS Gaming v. International Game Technology*, 15 BERKELEY TECH. L.J. 109, 114-15 (2000).

41. *See Alappat*, 33 F.3d at 1543.

42. *Id.*

43. *Id.* at 1544.

44. *See id.*

45. *See id.*

46. 149 F.3d 1368 (Fed. Cir. 1998).

47. *See id.* at 1373 (quoting *In re* Alappat, 33 F.3d 1526, 1544 (Fed. Cir. 1994)).

48. *See id.*

49. *See id.* at 1374.

Both *Alappat* and *State Street Bank* addressed machine claims, where structure omitted from the claim may be supplied from the disclosure.[50] The Supreme Court cases, in contrast, addressed process claims and emphasized the presence or lack of physical elements. Thus, it was not clear whether the Federal Circuit would apply its expansive *Alappat* test to process claims.

II. CASE HISTORY

In *AT&T Corp. v. Excel Communications, Inc.*,[51] the Federal Circuit confronted process claims. AT&T sued Excel Communications, Excel Communications Marketing, and Excel Telecommunications (collectively "Excel") for infringement of ten of the method claims of U.S. Patent No. 5,333,184 ("the '184 patent").[52] Excel moved for summary judgment on the grounds that the '184 patent did not meet the statutory requirements for patentable subject matter under 35 U.S.C. § 101.[53]

A. Technical Background of the '184 Patent

The '184 patent involves an improvement in the technology used to calculate the price of direct-dialed long-distance telephone calls. Thus, understanding the issues in the case requires a brief detour into the underlying technology of long distance telephone service.

1. Telephone service and billing: a crash course

Telephone subscribers sign up with a local exchange carrier ("LEC"), such as Pacific Bell.[54] The LEC provides a network for local telephone calls and access to the networks of long-distance, or interexchange, carriers ("IXCs"), such as AT&T or Sprint, which route calls between local service areas.[55] "Facilities-based" IXCs, such as AT&T, "own, operate, lease, or otherwise control" the networks they use to route calls, while "re-

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50. *See* 35 U.S.C. § 112 ¶ 6 (1994) ("An element in a claim for a combination may be expressed as a means or step for performing a specified function without the recital of structure, material, or acts in support thereof, and such claim shall be construed to cover the corresponding structure, material, or acts described in the specification and equivalents thereof.").

51. 172 F.3d 1352 (Fed. Cir. 1999).

52. *See id.* at 1354.

53. *See* AT&T Corp. v. Excel Communications, Inc., No. CIV.A. 96-434-SLR, 1998 WL 175878, at *1 (D. Del. March 27, 1998), *rev'd*, 172 F.3d 1352 (Fed. Cir. 1999), *cert. denied*, 120 S. Ct. 368 (1999).

54. *See Excel*, 172 F.3d at 1353.

55. *See* U.S. Patent No. 5,333,184, at col. 1, ll. 41-45 (issued July 26, 1994). LECs are required to provide access to all IXCs. *See* Excel, 1998 WL 175878, at *1.

sellers," such as Excel, provide billing and other services to customers but do not own or control network equipment.[56]

A telephone subscriber may place a long-distance call using any IXC.[57] However, each subscriber chooses one long-distance service provider as her primary interexchange carrier ("PIC"), meaning that whenever the subscriber dials long distance directly (using 1+ the number), the LEC routes the call to the network of her PIC.[58]

Whenever a subscriber places a long-distance telephone call, a switch within the telephone network, usually belonging to the IXC carrying the call, generates a message record that includes the telephone numbers of the caller and the recipient, as well as the duration of the call.[59] The switch then transmits this message record to an accumulation system.[60] The accumulation system, in turn, periodically distributes the message records it has received to a processing system, which converts each message record into exchange message interface ("EMI") format.[61] The processing system forwards each EMI message record to a rating system, which computes the charges for the call and adds that information to the message record.[62] Telephone service providers subsequently retrieve EMI message records and use them to generate customers' bills.[63]

2. *The '184 patent*

U.S. Patent No. 5,333,184 ("the '184 patent"), held by AT&T, teaches a method for enhancing an EMI message record by adding a new field called a "PIC indicator."[64] The '184 patent discloses several possible formulas for determining the value to be stored in the PIC indicator, all of which depend on the caller's and the recipient's PICs. In a particularly simple form, the PIC indicator may be a numerical code that identifies the recipient's PIC.[65] Alternatively, the PIC indicator may have a Boolean[66]

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56. *See Excel*, 1998 WL 175878, at n.1.
57. *See* '184 patent, *supra* note 55, at col. 4, ll. 23-29.
58. *See id.* at col. 1, lines 35-39; Excel, 172 F.3d at 1353.
59. *See* '184 patent, *supra* note 55, at col. 1, ll. 12-16, 45-49.
60. *See id.* at col. 1, ll. 14-18.
61. *See id.* at col. 1, ll. 18-22. EMI is an industry-wide standard format. *See id.*
62. *See id.* at col. 1, ll. 22-26.
63. *See id.* at col. 1, ll. 26-29.
64. *See id.* at col. 1, ll. 52-55.
65. *See id.* at col. 4, ll. 14-16.
66. "Having to do with logical (true, false) values." MICROSOFT PRESS COMPUTER DICTIONARY: THE COMPREHENSIVE STANDARD FOR BUSINESS, SCHOOL, LIBRARY, AND HOME 50 (2d ed. 1994). "Boolean algebra" is a method of manipulating variables that can have the values "true" or "false" by performing logical operations, such as "A AND B"

(true or false) value indicating whether the recipient's PIC is or is not the IXC that carried the call.[67] Accordingly, for calls carried by AT&T, the PIC indicator would be set to "true" if the recipient is an AT&T subscriber and to "false" otherwise. In a third implementation, the PIC indicator has a Boolean value indicating whether both the caller and recipient have as their PIC the IXC that carried the call.[68] In this implementation, the PIC indicator for calls carried by AT&T would be set to "true" only if both caller and recipient were AT&T subscribers.

Regardless of the method used to calculate it, the PIC indicator is added to the EMI message record for each call.[69] The rating system can then use PIC information when it computes the charges for the call.[70] Thus, AT&T could use its patented method to offer its subscribers a discount on calls to other AT&T subscribers.[71]

B. The District Court Decision

In *AT&T Corp. v. Excel Communications, Inc.*,[72] the district court granted Excel's summary judgment motion. Having determined that "the claims at issue implicitly recite a mathematical algorithm,"[73] the court attempted to apply *Diehr* by asking "whether the process claimed 'is performing a function which the patent laws were designed to protect.'"[74] The court observed that in the claimed invention, "information that is already

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(true only when both A and B are true) or "A OR B" (true when at least one of A and B is true). *See id.* at 50-51.

67. *See* '184 patent, *supra* note 55, at col. 4, ll. 16-19.

68. *See id.* at col. 4, ll. 19-22.

69. *See id.* at col. 4, ll. 40-43.

70. *See id.* at col. 4, ll. 44-46.

71. *See id.* at col. 4, ll. 53-56.

72. No. CIV.A. 96-434-SLR, 1998 WL 175878 (D. Del. March 27, 1998).

73. *Id.* at *6.

Claim 1, which is representative of the asserted claims, reads:

> A method for use in a telecommunication system in which interexchange calls initiated by each subscriber are automatically routed over the facilities of a particular one of a plurality of interexchange carriers associated with that subscriber, said method comprising the steps of:
>
> generating a message record for an interexchange call between an originating subscriber and a terminating subscriber, and
>
> including, in said message record, a primary interexchange carrier (PIC) indicator having a value which is a function of whether or not the interexchange carrier associated with said terminating subscriber is a predetermined one of said interexchange carriers.

'184 patent, *supra* note 55, at col. 7, ll. 2-16.

74. *Excel*, 1998 WL 175878, at *6 (quoting Diamond v. Diehr, 450 U.S. 175, 192 (1981)).

known within a telecommunications system . . . is simply retrieved for an allegedly new use" and that in the generation of the PIC indicator, the substantive data remained the same despite being changed from an analog to a digital format.[75] On the grounds that patentable processes must transform the substance, not merely the form, of input data, the court ruled that the asserted claims were unpatentable under section 101.[76] AT&T appealed to the Federal Circuit.[77]

C. The Federal Circuit Decision

In *AT&T Corp. v. Excel Communications, Inc.*,[78] the Federal Circuit upheld the method claims of the '184 patent against the section 101 challenge. Judge Plager, writing for the unanimous panel, justified the decision on the grounds that patent law must "adapt to new and innovative concepts, while remaining true to basic principles."[79]

1. No distinction between process and machine claims

Because Excel did not own or control the telecommunications equipment over which its subscribers placed calls, AT&T could allege infringement only of the method claims of the '184 patent.[80] The Federal Circuit refused to distinguish *Excel* from *Alappat* and *State Street Bank*, which involved machine claims, holding instead that "we consider the scope of section 101 to be the same regardless of the form—machine or process—in which a particular claim is drafted."[81] In support of the court's position, Judge Plager cited Judge Rader's concurrence in *Alappat*[82] and language from *State Street Bank*.[83] Judge Plager then claimed that the Supreme Court cases, all of which involved method claims, provided the

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75. *See id.*

76. *See id.* at *7.

77. *See* AT&T Corp. v. Excel Communications, Inc., 172 F.3d 1352, 1353 (Fed. Cir. 1999). While AT&T's appeal was pending, the Federal Circuit issued its decision in *State Street Bank. See id.* at 1358.

78. 172 F.3d 1352 (Fed. Cir. 1999).

79. *Id.* at 1356.

80. *See* AT&T v. Excel Communications, No. CIV.A. 96-434-SLR, 1998 WL 175878, at *1 n.1 (D. Del. March 27, 1998).

81. *Excel*, 172 F.3d at 1357.

82. *See id.* at 1357-58 ("'[W]hether the invention is a process or a machine is irrelevant.'" (quoting *In re* Alappat, 33 F.3d 1526, 1581 (Fed. Cir. 1994) (Rader, J., concurring))).

83. *See id.* at 1358 ("'[F]or the purposes of a section 101 analysis, it is of little relevance whether claim 1 is directed to a "machine" or a "process."'" (quoting *State Street Bank & Trust v. Signature Fin. Group*, 149 F.3d 1368, 1372 (Fed. Cir. 1998))).

principles applied to machine claims in *Alappat* and *State Street Bank*.[84] On that basis, the Federal Circuit felt "comfortable" in extending the *Alappat* rule to cover process claims.[85]

The Federal Circuit reviewed and applied the mathematical algorithm analysis of *State Street Bank*. It noted that every process claim "involves an 'algorithm' in the broad sense of the term."[86] Because section 101 states that processes can be patented, any proscription against patenting algorithms must be "narrowly limited to mathematical algorithms in the abstract."[87] Thus, the court concluded that AT&T's claimed process was a useful application of Boolean algebra that did not attempt to preclude other applications of the Boolean principle and that the process therefore "comfortably falls within the scope of section 101."[88]

2. *No physical limitations required*

The Supreme Court cases had treated the presence of a physical element in a process claim as crucial,[89] and the Federal Circuit had previously rejected process claims involving algorithms unless the claim could be characterized as involving a physical transformation.[90]

In *Excel*, however, the Federal Circuit rejected this approach. It stated that a physical transformation was "not an invariable requirement, but merely one example" of how an algorithm can be applied to achieve a useful, concrete, and tangible result.[91] The court then went further, rejecting Excel's argument that because the patent disclosure did not set forth physical limitations, its method claims were unpatentable.[92] Judge Plager

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84. *See id.*

85. *See id.*

86. *Id.* at 1356.

87. *Id.*.

88. *Id.* at 1358.

89. *See* Part I.A, *supra*. *See also* Lawrence Kass, Comment, *Computer Software Patentability and the Role of Means-Plus-Function Format in Computer Software Claims*, 15 PACE L. REV. 787, 848-49 (1995) (distinguishing *Diehr* from *Flook* and *Benson* on the grounds that Diehr's claimed process involved a physical transformation, while the other claimed processes transformed only data).

90. *See, e.g., In re* Schrader, 22 F.3d 290. (Fed. Cir. 1994). In *Schrader*, the Federal Circuit rejected claims to a method of conducting an auction, on the grounds that "there is nothing physical about bids per se." *See id.* at 294. The court distinguished *Schrader* from previous cases in which it had upheld process claims involving algorithms, explaining that the claims it had upheld "involved the transformation or conversion of subject matter representative of or constituting physical activity or objects." *See id.*

91. *See* AT&T Corp. v. Excel Communications, Inc., 172 F.3d 1352, 1358 (Fed. Cir. 1999).

92. *See id.* at 1359.

explained that supporting structure was necessary for means-plus-function machine claims to satisfy 35 U.S.C. § 112 ¶ 6; when method claims are at issue, "a structural inquiry is unnecessary."[93] The court then proceeded to dismiss as "unhelpful" its own earlier decisions in *In re Grams*[94] and *In re Schrader*,[95] where it had rejected method claims directed to algorithms for lack of sufficient physical steps.[96]

3. Policy points

Plager ended by asserting, with little elaboration, that the "useful, concrete and tangible result" test resolved the concerns raised by Justice Stevens in his dissent in *Diehr*.[97] According to Judge Plager, the lack of clear rules "should be less of a concern today" in view of the refocused section 101 analysis.[98] Furthermore, under the new test, any ambiguity in the term "algorithm" becomes insignificant because the presence of an algorithm is no longer the focus of the inquiry.[99]

III. DISCUSSION

In *Excel*, the Federal Circuit took another step toward establishing clear rules regarding the patentability of algorithm-related inventions by applying to process claims the same "useful, concrete, and tangible" result test it had previously applied to machine claims. But this increase in clarity comes with problems of its own: a doctrine that broadly allows process claims for mathematical algorithms without requiring physical elements or structure increases the risk that abstract ideas or thought processes will be patented. To prevent this, courts need to develop new doctrines and use existing ones to keep software patents within reasonable bounds.

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93. *Id.*

94. 888 F.2d 835 (Fed. Cir. 1989) (holding unpatentable an inventor's claims to a method of diagnosing an abnormal condition in a patient by combining results of a number of unspecified lab tests according to a vaguely specified formula, on the grounds that the claims lacked sufficient physical steps).

95. 22 F.3d 290, 293-94 (Fed. Cir. 1994) (holding unpatentable an inventor's claim to a method for conducting an auction that consisted of collecting and manipulating bids for arbitrary subsets of the items in order to maximize the proceeds, on the grounds that "there is nothing physical about bids per se").

96. *See Excel*, 172 F.3d at 1360.

97. *See id.* at 1360-61. Justice Stevens's concerns are described in Part I.A, *supra*.

98. *See Excel*, 172 F.3d at 1361.

99. *See id.*

A. The Virtues of the Federal Circuit's Decision

The Federal Circuit's decision eliminates a pointless inconsistency in the treatment of process and machine claims and clarifies the doctrine of patentable subject matter. In these respects, it improves the state of the law.

1. Consistent treatment of process and machine claims

In the wake of *Alappat*, "any competent draftsman" could claim software-implemented algorithms by claiming an apparatus in means-plus-function form.[100] The legal fiction that a programmed general-purpose computer is a different machine from an unprogrammed general-purpose computer[101] makes it trivial to provide enough structure to support means-plus-function claims: a few lines of code in a microprocessor become a logic circuit.[102]

Given the ease with which acceptable means-plus-function claims to software can be drafted, applying different standards to process claims than to machine claims is artificial at best. Inventors may describe their inventions in terms of their own choosing,[103] and virtually any process claim can be redrafted as a machine claim in means-plus-function form.[104] Furthermore, a person skilled in the computer arts can implement almost any functionality using either a dedicated circuit or software.[105] Thus, continuing to apply the algorithm rule to exclude software when claimed as a process would have little practical effect.

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100. *See* David L. Bohan, Note, *Computer Programs: Abstract Ideas or Patentable Subject Matter?*, 29 SUFFOLK U. L. REV. 809, 833 (1995).

101. *See In re* Alappat, 33 F.3d 1526, 1545 (Fed. Cir. 1994) ("[A] general purpose computer in effect becomes a special purpose computer once it is programmed to perform particular functions pursuant to instructions from program software."). Many commentators describe this rule as a legal fiction. *See, e.g.*, Lawrence Kass, *supra* note 89, at 864 (1995).

102. *See* Kass, *supra* note 89, at 863-64.

103. *See Alappat*, 33 F.3d at 1583 (Rader, J., concurring) ("Whether an inventor calls the invention a machine or a process is not nearly as important as the invention itself."); *In re* Johnson, 589 F.2d 1070, 1077 (C.C.P.A. 1978) ("[T]he form of the claim is often an exercise in drafting.").

104. Comparing claims 1 and 30 of the '184 patent demonstrates how easy this is. Claim 1 is quoted *supra* at note 73. Claim 30 is worded identically to claim 1, with these minor alterations: (1) the word "apparatus" has been substituted for "method;" (2) the phrase "the steps of" has been deleted; and (3) each step is preceded by the phrase "means for." *See* '184 patent, *supra* note 55, at col. 10, ll. 30-45.

105. *See Alappat*, 33 F.3d at 1583 (Rader, J., concurring) (noting that a software process is often interchangeable with a hardware circuit).

Moreover, the distinction between process and machine claims has no statutory basis. Section 101 refers to processes and machines on an equal basis, requiring only that they be "new and useful."[106] To satisfy this subject matter requirement, a machine claim merely needs to describe a specific machine and have a practical application.[107] Imposing additional physicality requirements on process claims that are within the useful arts treats the two categories inconsistently.

2. *Clarification of the law of patentability*

Furthermore, the Supreme Court's attempts to impose physicality requirements on process claims under section 101 have only confused the courts.[108] Courts[109] and commentators[110] disagree on whether *Diehr*, *Flook*, and *Benson* can be reconciled. Likewise, it is not clear whether the holding in *Excel* can be reconciled with the Supreme Court cases. In its discussion of *Flook*, the *Diehr* Court reiterated the view that a field of use limitation and trivial post-solution activity did not suffice to confer patentability on a claim to a process involving a mathematical algorithm.[111] Claim 1 of the '184 patent is limited to the field of telecommunications systems and recites only a conventional step (generating a message record) and a trivial post-solution step (including the PIC indicator in the record).[112] These features suggest that claim 1 would have been rejected under the Supreme Court's analysis. Moreover, in upholding Diehr's claims,

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106. *See* 35 U.S.C. § 101 (1994) ("Whoever invents or discovers any new and useful process, machine, ...").

107. *See* U.S. PATENT & TRADEMARK OFFICE, MANUAL OF PATENT EXAMINING PROCEDURE §2106, Part IV.B.2.a.ii (7th ed. 1998) ("A claim limited to a specific machine or manufacture, which has a practical application in the technological arts, is statutory."). In the computer context, limiting a claim to a specific machine requires that the applicant disclose elements of the computer, indicate their configuration, and perhaps supply a few lines of code. *See id.*

108. In this respect, Justice Stevens's dissent in *Diehr* was most accurate. *See supra* text accompanying note 31.

109. *Compare, e.g.*, *In re* Alappat, 33 F.3d 1526, 1582 (Fed. Cir. 1994) (Rader, J., concurring) (explaining that *Diehr* confined *Benson* and *Flook* to their facts), *with Alappat*, 33 F.3d at 1557 (Archer, C.J., dissenting) (reading the three cases as perfectly consistent).

110. *Compare, e.g.*, Gregory J. Maier, *Software Protection—Integrating Patent, Copyright, and Trade Secret Law*, 69 J. PAT. & TRADEMARK OFF. SOC'Y 151, 153-56 (1987) (*Diehr*, *Flook*, and *Benson* are irreconcilable), *with* Jur Strobos, *Stalking the Elusive Patentable Software: Are There Still* Diehr *or Was It Just a* Flook*?*, 6 HARV. J.L. & TECH. 363, 365 (1993) (Supreme Court's view of software patentability has not changed).

111. *See* Diamond v. Diehr, 450 U.S. 175, 193 n. 14 (1981).

112. *See supra* note 73.

the Court emphasized that the claimed process physically transformed an article,[113] while the PIC indicator does not. Yet the *Benson* court insisted that a process that did not transform articles or materials and was not tied to particular machines might nevertheless be patentable,[114] so the lack of a physical transformation is not dispositive. What most strongly suggests that *Excel* is inconsistent with *Diehr*, *Flook*, and *Benson* is that the process of the '184 patent does not transform anything outside the computer that performs it.

To resolve the confusion, Justice Stevens advocated an unequivocal statement that computer algorithms are unpatentable subject matter.[115] The Federal Circuit has taken the opposite approach, reading section 101 to cover any application of an algorithm to produce a useful, concrete, and tangible result, at the price of arguably ignoring the unclear dictates of the Supreme Court.[116]

B. The Danger in the Federal Circuit's Decision

The decision in *Excel* creates a risk to the vitality of the rule against patenting abstract ideas. The purpose of granting patents is "to promote the Progress of . . . useful Arts."[117] Granting a patent on an abstract idea would impede this purpose. Abstract ideas are basic tools of technological progress,[118] and as such must be freely available to all would-be inventors. A similar rationale underlies the "mental steps" doctrine, which courts have occasionally invoked to prevent patents on thought processes.[119] To be able to invent, one must be free to think.[120] By making nonphysical

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113. *See Diehr*, 450 U.S. at 192, and Part I.A., *supra*.

114. *See* Gottschalk v. Benson, 409 U.S. 63, 71 (1972) ("It is argued that a process patent must either be tied to a particular machine . . . or must operate to change articles or materials to 'a different state or thing.' We do not hold that no process patent could ever qualify if it did not meet [these requirements].").

115. *See Diehr*, 450 U.S. at 219 (Stevens, J., dissenting).

116. A discussion of the relative merits of Justice Stevens's and the Federal Circuit's approaches is beyond the scope of this Note.

117. U.S. CONST. art. 1, § 8, cl. 8.

118. *See Benson*, 409 U.S. at 67.

119. The mental steps doctrine has been described as a "vague and troublesome family of related rules," the basic idea of which is that a patent cannot be obtained for a process if "human mental participation" is an essential component of the process. *See* 1 CHISUM, *supra* note 10, § 1.03[6]. Chisum then details the courts' development and curtailment of this doctrine. *See id.*

120. The prohibition on patenting thought could also be justified on First Amendment grounds. *See* Robert A. Kreiss, *Patent Protection for Computer Programs and Mathematical Algorithms: The Constitutional Limitations on Patentable Subject Matter*, 29 N.M. L. REV. 31, 86-87 (1999).

processes patentable, the Federal Circuit has created a danger that abstract ideas or thought processes could be patented.

As long as inventors were compelled to use means-plus-function language, this danger was relatively remote. The use of a means-plus-function claim puts the inventor under a burden to disclose sufficient structure corresponding to the means.[121] At a minimum, this rule confines the claims to computer implementations.[122]

The danger of allowing patents on abstract ideas or thought processes increases when process claims directed to mathematical algorithms are allowed.[123] After *Excel*, it appears that a process claim to an algorithm need not be supported or limited by any structure or physical elements, as long as it produces a useful, concrete, and tangible result without preempting other uses of the algorithm. A claim not limited by any physical element or structure could become, in effect, a patent on an abstract idea or a process of thought.

To understand the danger, consider the following (admittedly implausible) hypothetical. Suppose that Excessive Telecom[124] decides to engage in a differential-billing plan. Cursed with poor business judgment, Excessive opts to hire 20,000 people to examine its EMI message records, look for each call recipient's phone number in a directory of Excessive's subscribers, and add a Boolean indicator to the message record with a value of "true" if the recipient is an Excessive subscriber and "false" otherwise.

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121. *See In re* Donaldson Co., Inc., 16 F.3d 1189, 1195 (Fed. Cir. 1994) ("[I]f one employs means-plus-function language in a claim, one must set forth in the specification an adequate disclosure showing what is meant by that language.").

122. 35 U.S.C. § 112 ¶ 6 extends claim coverage to equivalents of the disclosed structure. Once an inventor has disclosed a programmed computer as a structure, virtually any other computer implementation would probably be considered equivalent. *See In re* Alappat, 33 F.3d 1526, 1545 (acknowledging that "a general purpose computer programmed to carry out the claimed invention" would be within the scope of the claims). *See also* Dennis S. Karjala, *The Relative Roles of Patent and Copyright in the Protection of Computer Programs*, 17 J. MARSHALL J. COMPUTER & INFO. L. 41, 58 (1998) ("If the patent [claiming a "means for" element and disclosing a programmed computer] is valid, then any computer programmed to do the same thing in conjunction with the other elements will infringe, even if the second program is completely different from the first.").

123. *See, e.g.*, Pamela Samuelson, Benson *Revisited: The Case Against Patent Protection for Algorithms and Other Computer Program-Related Inventions*, 39 EMORY L.J. 1025, 1126-28 (1990) (hypothesizing that if an algorithm for resolving contract disputes were patented, a judge's use of that algorithm in resolving a case might infringe); Allen Newell, *Response: The Models Are Broken! The Models Are Broken!*, 47 U. PITT. L. REV. 1023, 1026-28 (1986) (hypothesizing that allowing patents on algorithms could prevent people from doing calculations).

124. Any resemblance to a real company is purely coincidental.

The Excessive employees are doing exactly what AT&T is entitled to prohibit under the literal language of the '184 patent. Yet to find infringement on these facts[125] would be to prevent the 20,000 employees from thinking a certain combination of thoughts.

In *Benson*, the Supreme Court recognized this danger and held unpatentable claims that would read on any implementation of an algorithm, including human activity.[126] In *Diehr* and *Flook*, the Supreme Court emphasized the presence or absence of significant physical activity in process claims involving algorithms, arguably in an effort to prevent patent claims from extending to human activity.[127] By upholding AT&T's claim as patentable subject matter despite its lack of physical limitations, *Excel* has cut off that approach.

C. Preventing Patents on Thought

Fortunately, 35 U.S.C. § 101 is not the only applicable statutory provision, and courts can use other provisions of Title 35 to prevent process claims from amounting to patents on thought. For instance, 35 U.S.C. § 112 ¶ 6 can be used to limit the scope of process claims, much as it is now used for machine claims. In addition, judicious application of the other statutory requirements for patentability (novelty and non-obviousness) can help to keep software patents within appropriate limits.

1. Step-plus-function claims

Now that courts cannot reject broadly worded process claims divorced from physical elements under section 101, courts should apply the rarely used step-plus-function language in section 112, paragraph 6. That section provides that "[a]n element in a claim for a combination may be expressed as . . . [a] step for performing a specified function without the recital of structure, materials, or acts in support thereof." Almost all process claims

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125. Assuming that AT&T would bother asserting its rights, given that Excessive will likely go broke on its own.

126. *See* Gottschalk v. Benson, 409 U.S. 63, 67 ("The conversion of BCD numerals to pure binary numerals can be done mentally.").

127. While the holdings of *Diehr* and *Flook* are not explicitly based on the mental steps doctrine, language in each opinion suggests that the Court was alert to the potential problem of patenting thought. *Compare* Diamond v. Diehr, 450 U.S. 175, 187 (1981) (pointing out that the claimed process includes "constantly recalculating the appropriate cure time *through the use of a digital computer*" (emphasis added)) *with* Parker v. Flook, 437 U.S. 584, 586 (1978) ("Using the formula, *an operator* can calculate an updated alarm limit. . . ." (emphasis added)).

On the basis of such language, Jur Strobos argues that the Supreme Court intended the pre-emption test to involve "analysis of whether human or mental activity falls within the scope of the claim." *See* Strobos, *supra* note 110, at 376-89.

recite combinations of steps; the difficult issue is determining when a given step is recited in functional rather than descriptive form.[128]

Sufficient case law to guide courts in this area does not yet exist.[129] Because patent drafters have generally avoided process claims for computer algorithms,[130] no existing case discusses the application of section 112, paragraph 6 to steps in such a claim. Even outside the field of computers, few cases involving step-plus-function claims exist.[131]

The courts should take this opportunity to shape a doctrine of step-plus-function claims that properly limits the scope of process claims that do not specify physical structures or actions. A full discussion of the possibilities inherent in step-plus-function claims is beyond the scope of this Note, which offers only two illustrative examples.

As one example, some process claims imply, rather than recite, steps, and a court could justifiably limit such implied steps to actions disclosed in the specification.[132] For instance, claim 1 of the '184 patent recites a step of "including . . . a [PIC] indicator having a value which is a function of" the recipient's PIC.[133] The wording implies, but does not state, that the value of the PIC indicator must be calculated, and does not specify any actions for performing the calculation. A court could limit this claim to actions disclosed in the specification. In this case, the '184 patent describes only a computer (the "rating system") accessing a database and

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128. *See* Lawrence B. Goodwin, *Computer Patent Issues: Use and Avoidance of Section 112, Paragraph 6, to Make Your Case*, 78 J. PAT. & TRADEMARK OFF. SOC'Y 809, 827-28 (1996). Goodwin observes that the Federal Circuit does not condone convenient ways to avoid section 112 paragraph 6; he then points out that in the computer context it may be possible to interpret all steps in process claims as step-plus-function elements, "a result that may not be entirely satisfactory." *Id.*

129. *See id.* at 825 (no known cases interpreting step-plus-function elements in an infringement context).

130. *See, e.g.*, Bohan, *supra* note 100, at 833 ("[A] wise patent drafter should draft computer program claims as apparatus claims in means-plus-function language.").

131. Three known cases involving step-plus-function claims are *In re Roberts*, 470 F.2d 1399 (C.C.P.A. 1973) (involving a process step of reducing the coefficient of friction of a plastic film to a specified value, where the disclosure described three techniques that could be used to achieve this result); *Noll v. O.M. Scott & Sons Co.*, 467 F.2d 295 (6th Cir. 1972) (involving a method for controlling the growth of crabgrass described in terms of its effects) and *Ex parte Zimmerley*, 153 U.S.P.Q. (BNA) 367 (Bd. App. 1966) (involving a step of raising the pH of a chemical mixture).

132. *See* Goodwin, *supra* note 128, at 827. Goodwin argues that *Noll* and *Zimmerley* suggest that reciting a result rather than an intermediate step brings elements of process claims within the meaning of section 112 paragraph 6.

133. *See* '184 patent, *supra* note 55, at col. 7, ll. 11-16. For the full text of claim 1, see *supra* note 73.

performing a Boolean operation to determine the value of the PIC indicator. Because a person is neither a computer nor its equivalent, this application of section 112 would prevent a finding that Excessive Telecom and its 20,000 employees had infringed AT&T's patent.

As another example, a court could limit the scope of a claim or step that recites no physical elements to the physical elements that were actually disclosed. For instance, neither step in claim 1 of the '184 patent recites any physical elements. A court could apply section 112, paragraph 6 to limit the coverage of the claim to the use of physical components of the long-distance network to generate the message record.

Eventually, the courts will have to decide how to identify and limit step-plus-function claims under section 112, paragraph 6. The *Excel* decision will almost certainly lead to increased use of process claims in software patents. As infringement actions based on these process claims become more common, some defendant will inevitably raise a section 112, paragraph 6 defense. A doctrine of step-plus-function claims shaped by wise judicial decisions could replace and improve upon the Supreme Court's failed attempt to use section 101 to prevent algorithm claims from becoming patents on thought. Such a doctrine would also provide a natural parallel to the treatment of machine claims, where failure to adequately disclose structure supporting the claims can lead to a rejection for indefiniteness.

2. *Novelty and nonobviousness requirements*

As section 101 fades into relative insignificance, the other threshold requirements of patentability—novelty[134] and nonobviousness[135]—will become more important.[136]

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134. 35 U.S.C. § 102 (1994) provides that "A person shall be entitled to a patent unless (a) the invention was known or used by others in this country, or patented or described in a printed publication in this or a foreign country, before the invention thereof by the applicant for patent." The remaining subsections provide additional tests related to establishing novelty.

135. A patent may not be obtained though the invention is not identically disclosed or described as set forth in section 102 of this title, if the differences between the subject matter sought to be patented and the prior art are such that the subject matter as a whole would have been obvious at the time the invention was made to a person having ordinary skill in the art to which said subject matter pertains.

35 U.S.C. § 103(a) (1994).

136. For other proposals regarding the definition of novelty and nonobviousness in the context of algorithm patents, see Karjala, *supra* note 122, at 59 ("No patent should issue if the programmer simply applies straightforward programming principles or practice to the well understood art of solving mathematical problems on [a] computer.");

In determining whether an invention incorporating a mathematical algorithm is novel and nonobvious, the Patent and Trademark Office and the courts[137] should treat the mathematical algorithm as prior art. Doing so would be consistent with the notion that a mathematical algorithm is an abstract idea, which belongs in the public domain as a tool of scientific thought. The Supreme Court suggested such an approach in *Flook*[138] but created confusion by introducing a novelty test into a subject matter inquiry.

Using this rule, a claim involving a useful application of an algorithm would fail for lack of novelty if the only "new" element was the algorithm, or for obviousness if, given knowledge of the algorithm, a person skilled in the art would have readily arrived at the claimed invention. Indeed, in the most recent development in *AT&T Corp. v. Excel Communications, Inc.*,[139] on remand from the Federal Circuit, the district court found the '184 patent invalid on the alternative grounds of lack of novelty and obviousness.[140] This outcome demonstrates that courts need not rely on subject matter alone to invalidate patents that should never have been granted.

IV. CONCLUSION

The Supreme Court attempted to use the subject matter requirement of 35 U.S.C. § 101 to prevent patents on computer-implemented algorithms from becoming patents on abstract ideas or thought processes. The Court's efforts produced, in the end, an ill-defined physical transformation requirement that lower courts struggled for years to understand and apply.

Note, *Computer Intellectual Property and Conceptual Severance*, 103 HARV. L. REV. 1046, 1063 (1990) (proposing high standards of innovation for software and algorithm patents in order to prevent overprotection).

137. Ideally, the Patent and Trademark Office ("PTO") prevents patents that do not meet the statutory requirements from issuing. However, the PTO has a distressingly poor track record in the area of software patents. For a discussion of this point, see Robert P. Merges, *As Many as Six Impossible Patents before Breakfast: Property Rights for Business Concepts and Patent System Reform*, 14 BERKELEY TECH. L.J. 577, 578-91 (1999).

138. *See* Parker v. Flook, 437 U.S. 584, 591-92 (1978) ("Whether the algorithm was in fact known or unknown at the time of the claimed invention, as one of 'the basic tools of scientific and technological work,' it is treated as a familiar part of the prior art." (citation omitted)).

139. No. CIV.A. 96-434-SLR, 1999 WL 1050064 (D. Del. Oct. 25, 1999).

140. *Id.* at *23. The court first found that MCI's Friends & Family program, which used an indicator in MCI's message records to identify selected calls from MCI subscribers to MCI subscribers, anticipated the claims. *See id.* at *17-*21. To preempt further argument over one questionable element, the court went on to find that the Bellcore EMI standard, published in 1990, in combination with the Friends & Family program, made the claims obvious. *See id.* at *21-*23.

The Federal Circuit's decision in *Excel*, by allowing computer-related processes to be patented without regard for physical limitations or elements, undoes the Supreme Court's efforts. Fortunately, other provisions of existing patent law can serve the same purpose, perhaps more effectively than the section 101 requirement did. With the final demise of section 101 limits on software patents, an increasing number of software process claims will confront the courts. In response, the courts will need to fashion new doctrines for interpreting these claims. The step-plus-function language of 35 U.S.C. § 112 ¶ 6 provides courts with a potentially powerful tool for keeping software patents within reasonable limits.

SCALTECH INC. V. RETEC/TETRA L.L.C. & ABBOTT LABORATORIES V. GENEVA PHARMACEUTICALS, INC.

By Nicole Marie Fortuné

The complexities of modern inventions demand continued evolution of intellectual property law. While the constitutional goal of patent law remains to "promote the Progress of Science and useful Arts,"[1] the tests that effectively promote this policy are shaped by the technologies to which they apply. Advancements in technologies require refinements in the rules that analyze their development and determine their legal status.

A fundamental tenet of American patent law involves a "carefully crafted bargain" which grants limited exclusivity to a new, useful and nonobvious development in exchange for its disclosure and eventual dissemination.[2] A provision in the law specifically designed to enforce this statutorily defined exclusivity period is the "on-sale" bar to patentability, codified in section 102(b) of the Patent Act.[3] The bar prevents an inventor from obtaining a patent on an otherwise eligible invention if it was commercially marketed in the U.S. more than a year before its patent application.[4]

The history of section 102(b) reveals a continuing judicial controversy surrounding the interpretation of the term "invention." The issue concerns the extent to which an invention must be developed before its commercialization will trigger the on-sale bar.[5] The recent Supreme Court deci-

1. U.S. CONST. art. I, § 8, cl. 8.
2. Bonito Boats, Inc. v. Thunder Craft Boats, Inc., 489 U.S. 141, 150-51 (1989).
3. 35 U.S.C. § 102(b) provides: "A person shall be entitled to a patent unless . . . the invention was . . . on sale in this country, more than one year prior to the date of the application for patent in the United States. . . ." 35 U.S.C. § 102(b) (1994). *See generally* William G. Phelps, *When Does On-Sale Bar of 35 U.S.C.A. § 102(b), Which Denies Patentability to Invention That Has Been On Sale for More Than One Year Prior to Date of Patent Application, Prevent Issuance of Valid Patent*, 155 A.L.R. FED. 1 (1999).
4. *See* 35 U.S.C. § 102(b) (1994). When asserted as an affirmative defense against infringement, § 102(b) can invalidate a patent if a showing of clear and convincing proof that the patent should not have been granted overcomes its presumptive validity. *See* Abbott Lab. v. Geneva Pharm., 182 F.3d 1315, 1318 (Fed. Cir. 1999); 35 U.S.C. § 282 (1994) (providing that a patent is presumed valid and that the burden of establishing invalidity shall lie with the party asserting it).
5. *See* Pfaff v. Wells Elec., Inc., 119 S. Ct. 304, 308 (1998).

sion in *Pfaff v. Wells Electronics, Inc.* provides a new test in which the commercialization of an invention triggers the bar if the invention is "ready for patenting."[6] Readiness for patenting, in turn, can be shown by the invention's "reduction to practice."[7] Two recent Federal Circuit cases, *Scaltech Inc. v. Retec/Tetra L.L.C.*[8] and *Abbott Laboratories v. Geneva Pharmaceuticals, Inc.*,[9] however, both involved sales of inventions allegedly reduced to practice at a time before the inventors were cognizant of all of their patentable features. This situation arose partly because of the complex technologies involved in the patents at issue, namely, petroleum refining in *Scaltech*[10] and pharmaceutical chemistry in *Abbott.*[11] *Scaltech* and *Abbott* thus reveal an inconsistency within the *Pfaff* test: inventions reduced to practice may not literally satisfy the "ready for patenting" prong of the test.

This Note will first consider the history and policies of the on-sale bar, including other aspects of patent law that impinge upon its interpretation, and how these interpretations have shaped 102(b) analyses. It will next summarize the holding of *Pfaff* and the decisions that followed in *Scaltech* and *Abbott*. The Note will then discuss how these two cases reveal a structural inconsistency within the test and analyze how courts apply the inherency doctrine so as to resolve this inconsistency in accordance with principle. Finally, the Note will suggest an amended *Pfaff* test that may more directly and reliably effectuate its underlying purpose.

I. BACKGROUND

A. History and Policy of the "On-Sale" Bar

Originally, any sale or public disclosure of an invention abrogated an inventor's right to a patent.[12] Congress later ameliorated this rule to allow inventors a two year grace period in which to file.[13] One hundred years

6. *Id.* at 312.
7. *Id.*
8. Scaltech Inc. v. Retec/Tetra, L.L.C., 178 F.3d 1378 (Fed. Cir. 1999).
9. Abbott Lab. v. Geneva Pharm., Inc., 182 F.3d 1315 (Fed. Cir. 1999).
10. *See Scaltech*, 178 F.3d at 1380.
11. *See Abbott Lab.*, 182 F.3d at 1316.
12. *See* Pennock v. Dialogue, 27 U.S. (2 Pet.) 1, 14-15 (1829) (precluding patentability of an improved means of making hose where the hose had been made and sold for a number of years before its patenting under the rule that "if an inventor makes his discovery public, . . . he abandons the inchoate right to the exclusive use of the invention, to which a patent would have entitled him had it been applied for before such use").
13. *See* Patent Act of 1839, ch. 88, § 7, 5 Stat. 353, 354 (1839).

later, Congress reduced this period to one year.[14] The "on-sale" bar, and the closely related "public use" bar, are presently codified in section 102(b), which provides that an inventor cannot obtain a patent on an invention that has been patented or published anywhere or that has been "in pubic use or on sale" in the U.S. for more than one year before the date of applying for a U.S. patent.[15]

The application of section 102(b) has involved a search for a bright line test that can be uniformly applied while upholding the policies underlying the law. The policy considerations served by the on-sale bar include: (1) preventing the removal of inventions from the public that have been available through prolonged sales activity; (2) favoring prompt disclosure of new inventions; (3) avoiding effective extension of the statutorily defined exclusivity period; and (4) allowing the inventor a reasonable time for evaluating whether the invention is worth patenting.[16] Indeed, courts aim to apply section 102(b) in light of these principles,[17] and the law seeks to provide inventors with clear standards as to the type of activity that may trigger the bar.[18] The question remains as to whether the *Pfaff* test succeeds in furthering this goal.

B. Relation to Other Aspects of Patent Law

A basic discussion of certain other areas of patent law enables a better understanding of how courts interpret the on-sale bar. As statutory terms are presumed to have the same meaning throughout the Patent Act, a consideration of how the terms "invention" and "reduced to practice" are used in other sections of the Act enhances a 102(b) analysis. Further, the concepts of "inherency" and "experimental use" both concern features of an invention that are as yet undiscovered or unconfirmed—concepts at issue in applying the on-sale bar. Moreover, as section 102(b) aims to further the general policies of patent law, any particularized interpretation must reflect the law's broader philosophies.

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14. *See* Patent Act of 1939, ch. 450, § 1, 53 Stat. 1212, 1212 (1939).

15. 35 U.S.C. § 102 provides that "A person shall be entitled to a patent unless . . . the invention was patented or described in a printed publication in this or a foreign country or in public use or on sale in this country, more than one year prior to the date of the application for patent in the United States, ..." 35 U.S.C. § 102(b) (1994).

16. *See* Abbott Lab. v. Geneva Pharm., Inc., 51 U.S.P.Q.2d (BNA) 1301, 1305 (N.D. Ill. 1998), *aff'd*, 182 F.3d 1315 (Fed. Cir. 1999).

17. *See generally* David W. Carstens & Craig Allen Nard, *Conception and the "On Sale" Bar*, 34 WM. & MARY L. REW. 393, 395 (1993).

18. *See* Pfaff v. Wells Elec., Inc., 119 S. Ct. 304, 311 (1998) (noting that "these provisions identify an interest in providing inventors with a definite standard for determining when a patent application must be filed").

1. *The meaning of invention: sections 100–103*

Section 100 defines the term invention as meaning "invention or discovery,"[19] whereas section 101 recites three general conditions for patentability of an invention—novelty, utility and permissible subject matter.[20]

The requirement of novelty, defined in section 102, is closely related to the statutory bars, for it prevents the removal of previously available information from the public.[21] Nonobviousness, codified in section 103, provides that a patentable invention must represent a non-trivial extension of what is generally known by "a person having ordinary skill in the art."[22]

2. *The definition of reduction to practice: section 102(g)*

Reduction to practice may be a clear indicator of when an invention is complete.[23] An invention is reduced to practice when it is physically created in a functional form or successfully carried out.[24] The only section in Title 35 that expressly uses this term, however, is section 102(g), which provides the standard in resolving priority issues in interference proceed-

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19. 35 U.S.C. § 100(a) (1994) ("The term 'invention' means invention or discovery. . . .").

20. 35 U.S.C. § 101, "Inventions patentable," provides, "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. . . ." 35 U.S.C. § 101 (1994). This provision has been broadly interpreted. *See* Diamond v. Chakrabarty, 447 U.S. 303, 315 (1980) (holding that "[t]he subject matter provisions of the patent law have been cast in broad terms to fulfill the constitutional and statutory goal of promoting 'the Progress of Science and the [sic] useful Arts'").

21. 35 U.S.C. § 102(a) provides that an invention is not patentable if it was "known or used by others in this country, or patented or described in a printed publication in this or a foreign country, before the invention thereof by the applicant for patent. . . ." 35 U.S.C. § 102(e) precludes patentablility of an invention "described in a patent granted on an application for patent by another filed in the United States before the invention thereof by the applicant for patent. . . ." 35 U.S.C. § 102 (1994).

22. 35 U.S.C. § 103(a) provides that an invention may not be patented "if the differences between the subject matter sought to be patented and the prior art are such that the subject matter as a whole would have been obvious at the time the invention was made to a person having ordinary skill in the art to which said subject matter pertains." 35 U.S.C. § 103(a) (1994).

23. *See* Pfaff v. Wells Elec., Inc., 119 S. Ct. 304, 311 ("It is true that reduction to practice ordinarily provides the best evidence that an invention is complete.").

24. *See* Corona Cord Tire Co. v. Dovan Chem. Corp., 276 U.S. 358, 383 (1928) ("A process is reduced to practice when it is successfully performed. A machine is reduced to practice when it is assembled, adjusted and used. . . . A composition is reduced to practice when it is completely composed.").

ings.[25] There, a claimant is considered the first to invent if she was the first to conceive of the invention and also was continually diligent in attempting to reduce it to practice, even if not the first to actually do so.[26]

3. *The concepts of inherency and experimental use*

Two concepts that arise in the context of inventions in the process of development are the inherency doctrine and the exception for experimental use. These concepts directly relate to section 102(b).

A property is inherent to an invention if it is "necessarily present" in the invention or is the "natural result" of its use.[27] The inherency doctrine provides that where an invention is inherently, though inadvertently, created prior to its purposeful production, it is still considered novel.[28] That is, the doctrine can serve as an exception to anticipation. Conversely, the inherency doctrine acts to negate the novelty of undisclosed features in prior art references.[29] That is, discovering or defining a feature inherent to

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25. Interference proceedings "resolve the question of priority of invention when more than one applicant seeks a patent on substantially the same invention." DONALD S. CHISUM, CHISUM ON PATENTS § 10.09[1](a) (1998). *See also* 35 U.S.C. § 135 (1994).

26. 35 U.S.C. § 102(g) (1994) provides that in priority determinations "there shall be considered not only the respective dates of conception and reduction to practice of the invention, but also the reasonable diligence of one who was first to conceive and last to reduce to practice, from a time prior to conception by the other." 35 U.S.C. § 102(g) (1994).

27. *See* Continental Can Co. USA v. Monsanto Co., 948 F.2d 1264, 1268-69 (Fed. Cir. 1991).

28. *See* Tilghman v. Proctor, 102 U.S. 707, 711-12 (1880) (holding that the accidental production of fatty acids in a lubricant used in steam engines did not negate the novelty of a later process that similarly, though intentionally, separated fatty acids); *see also* Eibel Process Co. v. Minnesota & Ont. Paper Co., 261 U.S. 45, 66 (1923) (holding that accidental and unappreciated results obtained by tilting paper-making machines did not anticipate a later patent teaching that specific tilts enable the machines to run at higher speeds). *See generally* ROBERT P. MERGES ET AL., INTELLECTUAL PROPERTY IN THE NEW TECHNOLOGICAL AGE 173-74 (1997).

29. *See, e.g., Continental Can*, 948 F.2d at 1268-69 (discussing whether a patent for a bottle design with hollow ribs was anticipated by a prior one that may have inherently contained such ribs without actually describing them as "hollow"); *In re* Spada, 911 F.2d 705, 708-09 (Fed. Cir. 1990) (holding that an inventor could not patent polymers already in the prior art, although he had discovered a new, nonobvious property that they possessed); Verdegaal Bros., Inc. v. Union Oil Co., 814 F.2d 628, 630-33 (Fed. Cir. 1987) (holding that a patent on a process for manufacturing fertilizer based on using a heat-sink was anticipated by a prior pending patent that described the same process without acknowledging the heat-sink); *In re* King, 801 F.2d 1324, 1325-28 (Fed. Cir. 1986) (holding that an article of manufacture in a prior patent anticipates method claims for controlling constructive interference of light incident on the article, although the earlier patent did not disclose the scientific means of defining the effects); Titanium Metals Corp. v.

existing prior art does not make it new, even though it was hitherto unrecognized.[30]

Experimental use can also serve as an exemption to the statutory bars.[31] Namely, the public use or sale of an invention primarily to determine whether it will meet its intended purpose does not trigger the grace period.[32]

C. Development of Terms within the Context of Section 102(b) Analyses

Evolving interpretations of the terms "invention," "on-sale," and "experimental use" have shaped section 102(b) analyses. Indeed, application of the on-sale bar depends upon how these fundamental terms are defined.

1. Interpretation of "the invention"

Since the implementation of the on-sale bar, courts have applied various tests in determining when an invention triggers the bar.[33] The three major tests have been the "on hand" standard,[34] the "reduction to practice" rule,[35] and the "totality of circumstances" test.[36] According to the "on hand" doctrine, "a device incorporating the invention must have existed in

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Banner, 778 F.2d 775, 781-82 (Fed. Cir. 1985) (holding that inventor's titanium alloys were anticipated by a prior article disclosing alloys of identical composition, although the article did not mention their corrosion-resistant properties).

30. *See In re* Spada, 911 F.2d at 708 ("The discovery of a new property or use of a previously known composition, even when that property and use are unobvious from the prior art, can not impart patentability to claims to the known composition.").

31. *See* City of Elizabeth v. American Nicholson Pavement Co., 97 U.S. 126, 135-36 (1877) (holding that the public use of the inventor's pavement to test its durability did not trigger the statutory bar).

32. *See id.*; *see also* Seal-Flex, Inc. v. Athletic Track & Court Constr., 98 F.3d 1318, 1324 (Fed. Cir. 1996) (precluding summary judgment on the issue of patentability under the on-sale bar where an all-weather athletic tract was offered for sale before the critical date because "[w]hen an evaluation period is reasonably needed to determine if the invention will serve its intended purpose, the § 102(b) bar does not start to accrue while such determination is being made.").

33. *See generally* Vincent J. Allen, *The On Sale Bar: When Will Inventors Receive Some Guidance?*, 51 BAYLOR L. REV. 125, 131-40 (1999); Daniel J. Whitman, The "On-Sale" Bar to Patentability: Actual Reduction to Practice Not Required in Pfaff v. Wells Electronics, Inc., 32 AKRON L. REV. 397, 400-05 (1999).

34. *See* Galland-Henning Mfg. Co. v. Dempster Bros., 315 F. Supp. 68, 80 (E.D. Tenn. 1970) ("If patented articles are on hand ready to be delivered . . . they are on sale. . . .").

35. *See* Timely Prod. Corp. v. Arron, 523 F.2d 288, 302 (2d Cir. 1975) ("[A]n invention cannot be offered for sale until . . . its reduction to practice.").

36. *See* UMC Elec. Co. v. United States, 816 F.2d 647, 656 (Fed. Cir. 1987) ("All of the circumstances surrounding the sale or offer to sell . . . must be considered. . . .").

its ordinary or contemplated usable form and must have been on hand ready for delivery more than a year prior to the patent application date."[37] Courts later replaced this standard with a three-part "reduction to practice" test which required that the invention be (1) anticipated or made obvious by the subject matter of the sale; (2) operable and commercially marketable; and (3) sold or offered for sale "primarily for profit rather than for experimental purposes."[38] Later still, the Federal Circuit held that reduction to practice should serve only as a tool in determining if the invention was on sale.[39] Rather, all the circumstances surrounding the sale should be weighed in light of the policies underlying section 102(b).[40] The application of this balancing test, however, has been uneven, with courts requiring the invention be "completed,"[41] "substantially completed,"[42] or capable of operation.[43]

2. *Interpretation of "on-sale"*

Interpretation of the meaning of "on-sale" has proved more straightforward. A bright-line test provides that even a single sale or offer triggers the bar.[44] An offer for sale must be definite and objectively manifested, though it need not comport with formal contract law definitions.[45] Further, courts continue to recognize that the sale must be primarily for profit rather than for experimental purposes.[46]

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37. *Galland-Henning*, 315 F. Supp. at 80.

38. *See Timely Prod.*, 523 F.2d at 302.

39. *See UMC Elec.*, 816 F.2d at 656.

40. *See id.*

41. *See* Seal-Flex, Inc. v. Athletic Track & Court Constr., 98 F.3d 1318, 1324 (Fed. Cir. 1996) (stating that "[t]he general rule is that the on-sale bar starts to accrue when a completed invention is offered for sale.").

42. *See* Micro Chem., Inc. v. Great Plains Chem. Co., 103 F.3d 1538, 1545 (Fed. Cir. 1997) (interpreting *UMC* as standing for the proposition that "a sale or a definite offer to sell a substantially completed invention, with reason to expect that it would work for its intended purpose upon completion, suffices to generate a statutory bar").

43. *See* Robotic Vision Sys., Inc. v. View Eng'g, Inc., 112 F.3d 1163, 1167 (Fed. Cir. 1997) (holding that incomplete development of software, necessary for the operation of the invention, precluded application of the on-sale bar).

44. *See* Intel Corp. v. U.S. Int'l Trade Comm'n, 946 F.2d 821, 830 (Fed. Cir. 1991).

45. *See* RCA Corp. v. Data Gen. Corp., 887 F.2d 1056, 1062 (Fed. Cir. 1989).

46. *See* Kolmes v. World Fibers Corp., 107 F.3d 1534, 1540 (Fed. Cir. 1997).

3. *Interpretation of the "experimental use" exemption*

Overlaying an analysis of section 102(b) is the interpretation of experimental use that serves as a defense to invalidity.[47] A sale or offer for sale of an invention primarily for experimental purposes does not trigger the bar.[48] The Federal Circuit, however, has held that experimental use "ends with an actual reduction to practice,"[49] so that continued monitoring of the invention will not continue to toll the bar.[50]

II. SUMMARY OF THE CASES

A. Pfaff v .Wells Electronics, Inc.

In deciding that a new computer chip socket was barred from patentability, the Supreme Court promulgated the most recent test for applying the "on-sale" bar.[51] The test provides two conditions that must be met to trigger the one year grace period.[52] First, the invention must be "the subject of a commercial offer for sale."[53] Second, the invention must be "ready for patenting."[54] The second prong, in turn, can be satisfied in one of at least two ways.[55] The invention must be either "reduced to practice" or described with sufficient specificity to enable one skilled in the art to practice the invention.[56] This test emphasized the Court's interpretation that the term "invention" refers to a fully conceived innovation, while its physical embodiment serves merely as definitive proof of such.[57] In applying the test, the Court found that a purchase order for 30,100 of Pfaff's chips satisfied the first prong, and that detailed engineering drawings of the chip satisfied the other.[58] As both conditions were met one year and 11

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47. *See* City of Elizabeth v. American Nicholson Pavement Co., 97 U.S. 126, 135 (1877) ("So long as [the invention] is not on sale for general use, [an inventor] does not lose his title to a patent.").

48. *See* U.S. Envtl. Prod. v. Westall, 911 F.2d 713, 716 (Fed. Cir. 1990).

49. *RCA Corp.*, 887 F.2d at 1061.

50. *See* Seal-Flex, Inc. v. Athletic Track & Court Constr., 98 F.3d 1318, 1323 (Fed. Cir. 1996).

51. *See* Pfaff v. Wells Elec., Inc., 119 S. Ct. 304, 311-12 (1998).

52. *See id.* at 311.

53. *Id.*

54. *Id.* at 312.

55. *See id.*

56. *See id.*

57. *See id.* at 311-12.

58. *See id.* at 307, 312.

days before Pfaff had applied for his patent, the patent was rendered invalid.[59]

B. Scaltech Inc. v. Retec/Tetra L.L.C.

Following *Pfaff*, the Federal Circuit reheard *Scaltech* specifically to take the new test into account.[60] Applying *Pfaff*, the Court held that as long as the process offered for sale fell within the scope of the later claims, the invention was "reduced to practice," irrespective of whether the seller had yet recognized its patentable features.[61]

The Scaltech patent involved a more efficient way of producing fuel coke from the waste products of petroleum.[62] The process involved injecting unrefined hydrocarbons into heated drums called coker units.[63] Scaltech had the idea of improving this procedure by reducing the oil content of the injected mixture.[64] To acquire access to coker units and further test its idea, Scaltech offered to process petroleum waste for a number of refineries.[65] Scaltech stipulated that the technique being used was experimental in all but the last two of these proposals, which were made on March 30 and November 15, 1988.[66] Later, in 1992, Scaltech discovered that small particle size in the injection mixture increased the efficiency of the process.[67] These particles were produced inadvertently in the de-oiling procedure.[68] Scaltech subsequently applied for a patent on the improved process, describing the necessary conditions of small particle size and high solid concentration.[69]

When Scaltech sought to enforce its patent against Retec, the alleged infringer raised the defense of patent invalidity under section 102(b).[70] The district court invalidated the patent on summary judgement,[71] construing the final two offers made by Scaltech in March and November of

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59. *See id.*

60. *See* Scaltech Inc. v. Retec/Tetra, L.L.C., 178 F.3d 1378, 1380 (Fed. Cir. 1999).

61. *See id.* at 1383-84.

62. *See id.* at 1380-81.

63. *See id.* at 1382.

64. *See id.* Injection rates exceeding two pounds of solids per ton of coke resulted in non-homogeneous coke formation and noxious fumes. *See id.*

65. *See id.* at 1382.

66. *See id.*

67. *See id.* at 1382-83.

68. *See id.* at 1383.

69. *See id.* The Scaltech patent specifies a "coker quench stream having a particle size distribution such that greater than about 70% of the total solids volume comprises solids having a particle size of less than about 15 microns. . . ." *See id.* at 1381.

70. *See id.*

71. *See id.*

1988 as commercial rather than experimental.[72] As these transactions did occur more than a year before Scaltech applied for its patent, the statutory bar applied.[73]

The Federal Circuit originally vacated the district court's ruling one month before the *Pfaff* decision.[74] To determine if the bar applied under the "totality of circumstances" test,[75] the court remanded the case for a consideration of whether the process offered for sale constituted an embodiment, or at least a "substantially completed" embodiment, of the claimed invention, that would be expected to work for its intended purpose.[76] Notably, the Federal Circuit expressed the opinion that the invention was not "conceived" until Scaltech had the opportunity, in 1991, to characterize the new process' features of small particle size and high solid concentration.[77] The court added that while an inventor is still working towards the development of a conception, there is "not yet an 'invention' that [can be] offered on sale."[78]

Rehearing the case after *Pfaff*, the Federal Circuit once again remanded after analysis under the new test.[79] The court maintained that a section 102(b) inquiry begins with a determination of whether the subject matter satisfying the applicable test was in fact the subject matter of the later patent.[80] Discarding the rejected "substantially complete" part of the test, however, the Federal Circuit held that to embody the claimed invention, the innovation that was on sale must have met each of the claim limitations of the patent.[81] Further, the Federal Circuit deemed it irrelevant whether the proposals expressly identified these limitations or whether Scaltech was aware of their significance at the time.[82] Rather, the court

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72. *See id.* at 1382.

73. *See id.* at 1382-83.

74. *See* Scaltech Inc. v. Retec/Tetra, L.L.C., 156 F.3d 1193, 1194 (Fed. Cir. 1998), *amended by* 178 F.3d 1378 (Fed. Cir. 1999).

75. *See* UMC Elec. Co. v. United States, 816 F.2d 647, 656 (Fed. Cir. 1987) ("All of the circumstances surrounding the sale or offer to sell . . . must be considered and weighed against the policies underlying section 102(b)."); *see also* Micro Chem., Inc. v. Great Plains Chem. Co., 103 F.3d 1538, 1545 (Fed. Cir. 1997) (interpreting *UMC* as standing for the proposition that "a sale or a definite offer to sell a substantially completed invention, with reason to expect that it would work for its intended purpose upon completion, suffices to generate a statutory bar.").

76. *See Scaltech,* 156 F.3d at 1197.

77. *See id.* at 1198.

78. *Id.*

79. *See Scaltech,* 178 F.3d at 1380.

80. *See id.* at 1383.

81. *See id.*

82. *See id.*

held that if the process offered for sale in 1988 inherently contained the claim limitations of the patented process, it would trigger the on-sale bar.[83] That is, inherently meeting the claims necessarily constituted a reduction to practice of the invention so as to meet the "ready for patenting" prong of the new test.[84] The Federal Circuit consequently remanded the case for consideration of these questions.[85]

C. Abbott Laboratories v. Geneva Pharmaceuticals

The Federal Circuit in *Abbott* applied the *Pfaff* test to determine whether third party sales triggered the on-sale bar, even if the parties were unaware of the identity of the compound being sold.[86] Relying on its reasoning in *Scaltech*, the court rejected the patentee's contention that there can be no sale of an invention until its "conception."[87]

The Abbott patent claimed Form IV anhydrate, one of the forms of terazosin hydrochloride used in treating hypertension and benign prostatic hyperplasia.[88] When other companies sought to market a generic version of the drug, Abbott brought a suit for patent infringement.[89] Raising a 102(b) defense, the defendants asserted that a company not party to the action had sold Form IV terazosin hydrochloride anhydrate in the U.S. during the period of 1989-92.[90] Although these sales occurred more than a year before the 1994 filing date of Abbott's patent, it was not until 1995 that Abbott determined the exact chemical identity of the imported drug.[91]

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83. *See id.* at 1383-84.

84. *See id.* at 1383 (pointing out that "[o]ne way to satisfy the second condition is by proof of reduction to practice before the critical date" before discussing that the process offered for sale had to fall within the scope of the claim).

85. *See id.* at 1384.

86. *See* Abbott Lab. v. Geneva Pharm., Inc., 182 F.3d 1315, 1318 (Fed. Cir. 1999).

87. *See id.* at 1318-19.

88. *See id.* at 1316. The compound exists in four anhydrous crystalline forms and as dihydrate crystals. *See id* at 1316-17. Form IV anhydrate constituted the subject matter of claim 4 of Abbott's U.S. Patent No. 5,504,207. *See id.*

89. *See id.* at 1317. 35 U.S.C. § 271(e)(2)(A) makes the filing of an Abbreviated New Drug Application with the FDA an act of patent infringement. Such an application seeks to rely on safety and efficacy studies of the patent holder's drug in order to more cheaply market a generic version. 35 U.S.C. § 271(e)(2)(A) (1994).

90. *See Abbott Lab.*, 182 F.3d at 1317. Two of these sales were made to the defendant Geneva Pharmaceuticals by the nonparty company, Byron Chemical Company, Inc. *See id.*

91. *See id.* at 1317 n.2. The compound's chemical structure is determined by principle peaks that occur at characteristic values in an x-ray diffraction pattern. *See id.* An anhydrous terazosin hydrochloride exhibiting a powder x-ray diffraction pattern with the same principle peaks as those defined in claim 4 of the Abbott patent falls within its

One month prior to the *Pfaff* decision the district court granted summary judgment on the issue of invalidity under section 102(b), from which Abbott appealed.[92]

Applying the criteria set forth in *Pfaff*, and building on its reasoning in *Scaltech*, the Federal Circuit held that it was irrelevant whether or not the parties involved in the sales knew the identity of the particular compound being sold.[93] Instead the court concluded that the sale of the material as a useful product was a reduction to practice that clearly satisfied the "ready for patenting" prong.[94] The court asserted that while proof of conception was necessary for priority determinations, it was not necessary for on-sale bar analyses where the invention has been reduced to practice and sold.[95] The court noted that this result furthered the 102(b) policy of not removing inventions from the public domain.[96] Thus, holding that the invention met *Pfaff's* conditions, the Federal Circuit affirmed the district court's summary judgment invalidating the Form IV anhydrate claim under the on-sale bar.[97]

III. LITERAL INCONSISTENCY WITHIN THE *PFAFF* TEST

A. Exposé of the Inconsistency

The literal inconsistency within the *Pfaff* test involves the observation that an "invention" may be "reduced to practice" before it is fully "ready for patenting." That is, an invention may come into existence before all of its patent-worthy features have been determined. In deriving the *Pfaff* test, the Supreme Court emphasized the importance of conception in determining an earlier triggering point for the on-sale bar.[98] The Court held that "[t]he primary meaning of the word 'invention' in the Patent Act *unquestionably refers to the inventor's conception* rather than to a physical em-

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scope. *See* Abbott Lab. v. Geneva Pharm., 51 U.S.P.Q.2d (BNA) 1301, 1302 (N.D. Ill. 1998), *aff'd*, 182 F.3d 1315 (Fed. Cir. 1999).

92. *See Abbott Lab.*, 182 F.3d at 1316.

93. *See id.* at 1318-19. The court also pointed out that it was irrelevant whether the sale was made by a company other than Abbott. *See id.* at 1318.

94. *See id.* at 1318-19.

95. *See id.*

96. *See id.* at 1319.

97. *See id.*

98. *See* Pfaff v. Wells Elec., Inc., 119 S. Ct. 304, 308-09 (1998) (analogizing extensively, for example, to *The Telephone Cases*, 126 U.S. 1 (1888), where Alexander Graham Bell's conception of how his invention would work entitled him to a patent although he had not yet constructed a working prototype).

bodiment of that idea."[99] On the other hand, reduction to practice does not require prior conception of the invention.[100] It is possible, for example, to reduce an invention to practice without being aware of exactly what has been created. Thus there is a structural inconsistency in the *Pfaff* test in having "proof of reduction to practice" as one of the ways "ready for patenting" can be shown. Indeed, an invention inadvertently created is reduced to practice although no one has as yet determined its patent-worthy features.

The difficulty in finding a bright line test promoting the policies of section 102(b) lies partly in the fact that the policies themselves conflict with the way modern inventions are brought into existence. The more complex an innovation, the more research that is needed to ascertain its inherent characteristics in determining why it works. Hence the greater are the potential delays between obtaining workable, as opposed to comprehensible, results. In the course of developing a new process or product, for example, an inventor may not have identified all of the patentable features of her invention even upon successfully creating it or carrying it out. Thus, an "invention" may be ready for public availability before its inventor can describe how it works. Similarly, the inventor may be able to begin market testing before being able to begin the process of securing a patent. Literal application of the *Pfaff* test to cases involving complex technologies reflect these difficulties and reveal the structural incongruity in the test itself.

The recent Federal Circuit opinions in *Scaltech* and *Abbott* involved, respectively, a complex refinery process[101] and a complex pharmaceutical product.[102] The Scaltech process of producing fuel coke required access to large coker units, large amounts of petroleum waste and highly technical monitoring.[103] Thus, the "inventors" did not know which features of the new process were responsible for improving efficiency even when they had initially succeeded in making it work.[104] Further, they did not have the

99. *Id.* at 308 (emphasis added).

100. *See* Abbott Lab. v. Geneva Pharm., Inc., 182 F.3d 1315, 1318 (Fed. Cir. 1999); Scaltech Inc. v. Retec/Tetra, L.L.C., 178 F.3d 1378, 1383-84 (Fed. Cir. 1999); Verdegaal Bros., Inc. v. Union Oil Co., 814 F.2d 628, 633 (Fed. Cir. 1987); *In re* King, 801 F.2d 1324, 1326 (Fed. Cir. 1986); Titanium Metals Corp. v. Banner, 778 F.2d 775, 781-82 (Fed. Cir. 1985).

101. *See Scaltech,* 178 F.3d at 1380.

102. *See Abbott Lab.*, 182 F.3d at 1316-17.

103. *See Scaltech,* 178 F.3d at 1382.

104. *See id.* at 1382-83 (describing Scaltech's later surprise at finding that the particles of the waste slurry were of very small size).

opportunity to continue their investigation until years later.[105] Similarly, the pharmaceutical at issue in *Abbott* existed in several closely related forms that required differentiation and characterization by complex analyses.[106] Hence, a pharmaceutical company could prepare the compound and appreciate its clinical indications without knowing the exact form present in any particular batch.[107] In both cases, then, the product or process was available to the public before the parties could completely disclose the invention. Similarly, in both cases, the parties could begin evaluating the commercial potential of their inventions before having enough information to apply for their respective patents.

The divergent policies of section 102(b), reflected in the *Pfaff* test's structural discrepancy, enabled the patentees in both cases to argue that the bar should not apply, while the alleged infringers could argue with almost equal force that it should. Scaltech contended that its new process was in an experimental stage,[108] and hence not "ready for patenting" at the time of the invalidating sales.[109] Likewise, Abbott argued that the on-sale bar cannot be triggered before an "invention" is conceived,[110] echoing the Supreme Court's reasoning in formulating the *Pfaff* test.[111] In contrast, op-

105. *See id.* at 1382. Scaltech was working for Chevron when it first implemented the de-oiling process. *See id.* After its contract with Chevron ended, it was not until 1992 that it received permission from another refinery to resume its research. *See id.*

106. *See* Abbott Lab. v. Geneva Pharm., Inc., 182 F.3d 1315, 1316-17 (Fed. Cir. 1999). These analyses involve obtaining x-ray diffraction patterns of the different forms, each characterized by principle peaks at distinct values. *See* Abbott Lab. v. Geneva Pharm., Inc., 51 U.S.P.Q.2d (BNA) 1301, 1302 n.1 (N.D. Ill. 1998), *aff'd*, 182 F.3d 1315 (Fed. Cir. 1999).

107. Abbott and Geneva performed x-ray diffraction analyses only in 1995 and 1996, respectively, on samples of the batches sold before 1993. *See Abbott Lab.*, 182 F.3d at 1317 n.2. At the district court level, Abbott had contended that the compound manufactured for the early sales may actually have been an unstable crystalline form of terazosin hydrochloride that subsequently transformed over time into Form IV. *See Abbott Lab.*, 51 U.S.P.Q.2d at 1304. The court, however, found this argument unsupported by the evidence. *See id.*

108. *See* Scaltech Inc. v. Retec/Tetra, L.L.C., 178 F.3d 1378, 1384 n.1 (Fed. Cir. 1999).

109. Indeed, the Federal Circuit maintained that *Scaltech* was surprised to discover in 1992 that the small particle size was a feature of the improved process. *See id.* at 1382-83. This feature, however, was later included in the patent claims that define a coker quench stream having over 70% of its solid volume comprised of particles smaller than 15 microns. *See id.* at 1381. Hence, *Scaltech* was not ready to draft such a claim until after its 1992 discovery.

110. *See Abbott Lab.*, 182 F.3d at 1318-19. Specifically, Abbott argued that "parties must 'conceive,' or know precisely, the nature of the subject matter with which they are dealing." *Id.* at 1318.

111. *See* Pfaff v. Wells Elec., Inc., 119 S. Ct. 304, 308-09 (1998).

posing arguments in both cases asserted that proof of reduction to practice at the time of the sale is all that the new 102(b) test requires to render the transactions invalidating.[112]

In both cases, the Federal Circuit rigidly applied the new test, following a literal interpretation of "reduction to practice." In *Scaltech*, the court held that as long as the process offered for sale met each of the claim limitations of the patent, it was an embodiment of the invention that would satisfy the second prong of the *Pfaff* test.[113] Likewise, the court in *Abbott* held that the sale of a product known to have utility constituted a reduction to practice, regardless of whether its structure had yet been conceived.[114]

B. Role of the Inherency Doctrine in the *Pfaff*-Test Inconsistency

At the heart of the discrepancy between an invention that is "ready for patenting" and one that is "reduced to practice" lie different applications of the doctrine of inherency. As noted earlier, when the doctrine is applied to determining whether prior art anticipates an inventor's work, all characteristics inherent to the subject matter of the prior reference negate claims of novelty.[115] It is irrelevant whether the prior art specifically mentions those features or, if the prior reference is a patent, whether the patentee was even cognizant of those characteristics at the time of filing.[116] In contrast, an invention that was created inadvertently and whose features initially go unrecognized is not unpatentable for lack of novelty.[117] From these two lines of precedent, it appears that how the inherency doctrine is applied depends on how much of the invention is unknown. On one hand, unrecognized features of an invention do not change what constitutes its

112. *See Scaltech*, 178 F.3d at 1383 (asserting that one way to satisfy the second condition of the *Pfaff* test is by proof of reduction to practice, and that the process offered for sale must be something within the scope of the patent claim, whether or not Scaltech recognized the significance of the claimed features at the time of the offer). *See also Abbott Lab.*, 182 F.3d at 1318 (agreeing with defendants' arguments that under the *Pfaff* test it is irrelevant that parties to the sales did not know that they were dealing with the form later claimed, and that "[a]n invention may be shown to be 'ready for patenting' . . . by 'proof of reduction to practice before the critical date'").

113. *See Scaltech*, 178 F.3d at 1383-84. The Federal Circuit directed that "[t]he district court must determine if the process offered for sale, . . . inherently satisfies each claim limitation. If so, then the offer creates a § 102(b) bar." *Id.* at 1384.

114. *See Abbott Lab.*,182 F.3d at 1318 ("The fact that the claimed material was sold under circumstances in which no question existed that it was useful means that it was reduced to practice.").

115. *See supra* Part I.B.3.

116. *See id.*

117. *See id.*

"embodiment" in that its inherent features are not deemed to be "new."[118] On the other hand, an entirely unrecognized invention is treated as though it never actually existed for patent purposes in that it can later be deemed "novel."[119]

In applying the inherency doctrine to the 102(b) analyses in *Scaltech* and *Abbott*, the Federal Circuit rejected the "still novel" interpretation in favor of the "not new" one.[120] Specifically, the holdings in both cases interpret the term "invention" to refer to what is inherently embodied within even an accidental or uncharacterized reduction of that invention to practice. The *Scaltech* court held that as long as the uncharacterized process on sale met each of the limitations of the claims in the later patent, the invention was reduced to practice.[121] The *Abbott* court held that once an imported batch contained the same crystalline form of the pharmaceutical as that later claimed, it constituted a barring reduction to practice.[122] Similarly, in both cases, the court held that such reductions to practice obviated the need to consider whether anyone had actually conceived of the inventions at the time of the contentious sales.[123]

Using this interpretation of the inherency doctrine, the Federal Circuit was able to apply the new *Pfaff* test to complex inventions while avoiding its structural inconsistency. Indeed, had a different interpretation of the inherency doctrine been applied, the court might have reached a conclusion irreconcilable with the new test. For instance, the court might have been required to hold that because the parties were unaware, at the time of the sales, of important inherent characteristics of their inventions, the inventions should be treated as though they never existed for patent purposes. Thus, there would have been no "invention" within the meaning of the statute, and consequently there could have been no invalidating sales. Indeed, the court may have then buttressed its argument by pointing out that these inventions were not "ready for patenting" at the time of the

118. *See supra* note 29 and accompanying text.

119. *See supra* note 28 and accompanying text.

120. *See* Scaltech Inc. v. Retec/Tetra, L.L.C., 178 F.3d 1378, 1383-84 (Fed. Cir. 1999) (expressly citing *Titanium Metals*, *Verdegaal Bros*, *In re King*, and *Continental Can* to support the assertion that unrecognized features can still bar patentability). *See also* Abbott Lab. v. Geneva Pharm., Inc., 182 F.3d 1315, 1319 (Fed. Cir. 1999) (explicitly declining to follow the *Tilghman/Eibel Process* line of precedent advanced by Abbott in its attempt to avoid the on-sale bar).

121. *See Scaltech*, 178 F.3d at 1383-84.

122. *See Abbott Lab.*, 182 F.3d at 1318.

123. *See Scaltech*, 178 F.3d at 1383. ("Nor is there a requirement that Scaltech must have recognized the significance of these limitations at the time of the offer."); *see also Abbott Lab.*, 182 F.3d at 1318 ("[w]e disagree that proof of conception was required.").

transactions in question. Specifically, Scaltech could not have applied for a patent claiming the exact characteristics of the process that increased efficiency before discovering what those characteristics were.[124] Abbott's competitors could not have applied for a patent claiming a specific structure not yet identified.[125] However, as the inventions had been reduced to practice, at least in a literal sense, such analyses would have resulted in the inventions simultaneously meeting and not meeting the second prong of the *Pfaff* test.

It appears that, while aiming to provide a clearer standard for determining the point between conception and reduction to practice that triggers the on-sale bar, the *Pfaff* test overlooked cases of inadvertent reduction to practice occurring before conception.[126] Presented with this dilemma in *Scaltech* and *Abbott*, the Federal Circuit applied the test literally, relying on formal definitions of "reduction to practice."[127] This circumvented the need to address the questions of whether the inventions were conceived at the time of the invalidating sales.[128]

Nevertheless, if the application of the inherency doctrine depends on the extent to which the invention is unknown, its application to 102(b) analyses should focus on how much was known about the "invention" at the time of the sale. At the time of the alleged sales in *Scaltech*, the inventor was still determining whether or not increasing the solid concentration of the injection mixture improved efficiency.[129] He had not yet real-

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124. *See Scaltech*, 178 F.3d at 1381-83 (relating how the Scaltech patent claimed the requirement of small particle size although at the time of the allegedly invalidating sales Scaltech had not recognized that small particles were formed in the process).

125. *See Abbott Lab.*, 182 F.3d at 1317 (noting that "at the time of the sales, the parties to the United States transactions did not know the identity of the particular crystalline form with which they were dealing."). However, Abbott's patent on Form IV terazosin hydrochloride, which was filed in 1994, specifically identifies the compound by reference to its x-ray powder diffraction pattern. *See* Abbott Lab. v. Geneva Pharm., Inc., 51 U.S.P.Q.2d (BNA) 1301, 1302-03 (N.D. Ill. 1998), *aff'd*, 182 F.3d 1315 (Fed. Cir. 1999).

126. The Court noted that reduction to practice "ordinarily provides the best evidence that an invention is complete," and then summarily includes it as one of the ways of showing an invention is ready for patenting. *See* Pfaff v. Wells Elec., Inc., 119 S. Ct. 304, 311-12 (1998).

127. *See supra* Part III.A.

128. *See id.* For example, the Federal Circuit in *Abbott* stated with no explanation other than a cite to the *Pfaff* test, "[i]t is . . . clear that the invention was 'ready for patenting' because at least two foreign manufacturers had already reduced it to practice." Abbott Lab. v. Geneva Pharm., Inc., 182 F.3d 1315, 1318 (Fed. Cir. 1999).

129. *See* Scaltech Inc. v. Retec/Tetra, L.L.C., 178 F.3d 1378, 1382-83 (Fed. Cir. 1999).

ized the related importance of reducing particle size.[130] Thus, he had not conceived of one of the main features of the invention and was uncertain as to the relevance of the other at the time of the contentious sales. At the time of the invalidating sales in *Abbott*, the tetrazosin hydrochloride compounds that were sold had a known use but information was lacking as to their precise structures.[131] Indeed such structural information comprised the essence of the later product claim.[132] Here, too, no one in the U.S. had "conceived" of the invention in the way it was eventually claimed.[133] If invention begins with conception, one can argue that both *Abbott* and *Scaltech* involved entirely unrecognized inventions at the time of their sales. Hence, the "still novel" interpretation of the inherency doctrine should apply.[134] Such an interpretation would require treating the inventions that were not yet conceived as not yet existing for patent purposes; hence their sales would not trigger the bar. What, then, might explain the Federal Circuit's opinions?

C. Consistent Promulgation of Policy despite the *Pfaff* Inconsistency

While the test applied in on-sale bar analyses continues to evolve, the policies animating the rule remain constant. *Pfaff* aimed to effectuate these polices by establishing a clear, multi-part test.[135] Interestingly, in both *Scaltech* and *Abbott*, the same result was obtained under both pre- and post-*Pfaff* analyses.[136] Hence, these cases provide an opportunity to analyze whether the results obtained actually effected the policies underlying section 102(b) and whether the *Pfaff* test afforded a more reliable standard for arriving at such results.

The Federal Circuit's original opinion in *Scaltech* called for a determination of whether the process on sale was at a sufficient level of development to trigger the bar under the "totality of circumstances test."[137] This

130. *See id.*

131. *See Abbott Lab.*, 182 F.3d at 1317.

132. *See id.* at 1316-17 (describing that the Abbott patent specifically claims the Form IV anhydrate, defined by its x-ray diffraction pattern).

133. *See id.* at 1317. A letter from the Japanese manufacturer, who had made the early sales, claimed to have identified the structure as Form IV terazosin hydrochloride anhydrate in 1990, but the district court found this piece of evidence deficient and did not include it in its analysis. *See* Abbott Lab. v. Geneva Pharm., Inc., 51 U.S.P.Q.2d (BNA) 1301, 1304-05 (N.D. Ill. 1998), *aff'd*, 182 F.3d 1315 (Fed. Cir. 1999).

134. *See supra* note 120 and accompanying text.

135. *See* Whitman, *supra* note 33, at 417-19.

136. *See* Scaltech Inc. v. Retec/Tetra, L.L.C., 156 F.3d 1193, 1194 (Fed. Cir. 1998), *amended by* 178 F.3d 1378, 1380 (Fed. Cir. 1999); *Abbott Lab.*, 51 U.S.P.Q.2d at 1302, *aff'd*, 182 F.3d at 1316.

137. *See Scaltech*, 156 F.3d at 1197.

test involved balancing a number of different factors, including whether the process offered for sale was at least a "substantially completed embodiment of the claimed invention"[138] that was highly likely to work for its intended purpose.[139] Importantly, however, the court noted that, at the time of the sales, the invention had not yet been conceived, and that even the offer for sale of "the mere concept" of an invention does not trigger the bar.[140] While noting that this furthered the policy of prompt disclosure of a comprehended invention, the opinion neglected to address the other policies underlying section 102(b).[141]

On rehearing after *Pfaff*, the *Scaltech* court maintained its prior ruling but remanded the case with different and clearer instructions.[142] The *Pfaff* test obviated the need for a complicated determination of whether the invention was "substantially complete" and highly likely to perform.[143] The lower court was directed simply to determine whether the invention was "reduced to practice" by having met each of the claim elements of the later patent.[144] This result depended, in turn, on the court's interpretation of the inherency doctrine, which established that the process could be a reduction to practice, irrespective of whether Scaltech was aware of all of its inherent features at the time.[145] Hence, the "reduction to practice" part of the second prong, coupled with the court's application of the inherency doctrine, obviated the need to determine complex issues of conception. As conception precedes the ability to apply for a patent, this analysis also obviated a determination of whether the invention was "ready for patenting" at the time of the sales, contrary to the *Pfaff* test itself. But as noted above, particular policies of the on-sale bar indicate that such commercial sales should trigger the grace period.[146] Thus, in spite of its inconsistency, the

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138. *Id.* at 1197.

139. *See id.* at 1198.

140. *See id.* at 1198. The court commented that "the invention was not conceived until Scaltech . . . had the opportunity to develop the claimed invention and discover the particle size and solids concentration limitations beginning in February 1992." *Id.* These comments were deleted from the court's analysis following *Pfaff*.

141. *See id.* at 1198.

142. *See Scaltech*, 178 F.3d at 1384.

143. *See* Pfaff v. Wells Elec., Inc., 119 S. Ct. 304, 311-12 (1998).

144. *See Scaltech*, 178 F.3d at 1384.

145. *See id.*

146. Specifically, this result effectuates the policy of preventing removal of inventions from the public that have been available through prolonged sales activities and the policy of avoiding effective extensions of the statutorily defined monopoly period. *See* Abbott Lab. v. Geneva Pharm., Inc., 51 U.S.P.Q.2d (BNA) 1301, 1305 (N.D. Ill. 1998) *aff'd*, 182 F.3d 1315 (Fed. Cir. 1999).

new *Pfaff* test enabled a clearer result that more directly furthered section 102(b)'s policies.

In *Abbott*, the district court initially invalidated the claim directed to Form IV terazosin hydrochloride on summary judgment under the "totality of circumstances" test.[147] In doing so, however, the court had to rely on an especially expansive reading of that test, concerning the requirement that the invalidating sale involve "a completed invention . . . known to work for its intended purpose."[148] The court found that Geneva's purpose in buying the uncharacterized batch was to develop generic versions of Abbott's drug, and held that the compound sold was in fact adequate for this intended purpose.[149]

On appeal after *Pfaff*, however, the Federal Circuit was able to affirm the lower court's holding more directly and efficiently. Relying on the basic definition of reduction to practice, the Federal Circuit held that Abbott's product clearly met the second prong of the *Pfaff* test.[150] As in *Scaltech*, the court applied the inherency doctrine to establish that when a product offered for sale intrinsically possesses all of the claim limitations of a later patent, it constitutes a reduction to practice irrespective of the parties knowledge at the time.[151] And again, as in *Scaltech*, this interpretation rendered inquiry into details of conception unnecessary.[152] Further, the literal application of this part of the test better supported the underlying policy that inventions made available to the public should not later be withdrawn.[153] Indeed, it can be appreciated that once an invention has been reduced to practice and sold to the public, it should not later be withdrawn because details of its structure are subsequently determined.

D. Resolution of the Inconsistency within the *Pfaff*-Test

The structure of the *Pfaff* test may be modified so as to resolve internal incongruity and avoid a strained interpretation of the inherency doctrine. Specifically, "reduction to practice" should be considered an alternative to the "ready for patenting" prong, rather than a sub-test for meeting it. Under this modified test, the on-sale bar would apply if, before the critical date, an invention is both the "subject of a commercial offer for sale" and

147. *See id.* at 1306-07.

148. *Id.* at 1306 (quoting Seal-Flex, Inc. v. Athletic Track & Court Constr., 98 F.3d 1318, 1324 (Fed. Cir. 1996)) (emphasis omitted).

149. *See id.* at 1306-07.

150. *See* Abbott Lab. v. Geneva Pharm., Inc., 182 F.3d 1315, 1318 (Fed. Cir. 1999).

151. *See id.* at 1318-1319.

152. *See id.*

153. *See id.* at 1319.

either "ready for patenting" *or* "reduced to practice." As before, "ready for patenting" could be shown by enabling descriptions of the invention.[154] And, as in recent applications of the test, "reduction to practice" could be shown irrespective of conception of the invention.[155] The alternative prongs capture the central idea that commercialization of that which inherently embodies or depicts the invention should trigger the bar.

The proposed modification preserves the traditional test of the on-sale bar while incorporating recent decisions involving modern technologies. By restoring "reduction to practice" as a separate prong, the modified test preserves express recognition of what has traditionally been considered the "best evidence that an invention is complete."[156] Further, as reduction to practice does not require conception,[157] having this prong stand alone helps clarify that the inherency doctrine should be applied in 102(b) analyses just as it would be applied in cases where recognition of intrinsic features is unnecessary. Just as an existing reference abrogates novelty of undisclosed but inherently contained features,[158] so, too, a commercialized invention should eventually bar patentability of what it inherently embodies. This would motivate the inventor who happens upon a useful product or process to seek to discover why it works, and to apply for a patent that discloses and explains the advance. The proposed framework, then, would better comport with the realities of how complex inventions are made while more clearly effectuating the principles underlying the on-sale bar.

Applying the proposed test to each of *Pfaff*, *Scaltech* and *Abbott* readily reveals how its modified structure enables more direct realization of the policies of section 102(b). Analysis of *Pfaff* under the proposed test remains the same, as here enabling descriptions satisfied the "ready for patenting" requirement.[159] At the time of the sale, detailed engineering drawings showed that Pfaff's socket was ready for patenting.[160] In addition to realistically addressing the realities of how some inventions are

154. *See* Pfaff v. Wells Elec., Inc., 119 S. Ct. 304, 312 (1998) (holding that ready for patenting could be met by proof of "drawings or other descriptions of the invention . . . sufficiently specific to enable a person skilled in the art to practice the invention.").

155. *See* Scaltech Inc. v. Retec/Tetra, L.L.C., 178 F.3d 1378, 1383-84 (Fed. Cir. 1999); *Abbott Lab.*, 182 F.3d at 1318-19.

156. *Pfaff*, 119 S. Ct. at 311.

157. *See supra* Part III.A.

158. *See supra* Part III.B.

159. *See Pfaff*, 119 S. Ct. at 312 ("In this case the second condition of the on-sale bar is satisfied because the drawings Pfaff sent to the manufacturer before the critical date fully disclosed the invention.").

160. *See id.*

commercialized,[161] the test directly comports with the policy of limiting Pfaff's effective monopoly on his chip socket while allowing time for its market evaluation.

In *Scaltech*, the independent "reduction to practice" prong of the proposed test might have more readily directed attention to the issue of whether the process on sale inherently embodied the invention later claimed.[162] This may have helped the lower court avoid the error of failing to address that question before granting summary judgment under section 102(b).[163] Further, the ensuing analysis would not have needed to address whether the process was ready for patenting. This would have enabled an analysis that more clearly reflects the principles of limiting removal of inventions from the public, limiting the time allowed for an invention's evaluation, and limiting the effective exclusivity period.

Likewise, in *Abbott*, the proposed test would have rendered arguments pertaining to conception moot, as a compound that inherently embodied the invention had already been made available to the public.[164] Again, such analysis would have more directly promulgated this 102(b) policy.

Finally, it should be noted that consideration of what "inherently embodies" the invention is a similar approach to one proposed by Judge Bryson in a prior Federal Circuit case.[165] Bryson's test provided that "if the sale or offer in question embodies the invention for which a patent is later sought, a sale or offer to sell that is primarily for commercial purposes" should trigger the bar.[166] In *Pfaff*, the Supreme Court rejected this test in a footnote.[167] In doing so, however, the Court noted that evidence satisfying this test might trigger the grace period if "it is clear that *no aspect of the invention was developed* after the critical date."[168] The Court's use of the word "developed" here, rather than "conceived," is important and instruc-

161. For example, it was Pfaff's custom to begin marketing his inventions before making a prototype. *See id.* at 307.

162. *See* Scaltech Inc. v. Retec/Tetra, L.L.C., 156 F.3d 1193, 1197 (Fed. Cir. 1998) (stating that the district court erred in failing to address, as a threshold question, whether the process on sale was actually an embodiment, or a substantially completed form, of the claimed invention), *amended by* 178 F.3d 1378 (Fed. Cir. 1999).

163. *See id.*

164. *See* Abbott Lab. v. Geneva Pharm., Inc., 182 F.3d 1315, 137-19 (Fed. Cir. 1999).

165. *See* Seal-Flex, Inc. v. Athletic Track & Court Constr., 98 F.3d 1318, 1325 (Fed. Cir. 1996) (Bryson, J., concurring in part and concurring in the result).

166. *Id.*

167. *See* Pfaff v. Wells Elec., Inc., 119 S. Ct. 304, 312 n.14 (1998) (stating that, although this test was advanced by the Solicitor General, the Court declines to adopt it).

168. *Id* (emphasis added).

tive. The Court's proviso can be read as requiring a determination that all features of the later patented invention were actually present in the product or process on sale before the critical date. In other words, all aspects of the later patented invention must have been inherent, and not later developed, in the commercialized product or process. Applying this same reasoning to *Abbott* and *Scaltech*, one would not be able to say a crystal's structure is "developed" when it is first determined, nor that a requirement of small particle size is "developed" when its significance is first recognized. Hence, these cases are examples in which "it is clear that no aspect of the invention was developed after the critical date."[169] By more clearly importing the doctrine of inherency into 102(b) analyses, the proposed *Pfaff* test may thus also help reconcile recent decisions under *Pfaff* with *Pfaff's* final footnote.

IV. CONCLUSION

Fundamental tenets of patent law animate the tests that apply the on-sale bar. With ever-advancing technologies, these tests do not always embrace the realities of the inventive process. Such a tension is reflected in the recent *Pfaff* test when applied to complex industries. *Scaltech* and *Abbott* raise the question of whether *Pfaff* provides a clearer test in section 102(b) analyses, or if the more elusive policy considerations must still control. A proposed modification of the test's structure promises more consistent realization of these policies in the continuing evolution of the on-sale bar.

169. *Id.*

DICKINSON V. ZURKO

By Christian A. Chu

Imagine being the defendant in a multi-million dollar infringement lawsuit where the patent-in-suit likely violates the standards of patentability. Imagine further that the patent examiner has considered all the relevant prior art, but still allowed the litigated claims. Imagine now that the court must defer to the patent examiner's factual findings and summarily deny the defendant's claim of invalidity. This is a possibility that the Supreme Court's decision in *Dickinson v. Zurko*[1] has created.

In *Zurko*, the Supreme Court enhanced the uniformity of the administrative landscape by requiring the Court of Appeals for the Federal Circuit to apply the Administrative Procedure Act's standards of review. *Zurko* achieved the Court's desired result because the outcome of some appeals from the PTO will change. Unfortunately, a broad reading of *Zurko* may compel a district court to defer to a patent examiner's factual findings in a patent infringement suit. Although some litigants have already attempted to use *Zurko* to that end, constitutional provisions and proper judicial construction can prevent this case from reaching that undesired result.

I. BACKGROUND

A. The APA Provides Horizontal Uniformity in Administrative Law

The Administrative Procedure Act ("APA")[2] governs and imposes procedural uniformity on federal agencies.[3] Congress enacted the APA in 1946 in response to protests against "shocking injustices" and intimations of judicial "abdication."[4] To curb those alleged administrative excesses

1. 119 S. Ct. 1816 (1999).
2. 5 U.S.C. §§ 551-559, 701-706, 1305, 3105, 3344, 6362, 7562 (1994).
3. *See* 1 KENNETH CULP DAVIS & RICHARD J. PIERCE, ADMINISTRATIVE LAW TREATISE § 1.1, at 2 (3d ed. 1994).
4. *See* Universal Camera Corp. v. NLRB, 340 U.S. 474, 479 (1951) ("Protests against 'shocking injustices' and intimations of judicial 'abdication' with which some courts granted enforcement of the Board's order stimulated pressures for legislative relief from alleged administrative excesses."); *see also* H.R. REP. NO. 76-1149, at 2 (1939) ("[T]here is no gainsaying the fact that with competency and long tenure of office we also secure [agency] employees who tend in some cases to become contemptuous of both the Congress and the courts; disregardful of the rights of the governed; and for lack of sufficient legal control over them a few develop Messiah complexes.").

and deficiencies, Congress provided for a clearer and broader judicial review of administrative agencies by instituting specific standards of review.[5] The APA established a minimum set of procedural requirements that agencies must meet and that courts must uniformly enforce.[6]

As codified in 5 U.S.C. § 706, the APA's framework mandates that "the reviewing court shall decide all relevant questions of law."[7] With regard to factual determinations, the APA instructs a reviewing court to

> hold unlawful and set aside agency action, findings and conclusions found to be—
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> (A) arbitrary, capricious, an abuse of discretion, or otherwise not in accordance with law; . . . [or]
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> (E) unsupported by substantial evidence in a case subject to sections 556 or 557 of this title or otherwise reviewed on the record of an agency hearing provided by statute. . . .[8]

Under section 706(2)(A), a reviewing court applies the "arbitrary and capricious" standard when the agency makes factual determinations in an informal setting or where the agency's organic statute does not require a hearing "on the record."[9] Under this very deferential standard, a reviewing court must uphold the agency's determinations unless the agency has relied on inappropriate factors, entirely failed to consider an important aspect of the problem, or made a finding that is implausible or entirely unsupported by the evidence.[10] In contrast, the less deferential "substantial evidence" standard of section 706(2)(E) applies to any factual finding that an agency adopts in a formal, on-the-record adjudication.[11] Under this

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5. *See Universal Camera*, 340 U.S. at 484 (explaining that the committee reports from both houses indicated that "courts are to exact higher standards 'in the exercise of their independent judgment'").

6. *See* Brian C. Whipps, Note, *Substantial Evidence Supporting the Clearly Erroneous Standard of Review: The PTO Faces Off Against the Federal Circuit*, 24 WM. MITCHELL L. REV. 1127, 1143-46 (1998).

7. 5 U.S.C. § 706 (1994).

8. *Id.* § 706(2).

9. *See* Camp v. Pitts, 411 U.S. 138, 140-43 (1973) (applying the "arbitrary and capricious" standard because "neither the National Bank Act nor the APA requires the Comptroller to hold a hearing or to make a formal findings on the hearing record when passing on applications for new banking authorities."); *see also* Citizens to Preserve Overton Park, Inc. v. Volpe, 401 U.S. 402, 414-17 (1971) (explaining and applying the "arbitrary and capricious" standard to the facts of the case).

10. *See* Motor Vehicle Mfrs. Ass'n v. State Farm Mut. Auto. Ins. Co., 463 U.S. 29, 43 (1983).

11. *See* 1 DAVIS & PIERCE, *supra* note 3, § 11.2, at 176.

standard, the reviewing court must consider the whole record[12] and affirm an agency's factual determinations that are supported by "such relevant evidence as a reasonable mind might accept as adequate to support a conclusion."[13] The reviewing court thus assesses the reasonableness of a decision by seeking support for the agency's findings in the record of a trial-like hearing.[14]

By enacting the APA, Congress mandated the use of particular standards in the judicial review of agency actions.[15] In the years following the enactment of the APA, the Supreme Court clarified and delineated the scope of these review standards.[16] To avoid weakening the statute, the Court rarely applied the APA's "saving clause," contained in 5 U.S.C. § 559, that provides that the APA "do[es] not limit or repeal additional requirements imposed by statute or otherwise recognized by law."[17] Rather, the Court limited the standards of judicial review for agency actions to those provided by the APA and struck any standard inconsistent with the statute.[18] Thus, the combination of legislative action and judicial interpretation created a horizontal uniformity among the courts and in the field of administrative law.

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12. *See* Universal Camera Corp. v. NLRB, 340 U.S. 474, 488 (1951).

13. Consolidated Edison Co. v. NLRB, 305 U.S. 197, 229 (1938).

14. *See* Association of Data Processing Serv. Orgs., Inc. v. Board of Governors of the Fed. Reserve Sys., 745 F.2d 677, 684 (D.C. Cir. 1984) ("The distinctive function of paragraph (E)—what it achieves that paragraph (A) does not—is to require substantial evidence to be found within the record of closed-record proceedings to which it exclusively applies.").

15. *See* 5 U.S.C. § 706 (1994).

16. *See, e.g., Universal Camera*, 340 U.S. at 490-91 (providing the appropriate scope of judicial review for the National Labor Relations Board); Consolo v. Federal Maritime Comm'n, 383 U.S. 607, 619-26 (1966) (reversing the lower court's misapplication of the "substantial evidence" standard and applying that standard to the facts of the case).

17. 5 U.S.C. § 559 (1994). *United States v. Florida East Coast Railway*, 410 U.S. 224, 238 (1973), stands as the only case in which the Supreme Court has considered this saving clause. In *Florida East Coast Railway*, the Court had to determine whether a more demanding procedure contained in the Interstate Commerce Commission's organic act survived the enactment of the APA. Although the Court adopted the APA's less demanding process, its reasoning implicitly endorsed the viability and application of the "saving clause." *See id.* at 238-43.

18. *See, e.g.*, American Paper Inst. v. American Elec. Power Serv. Corp., 461 U.S. 402, 412 n.7 (1983) ("In the absence of a specific command in [a statute] to employ a particular standard of review, the [agency action] must be reviewed solely under the . . . standard prescribed by the Administrative Procedure Act. . . .").

B. The Federal Circuit's Use of the "Clearly Erroneous" Standard Contradicted the APA

Although the Court of Appeals for the Federal Circuit ("Federal Circuit") reviews most agencies within its appellate jurisdiction under the APA's standards,[19] the court has consistently relied on the "clearly erroneous" standard to review factual determinations made by the Board of Patent Appeals and Interferences ("Board").[20] Under the "clearly erroneous" standard, a reviewing court may reverse a finding if, on the entire record, the reviewing court is "left with the definite and firm conviction that a mistake has been committed."[21] The phrasing of this standard, however, belies its broader scope. Compared to the APA's standards, the "clearly erroneous" test grants the reviewing court greater leeway to correct a mistake that it believes has occurred below and requires less deference to the lower tribunal's conclusions.[22] This standard allows the appellate court to review factual findings based on its own reasoning, while the APA requires the court to review a case based on the agency's reasoning.[23] Nevertheless, the "clearly erroneous" standard remains more deferential than the de novo standard under which the Federal Circuit reviews questions of law.[24]

The Federal Circuit has justified its use of the "clearly erroneous" standard by pointing to the alternative appellate pathways available to an applicant dissatisfied with the Board's decision. During the prosecution of a patent application, an applicant who has received a second or a final re-

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19. *See* Craig Allen Nard, *Deference, Defiance, and the Useful Arts*, 56 OHIO ST. L.J. 1415, 1471 (1995) ("The use of the 'clearly erroneous' standard is even more puzzling considering that the Federal Circuit employs the deferential [APA standards] when reviewing the fact findings of other agencies, namely (1) the Boards of Contract Appeals (BCA); (2) Merit System Protection Board (MSPB); and (3) International Trade Commission (ITC).").

20. *See, e.g.*, Holmwood v. Sugavanam, 948 F.2d 1236, 1238, (Fed. Cir. 1991) ("This court reviews the Board's factual findings under a clearly erroneous standard."). The "clearly erroneous" standard is the test prescribed by the Federal Rules of Civil Procedure for review of a trial court's factual findings. *See* FED. R. CIV. P. 52(a).

21. United States v. United States Gypsum Co., 333 U.S. 364, 395 (1948).

22. *See* SSIH Equip. S.A. v. United States Int'l Trade Comm'n, 718 F.2d 365, 382 (Fed. Cir. 1983) (Nies, J., concurring) ("A 'substantial evidence' standard restricts an appellate court to a greater degree than 'clearly erroneous' review.").

23. *See* Ethyl Corp. v. EPA, 541 F.2d 1, 35 n.74 (D.C. Cir. 1976) ("[U]nder the 'clearly erroneous' review a court may substitute its judgment for that of the trial court and upset findings that are not unreasonable.").

24. Under the de novo standard, the reviewing court does not defer at all to the lower court or agency's ruling in question. *See* ROBERT L. HARMON, PATENTS AND THE FEDERAL CIRCUIT 852 (4th ed. 1998).

jection by a patent examiner may appeal to the Board, which is part of the Patent and Trademark Office ("PTO").[25] If the Board affirms the examiner's rejection, a dissatisfied applicant may seek judicial review of that decision through one of two alternative avenues.[26] An applicant may appeal directly to the Federal Circuit where appellate review is limited to the administrative record before the Board.[27] Alternatively, the applicant may seek a de novo review of the Board's decision by filing a civil action against the PTO Commissioner in the District Court for the District of Columbia, with a subsequent appeal available to the Federal Circuit.[28] To avoid inconsistent outcomes between "direct" and "indirect" appeals of the Board's decisions and to minimize forum shopping, the Federal Circuit has reviewed appeals from both of these avenues under the "clearly erroneous" standard.[29]

Although logical, the "clearly erroneous" standard of review contravenes the mandate of the APA. Review of agency actions under the "clearly erroneous" test is less deferential and broader than either the APA's "substantial evidence" or the "arbitrary and capricious" standards.[30] Nonetheless, until 1995, the Federal Circuit used the "clearly erroneous" test without any challenge.

C. The PTO Challenges the Federal Circuit's Use of the "Clearly Erroneous" Standard

Claiming that it deserved greater deference, the PTO decided to challenge the Federal Circuit's use of the "clearly erroneous" standard. Starting with *In re Brana*,[31] the PTO urged the court to abandon its less deferential standard and to adopt the APA's framework.[32] The court, however, avoided the issue by explaining that its decision did not turn on the stan-

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25. *See* 35 U.S.C. § 134 (1994); 37 C.F.R. § 1.191 (1999).

26. *See* 35 U.S.C. § 141 (1994).

27. *See* 28 U.S.C. § 1295(a)(4)(A) (1994); 35 U.S.C. § 143-144 (1994).

28. *See* 35 U.S.C. § 145 (1994); *see also* Hoover Co. v. Coe, 325 U.S. 79, 82-83 (1945).

29. *See In re* Lueders, 111 F.3d 1569, 1577 (Fed. Cir. 1998) ("If we were to adopt the standard urged by the PTO, then we would be forced to give heightened deference to the factual findings of the Board in such a case while giving lower deference to the findings by the district court. We might thereby be compelled to hold the same patent both invalid and not invalid over the same prior art simply because of the differing standards of review.").

30. *See* SSIH Equip. S.A. v. United States Int'l Trade Comm'n, 718 F.2d 365, 382 (Fed. Cir. 1983) (Nies, J., concurring) ("A 'substantial evidence' standard restricts an appellate court to a greater degree than 'clearly erroneous' review.").

31. 51 F.3d 1560 (Fed. Cir. 1995).

32. *See id.* at 1568.

dard of review.[33] Undeterred, the PTO raised the issue again in *In re Napier*.[34] There, the court declined to decide the level of deference that it should grant the Board since the court could affirm the Board's decision under the less deferential standard of "clear error."[35] Subsequently, in *In re Kemps*,[36] the PTO adopted a more aggressive stand by using the "arbitrary and capricious" standard throughout its appellate brief.[37] Although it affirmed the Board's rejection in that case, the Federal Circuit chastised the PTO for using the wrong standard and stated that only an en banc court could overrule the "clearly erroneous" line of precedents.[38] Soon afterward, when the PTO requested an en banc review of the reversal in *In re MacDermid, Inc.*,[39] the court explained that an en banc rehearing is appropriate only when the resolution of the issue is determinative in the case at hand.[40]

The situation escalated quickly thereafter. In *In re Lueders*,[41] a three-judge panel unequivocally reaffirmed the propriety of the "clearly erroneous" standard in its review of Board decisions.[42] To resolve the issue of deference once and for all, the Federal Circuit granted an en banc rehearing in *In re Zurko*.[43]

II. CASE SUMMARY

A. The Federal Circuit Decision

Mary Zurko and her colleagues applied for a patent on a method to improve a computer system's security.[44] The patent examiner denied the application, stating that Zurko's method was obvious in light of the prior art.[45] After the Board sustained the examiner's rejection, Zurko sought review by the Federal Circuit.[46] The appellate panel reversed, finding that

33. *See id.*
34. 55 F.3d 610 (Fed. Cir. 1995).
35. *See id.* at 614.
36. 97 F.3d 1427 (Fed. Cir. 1996).
37. *See id.* at 1430.
38. *See id.* at 1431.
39. 111 F.3d 890 (Fed. Cir. 1997).
40. *See id.* at 890.
41. 111 F.3d 1569 (Fed. Cir. 1997).
42. *See id.* at 1574.
43. 116 F.3d 874, 874 (Fed. Cir. 1997).
44. *See In re* Zurko, 111 F.3d 887, 888 (Fed. Cir. 1997).
45. *See id.*
46. *See id.* at 887.

the Board's factual determination was "clearly erroneous."[47] Hoping to resolve the controversy over the appropriate standard of review, the Federal Circuit granted the PTO's petition for a rehearing en banc.[48]

Upon rehearing, the en banc court unanimously concluded that the appellate panel had legally and properly used the less deferential "clearly erroneous" standard.[49] The Federal Circuit found that its use of the "clearly erroneous" standard in appeals from the Board was authorized by the APA's "saving clause" contained in 5 U.S.C. § 559.[50] After reviewing the APA's legislative history, the court explained that Congress added section 559 to the APA to preserve the judicial review standards applied to PTO decisions at that time.[51] As shown in decisions from the Court of Customs and Patent Appeals ("CCPA") prior to 1946, such review of the PTO's findings relied on common law standards that, although articulated differently, were less deferential than the APA's standards.[52] Because those tests were in use by the courts at the time of the APA's passage and exceeded the APA's standards, they amounted to an "additional requirement" within the ambit of section 559.[53] The court further buttressed its conclusion by declaring that the PTO failed to provide convincing reasons for the court to depart from the principle of stare decisis and to disturb public reliance on the court's consistent use of the "clearly erroneous" standard.[54] In addition, the court reasoned that the less deferential standard of review would promote better fact-finding by the PTO.[55]

B. The Supreme Court Decision

On writ of certiorari, the Supreme Court, by a six to three vote, reversed the en banc judgment and held that the Federal Circuit must use the APA's standards to review the PTO's fact-findings.[56]

The Court's opinion, written by Justice Breyer, first addressed the Federal Circuit's claim of exception under section 559. The Court read section 559 as requiring that any exception to the APA's review standard be clearly stated, lest the APA's purpose of bringing uniformity to the ju-

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47. *See id.* at 889-90.
48. *See In re* Zurko, 116 F.3d 874, 874 (Fed. Cir. 1997).
49. *See In re* Zurko, 142 F.3d 1447 (Fed. Cir. 1998) (en banc).
50. *See id.* at 1450-57.
51. *See id.* at 1450-52.
52. *See id.* at 1453-57.
53. *See id.* at 1457.
54. *See id.* at 1457-58.
55. *See id.* at 1458.
56. *See* Dickinson v. Zurko, 119 S.Ct. 1816, 1818 (1999).

dicial review of agency decisions be frustrated.[57] In this case, the Supreme Court found that no such clear exception existed because none of the cases cited by the Federal Circuit as embodying the pre-APA review standards supported the idea of a preexisting less deferential standard.[58] The Court reached this conclusion because the specific meanings given to the standards used in the cases cited by the Federal Circuit were not firmly established before the adoption of the APA and prone to divergent use by the courts.[59] The pattern in those cases indicated that the courts deferred to the PTO's expertise, thus suggesting the use of the more deferential standards.[60] Having considered the CCPA's explanations, the origins of the review standards, and the different wording of the CCPA's standards, the Court concluded that the Federal Circuit's less deferential standard did not amount to "an additional requirement" under 5 U.S.C. § 559.[61]

The Court then turned to the other arguments made in favor of the Federal Circuit's decision. Addressing the argument that any change to the less deferential review standard would disturb the public's reliance, the Court decided that the creation of an exception under section 559 would be more disruptive, since such a precedent would invite other agencies and courts to depart from the APA's uniform requirement.[62] The Court downplayed the practical effect of a change in the Federal Circuit's standard by pointing to the Court's inability to find another case where the outcome depended upon the standard used.[63] Next, the Court dismissed as unimportant the argument that its ruling would force the Federal Circuit to use different review standards depending on whether a litigant appealed the Board's decision directly or indirectly.[64] The Court did not believe that litigants would take the more costly indirect route through the district court in order to obtain a less deferential judicial review of the PTO's determination.[65] Finally, rejecting the argument that a less deferential standard would promote better agency fact-findings, the Court found no rea-

57. *See id.* at 1819.
58. *See id.*
59. *See id.* at 1819-20.
60. *See id.* at 1821-22.
61. *See id.*
62. *See id.* at 1823.
63. *See id.*
64. *See id.* at 1824.
65. *See id.* The Court, however, allowed the Federal Circuit to adjust the review standard when the Federal Circuit hears an appeal of a case in which a district court judge merely reviewed the PTO's fact-finding. *See id.*

son for subjecting the PTO to a standard different from those applied to other agencies.[66]

Chief Justice Rehnquist, joined by Justices Kennedy and Ginsburg, dissented. They argued that, because section 559 embodied Congress's intent to bring uniformity to and to raise the standard of judicial review over agencies, the case turned on whether the CCPA used that less deferential "clearly erroneous" standard before Congress passed the APA.[67] In making that determination, the dissent urged the Court to defer to the Federal Circuit rather than to the PTO.[68] In addition, the dissent disagreed with the majority's interpretation that section 559 included a "clear statement" requirement.[69] Finally, the three dissenting justices adopted the Federal Circuit's rationale as part of their dissent.[70]

III. DISCUSSION

In *Zurko*, the Supreme Court aimed to preserve the uniformity of the American administrative state. *Zurko* places the PTO on par with other agencies and may change the outcome of some appeals from the Board. However, the Court's broad language could extend the scope of this case to patent infringement lawsuits and could require a district court to defer to a patent examiner's factual determinations. Although some litigants have attempted to leverage *Zurko* to this extent, *Zurko* does not affect prior art unconsidered by the PTO and cannot apply to infringement trials in light of the constitutional guarantees of due process and jury trial.

A. The Court Preserved the Administrative Horizontal Uniformity Provided by the APA

The Court in *Zurko* focused on maintaining the horizontal uniformity established by the APA. As the Court has acknowledged, Congress enacted the APA to standardize judicial review of agency action[71] and to "bring uniformity to a field full of variation and diversity."[72] Any divergence from this uniformity would undermine the congressional policy that gave rise to the APA.[73] The Court recognized that, if it affirmed the Fed-

66. *See id.*
67. *See id.* at 1827 (Rehnquist, C.J., dissenting).
68. *See id.*
69. *See id.*
70. *See id.* ("[We] therefore dissent for the reasons given by the Court of Appeals.").
71. *See* Universal Camera Corp. v. NLRB, 340 U.S. 474, 484 (1951).
72. Dickinson v. Zurko, 119 S.Ct. 1816, 1819 (1999).
73. *See id.* ("It would frustrate that purpose to permit divergence on the basis of a requirement 'recognized' only as ambiguous.").

eral Circuit's decision, agencies predating the APA could fall within the section 559 exception and diverge from the APA's norm.[74] Pockets of exceptions would slowly appear in the uniform administrative landscape and inevitably return our government to the confusion that existed before the enactment of the APA. The Court foresaw these possibilities and rejected them.

Unwilling to create such confusion, the Court compelled the outcome of this case by framing the tests that it used. In addition to the presumption that the APA applies unless an "additional requirement" exists under section 559, the Court imposed a heightened requirement that such proof must be clear.[75] This added burden required the respondents to prove that the CCPA's pre-APA cases actually used the "clearly erroneous" standard; equivalent wordings were unacceptable.[76] As the dissent criticized, neither the statutory text nor Congress' intent justified this requirement.[77] By reading that requirement into the text of section 559, the majority imposed such stringency on the standard of proof as to render the respondents' burden almost impossible to meet.

Nonetheless, the Court's position reaffirmed the basic policies underlying administrative law. Within the exercise of their responsibilities, the PTO and other agencies develop a specialized expertise that is enhanced by recruiting specialists in the agency's field.[78] Moreover, the administrative process gives an agency great flexibility in addressing complex problems and in tailoring adequate ex ante solutions to such problems.[79] The courts, the legislature and the executive branch lack the expertise, flexibil-

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74. *See Zurko*, 119 S.Ct. at 1823 ("The Federal Circuit standard would require us to create a § 559 precedent that itself could prove disruptive by too readily permitting other agencies to depart from the uniform APA requirement.").

75. *See id.* at 1819 ("[A] reviewing court must apply the APA's court/agency review standards in the absence of an exception. . . . [W]e believe that respondents must show more than a possibility of a heightened standard, and indeed more than even a bare preponderance of evidence in their favor. Existence of the additional requirement must be clear.").

76. *See id.* at 1819-20 (recognizing that, when the CCPA decided the cited cases in the 1930's and 1940's, courts properly distinguished the "clearly erroneous" and "substantial evidence" standards, but refusing to accept equivalent phrases such as "clearly wrong" or "clear case of error" that were present in 23 out of the 89 CCPA cases).

77. *See id.* at 1827 ("If Congress had meant [§ 559] to mean 'clearly recognized by law,' it certainly could have said so, but did not. I also reject the notion that § 559 . . . should be read to impose a nontextual clear statement rule for the antecedent common law requirements that the APA supplemented.").

78. *See* BERNARD SCHWARTZ, ADMINISTRATIVE LAW 31 (3d ed. 1991).

79. *See id.* at 38.

ity, and ability to respond to problems in the way that an agency can.[80] Although the decision to prevent the balkanization of the administrative landscape is understandable, the Court's ruling may send ripples through the field of patent law.

B. *Zurko* Will Have Limited Effects on Appeals from the Board

In deciding *Zurko*, the Court believed that a change in the review standard would have no practical effect.[81] The Court clearly erred because it overlooked a specific problem—the Board's failure to make adequate factual determinations—that causes the Federal Circuit to reverse certain Board decisions. The facts in *Zurko* illustrate the difficulty presented by cases plagued with this problem. In *Zurko*, the PTO rejected the application because the prior art rendered the invention obvious.[82] Reversing the Board's decision, the Federal Circuit explained that the Board failed to make factual findings pointing to any teaching in the prior art that would either supply the claims or provide a suggestion to combine the references.[83] Given a gap in the Board's factual findings, a change in review standards would affect the Federal Circuit's disposition of this case. Under the "clearly erroneous" test, the court would scrutinize the record using its own reasoning and substitutes its determinations where the Board failed to make a necessary factual finding.[84] Under the "substantial evidence" standard, the court would defer to the Board because the court must presume that the Board's conclusion is valid if there is evidence in the record to reasonably support the decision.[85] If the "arbitrary and capricious" standard applies,[86] the court must defer to the Board unless some egregious

80. *See Zurko*, 119 S.Ct. at 1822 ("[T]he PTO is an expert body [and] can better deal with the technically complex subject matter.... These reasons are reasons that courts and commentators have long invoked to justify deference to agency factfinding.").

81. *See id.* at 1823 ("[W]e believe the Circuit overstates the difference that a change of standard will mean in practice.... [W]e have failed to uncover a single instance in which a reviewing court conceded that use of one standard rather than the other would in fact have produced a different outcome.").

82. *See In re* Zurko, 111 F.3d 887, 888 (Fed. Cir. 1997).

83. *See id.* at 889 ("[T]o say that the missing step comes from the nature of the problem to be solved begs the question because the Board has failed to show that this problem had been previously identified anywhere in the prior art.").

84. *See* Ethyl Corp. v. EPA, 541 F.2d 1, 35 n.74 (D.C. Cir. 1976).

85. *See* Consolidated Edison Co. v. NLRB, 305 U.S. 197, 229 (1938).

86. The Supreme Court left undecided which APA standard should apply to reviews of the Board's decisions. *See* Dickinson v. Zurko, 119 S.Ct. 1816, 1821 (1999) ("[I]t apparently remains disputed to this day (a dispute we need not settle today) precisely which APA standard—'substantial evidence' or 'arbitrary, capricious, abuse of discretion'—would apply to court review of PTO factfinding.").

events occurred.[87] Therefore, if *Zurko* were decided under the APA's standards, the Federal Circuit would affirm the Board's determinations rather than reverse it. Since other appeals also suffer from this problem,[88] the Federal Circuit may now be required to affirm the Board's decisions more often than it did before *Zurko*.

In the wake of *Zurko*, the Federal Circuit has shown a greater willingness to affirm the Board's decisions under the APA standards as long as the Board provides sufficient factual findings to support its decisions.[89] It is doubtful that *Zurko* will dramatically increase the Federal Circuit's affirmance rate of Board's decisions, however, as the court has sided with the Board in about 80% of pre-*Zurko* appeals from the PTO.[90] This high affirmance rate barely leaves any room for improvement, and any increase in that rate will likely be incremental.

In spite of *Zurko*, the Federal Circuit should not affirm the Board's decision in all cases. As an alternative to affirming close but vague cases such as *Zurko*, the Federal Circuit could choose to remand a case to the Board for clarification rather than to affirm it. As an accepted practice in administrative law,[91] a remand would encourage the Board to more carefully scrutinize and support, with evidence and findings, the factual bases of its decisions.[92] In light of *Zurko*, the Federal Circuit has already adopted

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87. *See* Camp v. Pitts, 411 U.S. 138, 142 (1973).

88. *See, e.g., In re* Rouffet, 149 F.3d 1350, 1357 (Fed. Cir. 1998) (reversing the Board's decision because the Board failed to provide specific motivations to combine the relevant prior art); *In re* Dembiczak, 175 F.3d 994, 1000 (Fed. Cir. 1999) ("Because we do not discern any finding by the Board that there was a suggestion, teaching, or motivation to combine the prior art references cited against the pending claims, the Board's conclusion of obviousness, as a matter of law, cannot stand.").

89. *See In re* Greene, No. 99-1317, 1999 WL 1103363, at *3-4 (Fed. Cir. Dec. 06, 1999) (unpublished disposition) ("The Board made determinations about the state of the prior art, the ordinary skill in the art and what [the prior art] taught or suggested. . . . This court must give deference to the findings of fact made by the Board and can only overturn those findings if they are not based on substantial evidence.").

90. *See* Donald R. Dunner et al., *A Statistical Look of the Federal Circuit's Patent Decisions: 1982-1994*, 5 FED. CIRCUIT B.J. 151, 155 (1995) ("[T]he court has affirmed the PTO's determination of unpatentability about 80% of the time.").

91. Where an agency fails to explain the reasons underlying its decision, a court may remand the administrative action with the instruction that the agency reveals enough of its reasoning to permit meaningful judicial review. *See, e.g.,* Schaffer Transp. Co. v. United States, 355 U.S. 83, 90-93 (1957) (remanding an Interstate Commerce Commission's determination to the agency because the ITC failed to make adequate factual findings to support its decision).

92. *See* Susan Brown, *No Joy in Mudville*, IP WORLDWIDE, Oct. 1999, at 15.

this approach in a trademark appeal.[93] In the end, any increase in the affirmance rate of Board appeals resulting from *Zurko* will depend on whether the Board can expressly provide reasonable factual findings to support its decisions.

C. The Possible Consequences of *Zurko* on the District Courts' Review of Patent Validity

1. Zurko *may require deference to the PTO's factual determinations of validity in patent infringement lawsuits*

When a patent holder brings an infringement lawsuit, the alleged infringer may challenge the validity of the patent-in-suit as a defense.[94] In contesting a patent's validity, the infringer asks the court to examine whether the PTO properly allowed the disputed claims.[95] To succeed, the infringer must overcome the statutory presumption of validity by clear and convincing evidence.[96] This statutory presumption operates only as a procedural device allocating burdens of proof,[97] and lacks any substantive or evidentiary value.[98] The courts have read into the presumption a degree of deference owed to the patent examiner when the alleged infringer can only advance prior art already considered by the PTO as evidence of invalid-

93. *See* Casa Vinicola Gerardo Cesari S.R.L. v. Miguel Torres S.A., No. 99-1295, 1999 WL 1136827, at *1 (Fed. Cir. Dec. 7, 1999) (unpublished disposition) ("Because the Board did not consider the [confusing nature of the trademark] and did not sufficiently explain its conclusion . . . we vacate the Board decision and remand the case for further proceedings.").

94. *See* 35 U.S.C. § 282(2) (1994) ("The following shall be defenses in any action involving the validity or infringement of a patent and shall be pleaded: . . . (2) Invalidity of the patent. . . .").

95. The PTO's factual determinations relate to issues of utility, anticipation, best mode, written description, and the factual underpinnings of non-obviousness inquiries. *See* Craig Allen Nard, *supra* note 19, at 1472.

96. *See* 35 U.S.C. § 282 (1994) ("A patent shall be presumed valid."); Bausch & Lomb, Inc. v. Barnes-Hind/Hydrocurve, Inc., 796 F.2d 443, 446 (Fed. Cir. 1986) ("The burden is on the party asserting invalidity to prove it with facts supported by clear and convincing evidence.").

97. *See* Stratoflex, Inc. v. Aeroquip Corp., 713 F.2d 1530, 1534 (Fed. Cir. 1983) ("The presumption, like all legal presumptions, is a procedural device, not substantive law. . . . [T]he party asserting invalidity not only has the procedural burden of proceeding first and establishing a prima-facie case, but the burden of persuasion on the merits remains with that party until final decision.").

98. *See* SSIH Equip. S.A. v. United States Int'l Trade Comm'n, 718 F.2d 365, 375 (Fed. Cir. 1983) ("The presumption of validity afforded by 35 U.S.C. § 282 does not have independent evidentiary value.").

ity.[99] Despite this deference, courts must still scrutinize the record independently.[100] In sum, this deference is only a procedural device that can strengthen the presumption of validity, but that does not dispose of a case.

Zurko may now render this deference determinative under certain circumstances. As the Supreme Court declared, "a reviewing court must apply the APA's court/agency review standards in the absence of an exception."[101] By precluding any common law exception to 5 U.S.C. § 706,[102] this broad language may compel the district courts to apply the APA's standards when they review the validity of a patent in the course of an infringement litigation. Accordingly, a trial court should not disturb the patent examiner's determinations of facts unless those findings either lack the support of "substantial evidence" in the record or are "arbitrary and capricious."[103] As long as the criteria of these review standards are satisfied, the examiner's determinations would become dispositive. As it sheds its procedural veneer and becomes substantive, this deference could render the challenge of invalidity very difficult to win and could thus strengthen the patent owner's property rights.

2. *The requirement of enhanced deference is more than a theory: a recent development*

Zurko's implication for invalidity challenges should not be dismissed as purely theoretical, since a litigant has already made this argument in a patent infringement lawsuit. In *United States Filter Corp. v. Ionics, Inc.*,[104] an alleged infringer argued that *Zurko* required the district court to review

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99. *See, e.g.*, American Hoist & Derrick Co. v. Sowa & Sons, Inc., 725 F.2d 1350, 1359 (Fed. Cir. 1984) ("When no prior art other than that which was considered by the PTO examiner is relied on by the attacker, he has the added burden of overcoming the deference that is due to a qualified government agency presumed to have properly done its job. . . .").

100. *See, e.g.*, Badalamenti v. Dunham's, Inc., 680 F. Supp. 256, 260 (E.D. Mich. 1988), *aff'd*, 862 F.2d 322 (Fed. Cir. 1988) ("[W]hile the court is to give 'appropriate consideration and due weight' to the PTO's decision, its decision is not controlling nor is it binding on the court. . . . On the basis of the evidence before the courts, the courts can and do decide differently from the PTO examiner.").

101. Dickinson v. Zurko, 119 S.Ct. 1816, 1819 (1999).

102. *See* discussion *supra* Part III.A.

103. The Supreme Court left undecided which APA standard applies to a court's review of PTO's factfindings. *See Zurko*, 119 S.Ct. at 1821. Arguably, such deference may only apply to a litigation where the defendant fails to introduce new evidence that the patent examiner did not consider. *See, e.g.*, *American Hoist*, 725 F.2d at 1359-60 ("When an attacker . . . produces prior art or other evidence not considered in the PTO, there is, however, no reason to defer to the PTO so far as its effect on validity is concerned.").

104. 68 F. Supp. 2d 48 (D. Mass. 1999).

the PTO's findings of validity under the "substantial evidence" standard.[105] In its motion for summary judgment to invalidate the patent-in-suit, the infringer claimed—erroneously[106]—that *Zurko* permitted the court to set aside the PTO's findings if they were unsupported by substantial evidence.[107] The court disposed of that argument by pointing to the different procedural postures in the two cases.[108] The court acknowledged that it owed proper deference to the patent examiner's factual determinations of the evidence on which the examiner relied.[109] However, this deference does not cover new evidence that the PTO did not consider.[110] In light of the new evidence introduced by the parties to support or oppose this motion, the court denied the defendant's summary judgment motion.[111] Albeit misguided, the infringer's reliance on *Zurko* indicates that litigants have not missed the import of the case on invalidity issues and have not hesitated to use it. Cases where litigants, especially plaintiffs, rely on *Zurko* to advance their arguments will undoubtedly arise in the near future.

D. *Zurko* Should Not Apply to Invalidity Findings by District Courts

Zurko dealt with an appellate review of the Board's factual determinations. Extending *Zurko*'s holding to invalidity cases would require a broad and loose reading of the case. Arguably, some language in *Zurko* supports

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105. *See id.* at 52.

106. The accused infringer in *Ionics* erred in its use of the "substantial evidence" standard for two reasons. First, *Dickinson v. Zurko* left undecided whether the "substantial evidence" or the "arbitrary or capricious" standard applies in review of PTO factual determinations. *See In re* International Flavors & Fragrances, Inc., 183 F.3d 1361, 1365 (Fed. Cir. 1999). Second, the defendant misunderstood the proper application of this standard. If the "substantial evidence" standard applied, it would require the court to review the agency "on [the agency's] own reasoning." *In re* Zurko, 142 F.3d 1447, 1449 (Fed. Cir. 1998) (en banc). Hence, a reviewing court must accept the PTO's determinations as long as they are supported by probative evidence of a substantial nature. *See id.* The court may not substitute its own reasoning for that of the agency. Because this test contemplates proper deference to the agency's expertise, the reviewing court may not set aside the PTO's findings as easily as the *Ionics* defendant hoped.

107. *See Ionics*, 68 F. Supp. 2d at 52.

108. The court attempted to differentiate *Zurko* by explaining that the procedural posture it faced involved the possibility of a court/court review by the Federal Circuit while *Zurko* focused on a court/agency posture. *See id.*

109. *See id.* ("I owe deference to the finding made by the patent officer with regard to that patent's validity.").

110. *See id.* at 53 ("I must review the admissible evidence proffered to this court . . . giving deference only to those findings made by the patent examiner with regard to the evidence before him or presumed to be before him. . . .").

111. *See id.* at 68.

its application to invalidity questions.[112] However, precedent indicates that *Zurko*'s requirement of deference does not extend to prior art unconsidered by the PTO. In addition, constitutional barriers, emanating from the Seventh and the Fifth Amendment, stand against such application. As a result of these constitutional guarantees and the inapplicability to previously unconsidered prior art, *Zurko* cannot affect all invalidity issues that arise in a patent infringement lawsuit.

1. *The introduction of new prior art brings the litigation outside of* Zurko*'s scope*

As the *Ionics* court acknowledged, the introduction of new prior art frees the trial court from the required deference to the examiner's factual findings.[113] *Zurko* would require deference to the PTO's factual determinations, but leaves untouched the effect of prior art that the PTO has not considered.[114] This opens a substantial loophole to *Zurko*'s requirements because the Federal Circuit ruled long ago that a court owes no deference to the PTO's validity determinations where the alleged infringer introduces unconsidered prior art to sustain its section 282 burden of proof.[115] The unconsidered prior art would thus be unencumbered by *Zurko*'s dispositive requirements. Although the infringer's challenge would remain limited to these unconsidered references, litigants would undoubtedly take advantage of this loophole given the apparent ready availability of "new" prior art.[116]

2. *The Seventh Amendment limits the scope of* Zurko

Even when no new prior art is introduced, *Zurko* should not apply to infringement suits tried by a jury. The Seventh Amendment preserves the right to a jury trial as it existed under the English common law when the Amendment was adopted.[117] Since juries tried issues of patent validity at

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112. *See* Dickinson v. Zurko, 119 S.Ct. 1816, 1819 (1999) ("[A] reviewing court must apply the APA's court/agency review standards in the absence of an exception.").

113. *See supra* note 108 and accompanying text.

114. *See* discussion *supra* Part III.C.1.

115. *See* American Hoist & Derrick Co. v. Sowa & Sons, Inc., 725 F.2d 1350, 1359-60 (Fed. Cir. 1984) ("When an attacker, in sustaining the burden imposed by § 282, produces prior art or other evidence not considered in the PTO, there is, however, no reason to defer to the PTO so far as its effect on validity is concerned. Indeed, new prior art not before the PTO may so clearly invalidate a patent that the burden is fully sustained merely by proving its existence and applying the proper law. . . .").

116. *See* Connell v. Sears, Roebuck & Co., 722 F.2d 1542, 1549 (Fed. Cir. 1983) ("There is virtually always 'pertinent' and 'relevant' art apparently unconsidered in the PTO and available to a patent challenger.").

117. *See* Baltimore & Carolina Line, Inc. v. Redman, 295 U.S. 654, 657 (1935).

common law,[118] the Federal Circuit has long held that the Seventh Amendment covers issues of patent validity that may arise in a suit for patent infringement.[119]

Zurko's requirement of substantial deference to the PTO, if applicable to juries, would violate the Seventh Amendment. A jury instruction to review the PTO's findings under the APA's standards would limit the jury's role to a mere scrutiny of whether substantial evidence supports the examiner's findings or whether those determinations appear "arbitrary and capricious."[120] By limiting the jury to this procedural inquiry, *Zurko* would effectively substitute the examiner's ex parte determination for the jury's findings and preclude the jury from properly performing its core fact-finding function in light of an adversarial presentation. As applied to validity issues, *Zurko* would strip from the alleged infringer the crucial protection conferred by the jury's role and subject her to a potentially arbitrary determination by the PTO.[121] Courts should not and cannot enforce such a rule that contravenes the Constitution.

3. *Procedural due process prevents* Zurko *from applying to bench trials*

The Seventh Amendment's protection would not, however, extend to a bench trial, where a judge sits as the trier of facts.[122] Arguably, *Zurko*'s

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118. *See* Markman v. Westview Instruments, Inc., 52 F.3d 967, 1013 (Fed. Cir. 1995) (en banc) (Newman, J., dissenting) ("These relationships were well established by the date of the Seventh Amendment. Issues of patent infringement and validity were tried only to a jury, in the courts of King's Bench, Common Pleas, or Assize. Commonly, the patentee would seek an injunction against infringement, the defendant would assert invalidity, and the matter would be directed to a court of law for trial.") *aff'd*, 517 U.S. 376 (1996).

119. *See* Patlex Corp. v. Mossinghoff, 758 F.2d 594, 603 (Fed. Cir. 1985) ("The right to a jury trial on issues of patent validity that may arise in a suit for patent infringement is protected by the Seventh Amendment."); *see also* Swofford v. B & W, Inc., 336 F.2d 406, 411 (5th Cir. 1964), *cert. denied*, 379 U.S. 962 (1965).

120. *See supra* Part I.A., for a discussion of how courts apply these standards.

121. *See* Mark A. Lemley, *An Empirical Study of the Twenty-Year Patent Term*, 22 AIPLA Q.J. 369, 417 (1994) ("One of the most startling facts to a lay person about the current patent prosecution system is that it is virtually impossible for an Examiner to finally reject an application. . . . Further, since patent Examiners have a limited amount of time to spend on each application, and since they are rewarded based on the number of files they finish processing, there is an obvious incentive for Examiners to allow rather than reject questionable applications in order to get the application off their desk.").

122. *See In re* City of Philadelphia Litigation, 158 F.3d 723, 727 (3d Cir. 1998) (acknowledging and applying "the well established rule that a party's participation in a bench trial without objection waives any Seventh Amendment right to a jury trial that the party may have had.").

requirement of substantive deference to the PTO would then bind the court.[123] A positive result from this inquiry would compel the court to defer and accept the examiner's factual determinations without independently reviewing whether the patent is indeed valid.

However, the Fifth Amendment's procedural due process requirement would prevent such an outcome. The Fifth Amendment's provisions[124] do not ban all government interference with these enumerated rights. Rather, they demand that the federal government must act with procedural fairness if it infringes on these rights,[125] and prevents the government from imposing subjective criteria in its determination of each individual's rights.[126] The notion that an injured party enjoys a right to receive notice and an opportunity to be heard before being deprived of "property" or "liberty" stands at the core of procedural due process.[127]

By compelling deference to the examiner's findings and denying the courts the opportunity to independently determine a patent's validity, *Zurko* would substitute an ex parte finding for the result of a traditional adversarial proceeding. The ex parte process of patent examination, however, lacks proper constitutional safeguards since the public neither receives notice of the ongoing ex parte proceeding nor has the opportunity to challenge the claims' validity before the PTO issues the patent.[128] To bind an accused infringer, through the "backdoor" of deference, to results the infringer had no opportunity to contest would undermine the accused in-

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123. If the litigants proffer no new evidence, the judge should inquire whether the patent examiner's allowance of the patent has substantial support in the evidence on the record or followed proper procedures.

124. The Fifth Amendment guarantees that "[n]o person shall . . . be deprived of life, liberty, or property, without due process of law. . . ." U.S. CONST. amend. V.

125. *See, e.g.*, Mathews v. Eldridge, 424 U.S. 319, 332-34 (1976) (finding that due process did not require the Social Security Administration to hold an evidentiary hearing when it denied plaintiff's disability benefits as long as the agency's procedure for denial was fair.).

126. *See, e.g.*, Wisconsin v. Constantineau, 400 U.S. 433, 437 (1971) (relying on procedural due process to overturn a statute that may create "oppressive results" and leave a defendant at the mercy of "an official's caprice").

127. *See, e.g.*, Goldberg v. Kelly, 397 U.S. 254, 263-66 (1970) (requiring notice and an evidentiary hearing before welfare benefits could be terminated).

128. The PTO keeps the content of the patent application confidential from the public. *See* DONALD S. CHISUM, CHISUM ON PATENTS § 11.02[4] (1997). Congress recently amended the Patent Act, however, to require publication of patent applications after eighteen months unless the application is only filed in the United States. *See* American Inventors Protection Act of 1999, Pub. L. No. 106-113, § 1000(a)(9), 113 Stat. 1501, 36 (Consolidated Appropriations Act, 2000, enacting S. 1948, 106th Cong., § 4502 (1999)) (to be codified at 35 U.S.C. § 122).

fringer's due process rights.[129] Since *Zurko*'s application to infringement cases would lead to a violation of due process, it should not apply to bench trials.

4. Zurko *should never apply to any patent infringement litigation*

The potential effect of *Zurko* on patent infringement litigation appeared ominous.[130] An invalidity challenge would become meaningless if *Zurko* prevented the trial court from addressing the merits of that challenge.[131] On closer scrutiny, that menace is but a strawman. The loophole created by prior art unconsidered by the patent examiner would circumscribe *Zurko*'s scope to trials involving references already considered by the PTO.[132] Even within these boundaries, constitutional guarantees emanating from the Seventh and Fifth Amendment would prevent *Zurko* from binding either the jury or the judge to the APA's procedural process in the context of an invalidity challenge.[133] In sum, *Zurko* could never apply to any infringement litigation.

IV. CONCLUSION

The policy choice that the Supreme Court made in preserving the APA's uniformity held the potential to change the outcomes of appeals from the Board and to nullify the defense of invalidity in patent infringement cases. However, a closer look at these problems indicates that *Zurko*'s effects will be limited. In appeals from the Board, the new APA standards will not affect the outcome of cases as long as the Board properly provides its reasoning and supports it with reasonable evidence. In infringement cases, the combination of the " previously unconsidered prior art" loophole and the Seventh and Fifth Amendment constitutional guarantees will prevent the deference owed to a patent examiner's factual findings from overcoming an infringer's invalidity defense. When the dust settles, *Zurko* will be remembered more for its bark than its bite.

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129. *See* Columbia Broad. Sys., Inc. v. Zenith Radio Corp., 391 F. Supp. 780, 785 (N.D. Ill. 1975), *aff'd* 537 F.2d 896 (7th Cir. 1976) ("One cannot be bound by a judgment in personam in a litigation in which he is not designated as a party or to which he has not been made a party through service, substituted service or the class action mechanism.").

130. *See supra* Part III.C.1.

131. *See id.*

132. *See supra* Part III.D.1.

133. *See supra* Part III.D.2-3.

BALLY TOTAL FITNESS HOLDING CORP. V. FABER

By Oscar S. Cisneros

I. INTRODUCTION

Historically, when a consumer was dissatisfied with a company's products or services, that consumer only had access to a few types of media to publicize her complaints about the company. At best, only a small number of consumers became aware of these complaints. Large corporations had little reason to defend themselves because their public denials would only draw more attention to the consumer's complaints. The growth of the Internet, however, has made it much easier for dissatisfied consumers to criticize companies and have their complaints heard by a large audience. As a result, companies must now rethink how to deal with Internet-based criticisms. Such was the case in *Bally Total Fitness Holding Corp. v. Faber*[1] where Bally, the owner of a large chain of fitness centers, elected to sue a consumer who had developed a website to criticize its business practices.

The First Amendment and fair use doctrines in trademark law allow consumers and websites like Faber's to use a company's trademarks to describe its products and services free from the cloud of trademark infringement and dilution. Two factors—technology's new media and the law's free speech protections—are of great importance in understanding the relevance of *Bally*, where the court upheld Faber's right to use Bally's trademarks in the process of criticizing Bally's services.[2] Although the technology gives greater reach to a consumer's complaints by providing a medium with a potentially global audience, the free speech and fair use rights affirmed by this case are not new and in many ways the analysis is no different than one that applies to the offline world.

In discussing the impact of *Bally* on consumers' and companies' trademark rights, this Note will discuss the relevant background law, the facts and holdings of the case and, finally, arguments in favor of the court's ruling.

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1. 29 F. Supp. 2d 1161 (C.D. Cal. 1998).
2. *See id.* at 1164.

II. BACKGROUND LAW

Traditional trademark law and trademark dilution govern most of the court's reasoning in *Bally*. Their nature, purposes and defenses are discussed in this section.

A. Trademark Infringement

Some important rationales and limitations surround traditional trademark law. Generally, three interests are furthered by trademark protection: protecting consumers from being deceived and misled, curbing the unjust enrichment of poachers who infringe on the marks of others, and protecting the investment made by the mark owner in developing the mark and the subsequent goodwill of consumers toward it.[3] Because "[t]he 'property' in a trademark is the right to prevent confusion,"[4] trademarks are a limited property interest.[5] Businesses can assert some control over the use of those words, symbols and objects that denote their products and services, but that control is not absolute.

The above rationales are reflected in the Lanham Act,[6] which prohibits the "use in commerce of any reproduction, counterfeit, copy, or colorable imitation of a registered mark in connection with . . . such use as is likely to cause confusion . . . mistake, or to deceive."[7] A "trademark" is defined in section 43 of the Lanham Act as "any word, name, symbol, or device, or any combination thereof [used by a person] to identify and distinguish his or her goods, including a unique product, from those manufactured or sold by others and to indicate the source of the goods, even if that source is unknown."[8] Courts have interpreted the definition of trademarks to include colors, smells and sounds.[9] Although the text of the statute only

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3. *See generally* Michael G. Frey, Comment, *Is It Fair To Confuse? An Examination Of Trademark Protection, the Fair Use Defense, and the First Amendment*, 65 U. CIN. L. REV. 1255, 1260 (1997) (collecting sources).

Consumer transaction costs also play an important role in buttressing the need for trademark protection—consumers have an interest in easily finding the same quality products again and again based on their trademark. *See* 1 J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 2:5 (4th ed. 1998).

4. 1 MCCARTHY, *supra* note 3, § 1:8 n.1.

5. *See* International Order of Job's Daughters v. Lindeburg & Co., 633 F.2d 912, 918 (9th Cir. 1980) ("A trademark owner has a property right only insofar as is necessary to prevent consumer confusion as to who produced the goods and to facilitate differentiation of the trademark owner's goods.").

6. 15 U.S.C. §§ 1051-1128 (1994).

7. 15 U.S.C. § 1114(1)(a) (1994).

8. 15 U.S.C. § 1127 (1994).

9. *See, e.g.*, Qualitex Co. v. Jacobson Prods. Co., 514 U.S. 159, 166 (1995).

covers federally registered trademarks, in practice "common law, unregistered trademarks, service marks and trade names" have been included inside the Lanham Act's sphere.[10]

Although the Lanham Act sets out a broad scope of protections for trademark holders, it also establishes some important defenses, which have been augmented by judicially created defenses.

The Ninth Circuit has recognized a defendant's right to make "nominative fair use" of a company's marks to describe and market that company's products and services where the products and services are "not readily identifiable without use of the trademark."[11] In *New Kids on the Block v. News America Publishing, Inc.*,[12] two news organizations created reader opinion polls about the pop band New Kids on the Block.[13] The New Kids sued, alleging, among other things, trademark infringement. The Ninth Circuit held that the defendant could raise the nominative fair use defense to protect against a trademark infringement claim if: (1) the product at issue could not be identified without the use of the mark;[14] (2) the defendant only used what is "reasonably necessary" of the mark to identify the product;[15] and (3) the use did not suggest sponsorship or endorsement by the trademark owner.[16] The court reasoned that "[m]uch useful social and commercial discourse would be all but impossible if speakers were under threat of an infringement lawsuit every time they made reference to a person, company or product by using its trademark."[17] This defense carves out an important exception for individuals and companies using a company's marks to describe that company's products and services. Provided that such use is de minimis, not confusing as to the

10. DORIS LONG, UNFAIR COMPETITION AND THE LANHAM ACT at 7 n.27 (1993), *quoted in* Katherine E. Gasparek, Comment, *Applying The Fair Use Defense In Traditional Trademark Infringement And Dilution Cases To Internet Meta Tagging Or Linking Cases*, 7 GEO. MASON L. REV. 787, 796 (1999)

11. *See* New Kids on the Block v. News Am. Publ'g, Inc., 971 F.2d 302, 308 (9th Cir. 1992).

12. 971 F.2d 302 (9th Cir. 1992).

13. *See id.* at 304.

14. *See id.* at 308.

15. *See id.* at 308.

16. *See id.* As an example, a defendant making nominative fair use of the mark "Coca-Cola" might use the text of the mark in an ad to convey that the beverage would be for sale at his or her function, but not the stylized logo associated with the mark. With no other way to describe the Coca-Cola Company's product, the defendant would only be using what was reasonably necessary to denote the product.

17. *Id.* at 307. The court also noted that it is "often virtually impossible to refer to a particular product for purposes of comparison, criticism, point of reference or any other such purpose without using the mark." *Id.* at 306.

sponsorship, and provided that the mark represents the only realistic way to describe the company's products and services, the use is protected under this defense.

In addition to the nominative fair use defense, defendants in trademark infringement suits can employ the statutory defense provisions included in the Lanham Act. The Lanham Act includes a fair use defense for individuals whose good faith use of a trademark is for descriptive purposes only.[18] The defendant must not be using the plaintiff's mark as a trademark, and the use must be to describe the goods or services of the defendant or their geographic origins.[19] Non-trademark use of a mark occurs when someone uses a company's mark to describe their own products and services but does not actually use the mark as their own trademark.[20]

B. Trademark Dilution

Federal trademark dilution provisions provide owners of "famous trademarks"[21] additional protections not covered by traditional trademark law. The Federal Trademark Dilution Act ("FTDA") defines "dilution" as "the lessening of the capacity of a famous mark to identify and distinguish goods or services."[22] Section 1125(c) provides only injunctive relief to victims of dilution, unless the plaintiff can prove that the diluter "willfully intended to trade on the owner's reputation or to cause dilution of the famous marks,"[23] at which point damages become available.

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18. *See* 15 U.S.C. § 1115(b)(4) (1994).
19. *See id.*
20. *See id.*
21. The Act includes eight nonexclusive factors for determining if a mark is famous:

    (A) the degree of inherent or acquired distinctiveness of the mark;
    (B) the duration and extent of use of the mark in connection with the goods or services with which the mark is used;
    (C) the duration and extent of advertising and publicity of the mark;
    (D) the geographical extent of the trading area in which the mark is used;
    (E) the channels of trade for the goods or services with which the mark is used;
    (F) the degree of recognition of the mark in the trading areas and channels of trade used by the marks' owner and the person against whom the injunction is sought;
    (G) the nature and extent of 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.

    15 U.S.C. § 1125(c)(1) (Supp. IV 1998).
22. *Id.* § 1127.
23. *See id.* § 1125(c)(2).

The FTDA's provisions differ from traditional trademark law in some significant regards. Unlike traditional trademark infringement law, the prevention of consumer confusion does not animate the FTDA.[24] Therefore, plaintiffs in dilution actions need not prove consumer confusion.[25] While "commercial use in commerce"[26] of the mark is an essential element to a dilution claim, the FTDA does not require competition of products and services between the plaintiff and defendant as is required by traditional trademark law.[27] Taken together, these differences strengthen the protections afforded to owners of famous trademarks.

Although the FTDA does not specify what behavior should be deemed "dilution," courts have relied on two categories of dilution found in state dilution laws: blurring and tarnishment.[28] In order to sustain a cause of action under a blurring rationale, a plaintiff must show that the defendant used his famous trademark in a way that caused a loss of selling power via an instinctive mental association on the part of consumers.[29]

Tarnishment typically occurs when a plaintiff's mark is placed in an "unwholesome or degrading context."[30] An example of this in the Internet context can be found in *Hasbro, Inc. v. Internet Entertainment Group Ltd.*,[31] where a defendant registered Hasbro's mark "Candyland" and used it as the domain name for a pornographic site, ⟨www.candyland.com⟩.[32] While tarnishment suits often involve the tarnishment of a mark through an association with pornography or prurient sexual activity, they are not

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24. The FTDA does not require "the presence or absence of . . . likelihood of confusion." *Id.* § 1127.

25. *See id.*

26. 15 U.S.C. § 1127 defines "used in commerce" as "the bona fide use of a mark in the ordinary course of trade, and not made merely to reserve a right in a mark." *Id.*

27. Traditional trademark law allows multiple companies to use the same mark if their products and services do not compete with each other so long as consumer confusion is not created. *See* 15 U.S.C. § 1052(d) (1994). Thus, the FTDA's provisions extend the exclusive rights given to a famous mark holder by allowing them to exclude others from using their mark as a trademark even if such a use is in a completely unrelated field.

28. *See* Gasparek, *supra* note 10, at 803. For an excellent discussion of how older state dilution statutes compare to the FTDA, see *Ringling Bros.-Barnum & Bailey Combined Shows, Inc. v. Utah Div. of Travel Dev.*, 170 F.3d 449, 453-59 (4th Cir. 1999).

29. In *Ringling Bros.*, the U.S. Court of Appeals for the Fourth Circuit defined blurring under the FTDA "as requiring for proof of 'dilution' (1) a sufficient similarity between the junior and senior marks to evoke an 'instinctive mental association' of the two by a relevant universe of consumers which (2) is the effective cause of (3) an actual lessening of the senior mark's selling power, expressed as 'its capacity to identify and distinguish goods or services.'" *Ringling Bros.*, 170 F.3d at 458.

30. 1 MCCARTHY, *supra* note 3, § 24:104.

31. 40 U.S.P.Q.2D (BNA) 1479 (W.D. Wash. 1996).

32. *Id.* at 1480.

limited to this.[33] Other examples include companies mocking their adversary's marks[34] and a parody of canned meat in a film.[35]

Although blurring and tarnishment rationales typically dominate trademark dilution suits, a new category has been created to address domain name disputes: cybersquatting.[36] Cybersquatting occurs when a defendant registers a domain name using a mark holder's trademark, usually with the intent of selling the domain to its rightful owner.[37] *Panavision International, L.P. v. Toeppen*[38] is one of the first cases to define this new category of dilution. In *Panavision*, Dennis Toeppen, the defendant in the case, registered a domain name, ⟨panavision.com⟩, incorporating the plaintiff's mark.[39] After finding that the plaintiff's mark was famous,[40] the court found that Toeppen's use of the mark was commercial in nature.[41] While the court found that merely registering a domain was not commercial use under the FTDA, it did find that Toeppen's registration of Panavision's mark was commercial because Toeppen had made it his business to register marks as domain names and sell them back to their rightful holders.[42] The defendant's actions did not fit neatly into the blurring or tar-

33. *See* Eastman Kodak Co. v. Rakow, 739 F. Supp. 116 (W.D.N.Y. 1989); Pillsbury Co. v. Milky Way Prods., Inc., 215 USPQ 124 (N.D. Ga. 1981); Dallas Cowboys Cheerleaders, Inc. v. Pussycat Cinema, Ltd., 467 F. Supp. 366 (S.D.N.Y.), *aff'd*, 604 F.2d 200 (2d Cir. 1979).

34. *See* Deere & Co. v. MTD Prods., Inc., 41 F.3d 39, 43 (2d Cir. 1994) (holding that the famous John Deere mark was not tarnished because the risk of impairing the identification of Deere's products was minimal when the normally proud and majestic John Deere deer was depicted as weak and cowardly).

35. *See* Hormel Foods Corp. v. Jim Henson Prod. Inc. 73 F.3d 497, 506 (2d Cir. 1996) (holding that Hormel's "Spam" mark was not tarnished when parodied by a puppet character in the form of a likeable wild boar).

36. Professor McCarthy agrees that the blurring/tarnishment dichotomy should be expanded to include cybersquatting. *See* 1 MCCARTHY, *supra* note 3, § 24:69.1 (listing cybersquatting as a third tarnishment category); *Id.* § 25:77 (discussing cybersquatting in general).

37. *See* Sporty's Farm L.L.C. v. Sportsman's Mkt., Inc., Nos. 98-7452(L), 98-7538(XAP), 2000 U.S. App. LEXIS 1246 (2d Cir. Feb. 2, 2000) ("Cybersquatting involves the registration as domain names of well-known trademarks by non-trademark holders who then try to sell the names back to the trademark owners.").

38. 945 F. Supp. 1296 (C.D. Cal. 1996).

39. *See id.* at 1300.

40. The court ran through the nonexclusive list of eight statutory factors to determine that Panavision's mark, "Panavision," was famous. *See id.* at 1302.

41. *See id.* at 1303.

42. *See id.*

nishment categories; the court noted, however, that blurring and tarnishment do not represent the full breadth of actions covered by the FTDA.[43]

Although the dilution provisions strengthen the exclusive rights enjoyed by holders of famous marks, the FTDA contains some important exceptions. The following uses are not actionable under federal dilution law: 1) fair use in comparative advertising and promotional efforts that identify the mark holder's products using the holder's trademarks;[44] 2) noncommercial use;[45] and 3) "all forms of news reporting and news commentary."[46]

III. CASE SUMMARY: BALLY TOTAL FITNESS V. FABER

A. Factual Summary

Andrew S. Faber operates a Web page called "Bally Sucks," a protest site devoted to consumer complaints and criticism about Bally Total Fitness Holding Corporation's fitness centers.[47] Bally operates fitness centers or health clubs throughout the United States and Canada.[48] When a viewer visits Faber's site, Bally's distinctive trademark[49] appears with the word "Sucks" emblazoned upon it;[50] below this, the site reads "Bally Total Fitness Complaints! Un-authorized."[51] Among other things, the site features instructions on how to cancel an account with Bally's fitness centers, edi-

43. *See id.* The importance of this rising category of dilution may be diminished with the enactment of the Anticybersquatting Consumer Protection Act, Pub. L. No. 106-113, § 1000(a)(9), 113 Stat. 1501, 1536 (Consolidated Appropriations Act, 2000, enacting S. 1948, 106th Cong., §§ 3001-3010 (1999)) (to be codified at 15 U.S.C. § 1125(d)) (1999). The law was passed "to provide clarity in the law for trademark owners by prohibiting the bad-faith and abusive registration of distinctive marks as Internet domain names with the intent to profit from the goodwill associated with such marks—a practice commonly referred to as 'cybersquatting.'" S. REP. NO. 106-140, at 4. In addition, the newly-formed Internet Corporation for Assigned Names & Numbers ("ICANN") has established the ICANN-mediated Uniform Domain Name Dispute Resolution Policy as an attempt to avoid lengthy court battles. *See* Luke A. Walker, Note, *ICANN's Uniform Domain Name Dispute Resolution Policy*, 15 BERKELEY TECH. L.J. 289 (2000).

44. *See* 15 U.S.C. § 1125 (c)(4) (1994).

45. *See id.* For examples of noncommercial uses, see *infra* note 93.

46. 15 U.S.C. § 1125 (c)(4).

47. *See* Bally Total Fitness Holding Corp. v. Faber, 29 F. Supp. 2d 1161,1161 (C.D. Cal. 1998).

48. *See id.* at 1164.

49. The court described Bally's trademark as "Bally's stylized 'B' mark or distinctive script." *See id.* at 1166.

50. *See id.* at 1164.

51. *See id.* at 1161.

torial criticism about the company, and a "Complaint Guestbook" where former and current Bally customers can air their protests against the fitness chain.[52]

B. The District Court Decision

Bally sued Faber to compel him to stop using its mark, asserting that Faber's actions constituted trademark infringement, trademark dilution and unfair competition.[53] The United States District Court for the Central District of California granted Faber's motion for summary judgment on all three counts.[54]

The court rejected Bally's trademark infringement claim. While the court found that Bally's federally registered trademarks were valid and protectable,[55] it also found that there was no consumer confusion created through Faber's use of the company's marks.[56] The court found that the eight-factor balancing test typically employed by courts to determine likelihood of confusion did not apply in *Bally*.[57] This is because, although Bally and Faber both advertised on the Internet, their products were not related.[58] Instead, the court found that there was no consumer confusion created by Faber's site due to the prominent disclaimers and the critical subject matter of the page.[59] The court held that no reasonable consumer

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52. *See Bally*, 29 F. Supp. 2d at 1161, 1166.

53. *See id.* at 1162.

54. *See id.* at 1166, 1168.

55. The court noted that Bally had federally registered service and trademarks for "Bally," "Bally's Total Fitness," and "Bally Total Fitness," as well as the "distinctive styles" of the marks. *See id.* at 1163. It also noted the more than half-billion dollars Bally had spent in promoting its marks and the fact that no other health club related business employed the marks. *See id.*

56. *See id.*

57. *See id.* In the case of competitors marketing related goods, courts typically use an eight-factor test to determine the likelihood of confusion. The factors include: (1) strength of the mark; (2) proximity of the goods; (3) similarity of the marks; (4) evidence of actual confusion; (5) marketing channels used; (6) type of goods and the degree of care likely to be exercised by the purchaser; (7) defendant's intent in selecting the mark; and (8) likelihood of expansion of the product lines. *See id.* at 1163.

58. *See id.* at 1163.

59. The court noted that

> Faber's site states that it is "unauthorized" and contains the words "Bally sucks." No reasonable consumer comparing Bally's official Web site with Faber's site would assume Faber's site "to come from the same source, or thought to be affiliated with connected with, or sponsored by the trademark owner." Therefore, Bally's claim for trademark infringement fails as a matter of law.

Id. at 1163-64.

would be confused about the source or sponsorship of Faber's site; therefore, Bally failed as a matter of law to establish the second element of a trademark infringement claim—that a likelihood of consumer confusion existed.[60]

Additionally, the court rejected Bally's trademark dilution claim because it found that Faber's use of Bally's trademark was noncommercial.[61] In order to sustain such a dilution claim, the court said that Bally must show that Faber's use of its famous mark was commercial in nature and diluted Bally's mark by lessening the capacity of the mark to identify and distinguish goods or services.[62] Bally argued that Faber's use was commercial because the "Bally Sucks" site was listed on a separate page that promoted Faber's web design services. The court rejected this argument and found that Faber did not use Bally's mark to identify goods in commerce nor to sell his own services.[63] In interpreting the FTDA's noncommercial use exception, the court cited legislative history in support of the finding that parodies and consumer product reviews—like Faber's website—were exempt from the FTDA's reach.[64]

After finding that Faber's use of Bally's mark was not commercial in nature, the court went on to find that, even if it was commercial use, Bally could not show that Faber's use tarnished its mark.[65] Bally argued that Faber had tarnished its mark by associating it with pornography,[66] but the court identified two problems with Bally's argument.[67] First, the fitness chain did not use consumer commentary cases to support its theory.[68] Instead, Bally cited cases enjoining plaintiffs from using a trademark holder's mark to make satirical commentary on issues unrelated to the

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60. *See id.*

61. *See id.* at 1167.

62. *See id.* at 1166. The court described the finding of commercial use as "essential" to a dilution claim. *See id.*

63. *See id.* at 1167. ("Faber merely listed the 'Bally sucks' site as one of several web sites that he has designed so that those who are interested in his services may view his work. This is akin to an on-line resume.").

64. *See id.* at 1166. The legislative history suggests that Congress never intended for the FTDA to trump free speech; Senator Orrin Hatch stated at the FTDA's inception that the statute would "not prohibit or threaten noncommercial expression, such as parody, satire, editorial and other forms of expression that are not a part of a commercial transaction." 141 CONG. REC. S19, 306-10 (daily ed. Dec. 29, 1995).

65. *See Bally*, 29 F. Supp. 2d at 1167.

66. *See id.* at 1166.

67. *See id.*

68. *See id.*

holder's product.[69] The court noted that the dilution statute did not trump Faber's constitutional rights: "Here, however, Faber is using Bally's mark in the context of a consumer commentary to say that Bally engages in business practices which Faber finds distasteful or unsatisfactory. This is speech protected by the First Amendment."[70]

Second, Bally's tarnishment theory was too broad in the court's eyes.[71] Bally asserted that Faber tarnished its mark because Faber's Web design services site contained links to both his "Bally Sucks" page and a pornography site called "Images of Men."[72] The close proximity of its mark to a link to a pornographic site, Bally argued, created the tarnishment.[73] The court rejected this argument, warning that it would unduly expand the definition of dilution on the Internet.[74] The court added that a "reasonably prudent Internet user" would not assume that a Web page that makes no reference to a company's trademark was somehow sponsored by that company.[75] Although a link to the "Bally Sucks" page and a link to the "Images of Men" page were listed next to each other inside the ⟨compupix.com⟩ domain, a "reasonably prudent Internet user" would not assume Bally's sponsorship—especially given that there was no confusion as to whether or not the "Bally Sucks" page was unofficial.[76]

Although there was no domain name dispute at the heart of the case, the *Bally* court did refer to the issue in passing.[77] It noted that although Faber did not make use of Bally's name as part of a domain name like ⟨www.ballysucks.com⟩, doing so would not necessarily be a violation as a matter of law.[78] Unlike the cybersquatter cases like *Panavision*,[79] the court

69. *See id.* at 1166. Bally cited *Mutual of Omaha Ins. Co. v. Novak*, 648 F. Supp. 905 (D. Neb. 1986), *aff'd* 836 F.2d 397 (8th Cir. 1987) and *Coca-Cola v. Gemini Rising, Inc.*, 346 F. Supp. 1183 (E.D.N.Y. 1972); neither case discusses consumer commentary of the mark holder's products.

70. *Bally*, 29 F. Supp. 2d at 1167.

71. *See id.* at 1168.

72. *See id.*

73. *See id.*

74. "The essence of the Internet is that sites are connected to facilitate access to information. Including linked sites as grounds for finding commercial use or dilution would extend the statute far beyond its intended purpose of protecting trademark owners from uses that have the effect of 'lessening . . . the capacity of a famous mark to identify and distinguish goods or services.'" *Id.* at 1168 (internal citations omitted).

75. *See id.*

76. *See id.*

77. *See id.* at 1165.

78. *See id.*

79. Panavision Int'l, L.P. v. Toeppen, 945 F. Supp. 1296 (C.D. Cal. 1996).

noted that "no reasonably prudent Internet user would believe that 'Bally-sucks.com' is the official Bally site or is sponsored by Bally."[80]

IV. ANALYSIS

Bally involved applying traditional trademark and First Amendment law to new media: the Internet and the World Wide Web. Anyone can publish on the Web, inexpensively or without cost, and reach a large audience using search engine technology. Such ease of publishing raises the stakes for companies, like Bally Total Fitness, that have expended vast resources building trademarked brands. With no control over how search engines list their Web site—and no ability to enjoin sites like Faber's—Bally must endure having its web page placed in close proximity to the "Bally Sucks" site when a consumer searches for online information about its health clubs. This is a positive result for several reasons.

The first relates to the very basis of trademark law: consumer confusion.[81] Faber's site did not confuse consumers.[82] Due to Faber's disclaimers and the obvious fact that the page was a protest site, it seems that the average Web surfer would not assume it to be sponsored by Bally. With no likelihood of confusion, providing trademark protection would needlessly extend Bally's exclusive rights.

Another reason why the result in this case is positive is that informed consumers create and maintain an economic incentive for Bally to provide quality services. The fitness chain has an interest in keeping consumer opinion positive. It can further the goodwill associated with its mark by providing good customer service; good service means positive feedback from consumers through word of mouth. But if Bally were given the ability to silence consumer criticism on the Web, the company's incentive to provide good services would be lessened. By tracking Bally's alleged indiscretions and poor business practices, Faber's site serves as a watchdog and pushes Bally—and its competitors—to provide better services.

In addition to providing Bally with an economic incentive for better customer service, putting more information in the hands of consumers is a positive result from a policy perspective. If the reach of trademark infringement and dilution were stretched to include Faber's criticism of Bally's business, consumers would be less informed. A would-be customer searching online for information about health clubs in general or Bally's fitness centers would be less likely to encounter the "Bally Sucks"

80. *Bally*, 29 F. Supp. 2d at 1165 n.2.
81. *See supra* text accompanying notes 3-5.
82. *See Bally*, 29 F. Supp. 2d at 1163-64.

site if Faber were not allowed to use Bally's mark.[83] By keeping a trademark owner's rights in check, the *Bally* decision allows Faber to add to a consumer's informed opinion.[84]

Even if the court had not determined that consumer confusion was absent in Faber's use of Bally's mark, Faber might have been able to turn to the nominative fair use defense to protect himself against Bally's infringement claim.[85] To employ this defense, he would have had to meet the three requirements outlined by the Ninth Circuit in *New Kids on the Block v. News America Publishing, Inc.*[86] As Faber's site did not suggest or imply an endorsement by Bally, and as the company can only be identified by using the word "Bally," the first and last prongs of the defense would have been satisfied. The second prong, however, would have caused Faber some difficulties. It requires that the defendant use only what is "reasonably necessary" of the mark to identify the product or company. In Faber's case, his use of Bally's stylized logo might have disqualified him from using the defense because using the word "Bally" would have been enough to identify the company.

In addition to the trademark infringement analysis, the court in *Bally* also came to the right conclusion on the issue of trademark dilution. The court found unpersuasive Bally's argument that Faber's site was commercial because he used it as an example of his web design services. As the court correctly stated, such a use was "akin to an online resume" and not "commercial use in commerce" as required by the FTDA.[87] Bally's tarnishment arguments were likewise unconvincing.[88] The notion that two links on a page—links to the "Bally Sucks" and "Images of Men" pages, neither of which were sponsored by Bally—somehow created an implied endorsement and subsequent tarnishment of Bally's marks is misleading at best. Such a finding of tarnishment would create dilution liability across

83. For instance, typing "Bally Total Fitness" in Yahoo!, one of the most popular search engines on the Internet, returns links not only to the official Bally site, but also to Faber's site and another consumer complaint site. *See Yahoo Search Results* (visited Feb. 16, 2000) ⟨http://search.yahoo.com/bin/search?p=bally+total+fitness⟩.

84. The court noted that "the average Internet user may want to receive all the information available on Bally . . . the user may also want to be apprised of the opinions of others about Bally." *Bally*, 29 F. Supp. 2d at 1165.

85. *See* New Kids on the Block v. News. Am. Pub., Inc., 971 F.2d 303, 306 (9th Cir. 1992).

86. *See supra* notes 11-15 and accompanying text.

87. *Bally*, 29 F. Supp. 2d at 1167.

88. *See id.* at 1168.

the Web.[89] Linking is central to the way the Web operates. If two links next to each other (for example, one to the Coca-Cola site and one to a pornography site on a user's personal "favorite links" page) were construed as tarnishment, dilution's reach would be stretched too far.

The *Bally* decision also represents a victory for free speech advocates in their battle against trademark restrictions on the Internet. When traditional trademark law is properly applied, it does not run afoul of the First Amendment.[90] This is because the Lanham Act's purpose is to prevent consumer confusion.[91] State actors may constitutionally proscribe misleading or deceptive speech; therefore, if a trademark is used in a way that confuses consumers, then that speech is generally unprotected by the First Amendment.[92] But when trademark laws are used to proscribe uses of trademarks in noncommercial speech, free speech implications rise in importance. Professor Lemley notes that nontrademark use of trademarks in parodies, editorial commentary, political advertisements and artistic expressions have all been enjoined in various contexts,[93] a result he dislikes because "[t]rademark theory offers no justification for this sort of suppres-

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89. The liability issues for search engines alone should discourage such a ruling. Yahoo! and portals like it, with their directory style approach to categorization, would especially be left open to attack.

90. "The strongest constitutional justification for trademark laws is that, properly construed, they prevent only speech that is likely to cause consumer confusion, and that false or misleading speech can be restricted." Mark Lemley & Eugene Volokh, "Freedom of Speech and Injunctions in Intellectual Property Cases." 48 DUKE L.J. 147, 221 (1998)

91. *See* text accompanying notes 3-5.

92. *See* Lemley & Volokh, supra note 90, at 221; *see also* Virginia Pharmacy Board v. Virginia Citizens Consumer Council, Inc. 425 U.S. 748 (1976) (holding that false and misleading speech could be deemed a category of unprotected speech); Gertz v. Robert Welch, Inc. 418 U.S. 323, 340 (1974) ("[T]here is no constitutional value in false statements of fact.").

93. Trademark laws have been used to preclude artists from painting in the same style as another, to prevent an author from using the term "Godzilla" in the title of his book about Godzilla, to prevent a comic book from featuring a character known as Hell's Angel, to prevent a satirical political advertisement from using the "Michelob" trademark to help make its point, to prevent a tractor manufacturer from making fun of its competitor's logo in an advertisement, to prevent a movie about a Minnesota beauty pageant from using the title "Dairy Queens," to prevent a political satire of the O.J. Simpson case called "The Cat NOT in the Hat!" to prevent individuals from setting up web pages critical of a company or product, and to prevent a theme bar from calling itself "The Velvet Elvis."

Mark Lemley, *The Modern Lanham Act and the Death of Common Sense*, 108 YALE L.J. 1687, 1711-12 (1999) (internal citations omitted).

sion of speech. It is an unintended consequence of the tendency to give unfettered property rights to trademark owners."[94]

Dilution statutes present greater constitutional concerns than traditional trademark law. Professors Lemley and Volokh note that "the argument that false or misleading speech is unprotected—the one most commonly used to defend trademark laws against the First Amendment—offers no support for dilution statutes like the Federal Trademark Dilution Act of 1995."[95] Dilution's blurring rationale punishes speech that creates confusion via mental association. Because misleading speech can be regulated without offending the Constitution, blurring is less constitutionally problematic than tarnishment.[96] One commentator has called the tarnishment rationale "an open-ended invitation to restrict any use that undermines the commercial value or appeal of the trademark."[97] This open-ended nature threatens to encroach upon uses of marks that may otherwise be constitutionally protected.[98]

But the "tendency to give unfettered property rights to trademark owners"[99] did not continue in *Bally*, where the court said that applying Bally's trademark infringement arguments "would extend trademark protection to eclipse First Amendment rights."[100] Because Faber's use of Bally's mark was nonconfusing and noncommercial, it deserves the full breadth of First Amendment protection. Accordingly, the court refused to extend the FTDA's reach into territory covered by the First Amendment: "The Constitution does not, however, permit the range of the anti-dilution to encompass the unauthorized use of a trademark in a noncommercial setting such as an editorial or artistic context."[101]

The right to free speech is fundamental, and for good reasons, trademarks should be included in society's lexicon.[102] The court in *Bally* ech-

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94. *Id.* at 1713.

95. Lemley & Volokh, *supra* note 90, at 222 n.325.

96. *See* Robert Denicola, *Trademarks As Speech*, 1982 WIS. L. REV. 158, 200.

97. *Id.*

98. *See id.*

99. Lemley, *supra* note 93.

100. Bally Total Fitness Holding Corp. v. Faber, 29 F. Supp. 2d 1161, 1166 (C.D. Cal. 1998). The court also said that other courts "have rejected this approach by holding that trademark rights may be limited by First Amendment concerns." *Id.*

101. *Id.* at 1167.

102. "Rules restricting the use of well-known trademarks may therefore restrict the communication of ideas. . . . If the defendant's speech is particularly unflattering, it is also possible to argue that the trademark has been tarnished by the defendant's use. The constitutional implications of extending the misappropriation or tarnishment rationales to such cases, however, may often be intolerable. Since a trademark may frequently be the

oed this sentiment, saying that "[a]n individual who wishes to engage in consumer commentary must have the full range of marks that the trademark owner has to identify the trademark owner as the object of the criticism."[103]

The only restrictions on Faber's criticism of Bally stem from defamation law. With a high standard of "actual malice" in defamation of business cases, Faber's "breathing space"[104] under First Amendment law is expansive. An example of the leeway afforded by the law to consumer criticism can be found in *Bose Corp. v. Consumers Union*[105] where the Bose Corporation successfully proved the falsity of the defendant's statements about the company's products.[106] Bose also showed that the defendant knew the falsity of the statements before they were published.[107] Nonetheless, the Supreme Court ruled the "additional proof" of actual malice was lacking.[108] Therefore, even if Bally could prove in a defamation action that Faber knowingly published something false about the fitness chain, the company would still fall short if it failed to prove actual malice on Faber's part.

Another way the court upheld the public's right to use the "full range of marks"[109] was by its ruling on Faber's use of Bally's marks in his site's metatags. Metatags are keywords buried in the hidden code of a website that describe the contents of the page.[110] Some search engines employ metatags to index the contents of the pages they scan into their data-

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most effective means of focusing attention on the trademark owner or its product, the recognition of exclusive rights encompassing such use would permit the stifling of unwelcome discussion." L.L. Bean, Inc. v. Drake Publishers, Inc., 811 F.2d 26, 31 (1st Cir. 1987).

103. *Bally*, 29 F. Supp. 2d at 1166.

104. "Our profound national commitment to the free exchange of ideas, as enshrined in the First Amendment, demands that the law of libel carve out an area of 'breathing space' so that protected speech is not discouraged." Harte-Hanks Communications, Inc. v. Connaughton, 491 U.S. 657, 686 (1989) (internal citations omitted).

105. 466 U.S. 485 (1984).

106. *See id.* at 497.

107. *See id.*

108. *See id.* at 511. The Court let stand a district court ruling that labeled the Bose Corporation a "public figure" for purpose of the First Amendment. *See id.* at 493, n.8. Once so classified, public figures must prove clear and convincing evidence of actual malice in order to sustain a defamation action. *See id.* at 490. *See also* Gertz v. Robert Welch, Inc., 418 U.S. 323, 342 (1974); St. Amant v. Thompson, 390 U.S. 727, 731 (1968); New York Times Co. v. Sullivan, 376 U.S. 254, 280 (1964).

109. Bally Total Fitness Holding Corp. v. Faber, 29 F. Supp. 2d 1161, 1166 (C.D. Cal. 1998).

110. *See* Playboy Enters. v. Welles, 7 F. Supp. 2d 1098, 1101 (S.D. Cal. 1998)

bases.[111] Thus, when a user visits a search engine and types "Bally Total Fitness," one reason why the user sees a link to the "Bally Sucks" page is that Faber includes the phrase "Bally Total Fitness" in his metatags.[112] Bally sought to enjoin Faber from using its mark in his site's metatags but the court ruled against the company saying that "[p]rohibiting Faber from using Bally's name in the machine readable code would effectively isolate him from all but the most savvy of Internet users."[113] The court's language deviates from the reality of how metatags are used on the World Wide Web; not all search engines employ metatags and even fewer use the Web designer-chosen keywords to boost the relevance of their searches.[114] Still, the court's ruling is substantively on the mark. The fair, noncommercial use of trademarks in metatags should not be enjoined by traditional trademark infringement or dilution rationales.

V. CONCLUSION

Bally Total Fitness v. Faber was correctly decided. The court was presented with a new medium and was required to apply trademark and First Amendment law to it. Although Bally sought to enlarge its property interest beyond the bounds of the limited exclusive rights granted to it under trademark law, the court affirmed the First Amendment right of consumers to criticize companies using their own marks in this new medium.

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111. Danny Sullivan, *Search Engine Features for Web Designers* (visited Dec. 20, 1999) ⟨http://www.searchenginewatch.com/webmasters/features.html⟩.

112. Faber's site uses the following keywords in its meta-tags:

> bally total fitness complaints bally fitness ballys complaints baly total fitness balley ballys total fitness health holiday health club holiday spa club clubs gym gyms workout workouts weights aerobics weight lifting memberships membership weight loss trim fit lean muscle, define, energy, cardiovascular, supplements, nutritionals, vitamins, lose weight, reduce body fat, muscle strength, btrim, bfit, bft.

See Andrew Faber, *Bally Total Fitness Sucks* (visited Dec. 20, 1999) ⟨http://www.compupix.com/ballysucks/⟩.

113. *Bally*, 29 F. Supp. 2d at 1165. The court also said that consumers "will be unable to locate sites containing outside commentary unless those sites include Bally's marks in the machine readable code upon which search engines rely." *Id.*

114. This means that Faber's use of Bally's mark in his meta-tags may not improve the chances of a user finding his site on the Web. *See* Sullivan, *supra* note 111 (noting that only Go.com and Inktomi use meta-tags to boost the rankings of a page). Inktomi, however, performs the search functions for many other search engines. For a list, see Inktomi Corp., *Search Engine Partners* (visited Feb. 14, 2000) ⟨http://www.inktomi.com/products/portal/search/partners.html⟩. *See also generally* Shannon N. King, Note, *Brookfield Communiations, Inc. v. West Coast Entertainment Corp.*, 15 BERKELEY TECH. L.J. 313, 313-14 (2000).

AVERY DENNISON CORP. V. SUMPTON

By Diane K. Wong

When a 12-year-old boy created a personal web site using his lifelong nickname "Pokey," the owners of Gumby and Pokey warned him not to use the name.[1] Similarly, when college student John Abercrombie registered ⟨abercrombie.net⟩, he was asked by the legal department of clothing company Abercrombie & Fitch to transfer the name to them.[2] Domain name disputes of this kind have become increasingly commonplace as a result of the Internet's rapid expansion and the law's attempt to keep pace.[3] Often, the mere threat of a lawsuit is sufficient to persuade an individual to release a disputed domain name to the corporation.[4]

However, the Ninth Circuit's decision in *Avery Dennison Corp. v. Sumpton*[5] represents one of the first defeats for a large company seeking to extend its trademark rights to include Internet domain names.[6] The court found that the longtime holder of the "Avery" and "Dennison" trademarks was not entitled to prevent others from registering domain names containing these words.[7] Specifically, the Ninth Circuit raised the bar for finding famousness in trademark dilution cases. This Note examines the courts' past determinations of famousness, comparing the previous relaxed standards with the new, stricter view of the threshold famousness requirement. In addition, this Note addresses the Ninth Circuit's distinction between ⟨.net⟩ and ⟨.com⟩ top-level domains ("TLDs") and the possible detrimental effect this distinction will have on future domain name dilution cases.

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1. *See* Howard Mintz, *Congress, Courts Weigh in on Disputes over Internet Domain Names*, SAN JOSE MERCURY NEWS, June 25, 1999, *available in* 1999 WL 17352122.

2. *See id.*

3. *See* Jennifer Oldham and Karen Kaplan, *The Cutting Edge Domain Name Ruling Opens an Internet Can of Worms; Law: The Decision Could Have Wide Impact, Keeping Many People from Using Their Own Surnames in Communications*, L.A. TIMES, April 20, 1998, at D1.

4. *See* Brian McWilliams, *Hasbro Loses Latest Round Over Clue.Com Domain*, (Sept. 8, 1999) ⟨http://www.internetnews.com/bus-news/print/0,1089,3_197321,00.html⟩.

5. 189 F.3d 868 (9th Cir. 1999).

6. *See* Davan Maharaj and Karen Kaplan, *Technology: Ruling Curbs Net Trademark Protection*, LOS ANGELES TIMES, Aug. 24, 1999, at C3.

7. *See Avery Dennison*, 189 F.3d at 879.

I. TRADEMARK DILUTION

In contrast to trademark infringement, which focuses on protecting consumers from being confused over the source or sponsorship of goods and services,[8] a dilution cause of action focuses on protecting the trademark holder's property interests.[9] In 1927, Professor Frank I. Schechter proposed this new theory of trademark protection designed to protect the trademark's "uniqueness and singularity" in the market place.[10] Under Schechter's theory, the trademark holder was harmed when an identical or similar mark was used on a dissimilar product and the original mark's "selling power" was lessened or "diluted" as a result of the consumer's new association with the original mark.[11]

A. State Statutes

Massachusetts enacted the first state dilution statute in 1947, and many states have since followed.[12] The dilution statutes are essentially the same, requiring: (1) a distinctive mark and (2) a likelihood of dilution.[13] For example, under the California anti-dilution statute, the plaintiff need only show the "[l]ikelihood of injury to business reputation or of dilution of the distinctive quality of a mark."[14] As under the Federal Trademark Dilution Act ("FTDA"), the Ninth Circuit interprets dilution actions under the California statute to protect only famous marks.[15]

Passage of dilution statutes in many states led to two major problems.[16] The first problem concerned enforcement of the injunctions. It was

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8. *See* Gregg Duffey, *Trademark Dilution Under the Federal Trademark Dilution Act of 1995: You've Come a Long Way Baby—Too Far, Maybe?*, 39 S. TEX. L. REV. 133, 136 (1997).

9. *See id.*

10. Patrick M. Bible, *Defining and Quantifying Dilution Under the Federal Trademark Dilution Act of 1995: Using Survey Evidence to Show Actual Dilution*, 70 U. COLO. L. REV. 295, 295 (citing Frank I. Schechter, *The Rational Basis of Trademark Protection*, 40 HARV. L. REV. 813, 831 (1927)).

11. Bible, *supra* note 10, at 295 (citing Schechter, *supra* note 10, at 819).

12. *See* Duffey, *supra* note 8, at 140 ("[As of 1997], thirty-two states have enacted trademark dilution statutes.").

13. *See id.* at 140 (citing DONALD S. CHISUM & MICHAEL A. JACOBS, UNDERSTANDING INTELLECTUAL PROPERTY LAW 5-228 to 5-230, 5-229 n.209 (1992)).

14. CAL. BUS. & PROF. CODE § 14330 (1987).

15. *See* Avery Dennison Corp. v. Sumpton, 189 F.3d 868, 874 (citing Fruit of the Loom, Inc. v. Girouard, 994 F.2d 1359, 1362-63 (9th Cir. 1993)); *see also* Metro Pub., Ltd. v. San Jose Mercury News, Inc., 861 F. Supp. 870, 881 (N.D. Cal. 1994) ("The Ninth Circuit has made it clear that the protection afforded by California's anti-dilution statute extends only to highly distinctive, well-known marks.").

16. *See* Duffey, *supra* note 8, at 141.

unclear whether a court should (or could) enjoin a diluting activity in a state that did not recognize a dilution cause of action.[17] The second problem was that there was no uniformity in the application of the state dilution statutes.[18] This resulted in "a 'patchwork quilt of dissimilar laws' that offered independent, inadequate protection for owners of valuable trademarks."[19] It was clear to Congress that a federal law was needed to create uniform treatment for these dilution causes of action.[20]

B. Federal Statute

1. Dilution cause of action

Congress enacted the FTDA[21] "to protect famous trademarks from subsequent uses that blur the distinctiveness of the mark or tarnish or disparage it, even in the absence of a likelihood of confusion."[22] The trademark holder is entitled to injunctive relief if it can establish that "(1) the mark is famous; (2) the defendant is making a commercial use of the mark in commerce; (3) the defendant's use began after the mark became famous; and (4) the defendant's use of the mark dilutes the quality of the mark by diminishing the capacity of the mark to identify goods and services."[23]

The likelihood of dilution criterion has traditionally been satisfied through a showing of blurring or tarnishment,[24] although these theories do

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17. *See id.*

18. *See id.*

19. *Id.* at 141 (citing Paul L. DeVerter II & Richard S. Zembeck, *Revolution in Trademark Law: A Primer on Trademark Dilution Under the Federal Trademark Dilution Act of 1995*, 12 HOUS. INTELL. PROP. L. INST., at A, A-2 (1996)).

20. *See* H.R. REP. NO. 104-374, at 4 (1995) ("[The FTDA] is necessary because famous marks ordinarily are used on a nationwide basis and dilution protection is currently only available on a patch-quilt system of protection, in that only approximately 25 states have laws that prohibit trademark dilution.").

21. 15 U.S.C. § 1125(c)(1) provides in relevant part that "[t]he owner of a famous mark shall be entitled, subject to the principles of equity and upon such terms as the courts deems reasonable, to an injunction against another person's commercial use in commerce of a mark or trade name, if such use begins after the mark has become famous and causes dilution of the distinctive quality of the mark, and to obtain such other relief as is provided in this subsection." 15 U.S.C. § 1125(c)(1) (Supp. IV 1998).

22. H.R. REP. NO. 104-374, at 2 (1995).

23. Panavision Int'l, L.P. v. Toeppen, 141 F.3d 1316, 1324 (9th Cir. 1998) (interpreting 15 U.S.C. § 1125(c)(1)).

24. *See* Bible, *supra* note 10, at 307 ("[The definition of dilution] clearly encompasses the blurring type of harm recognized universally by the states. Additionally, although not expressly stated in the [FTDA], legislators intended the Act to encompass the tarnishment theory of dilution.").

not cover the full range of dilution actions.[25] Blurring of the trademark occurs when another's use of the famous mark "whittles away the strong association consumers have between the trademark and the trademark holder."[26] Most blurring actions allege that a defendant's use of a similar mark on products differing from those of the trademark holder results in the diminishment or "blurring" of the consumer's mental association between the original trademark and the goods.[27] Dilution can also occur when famous trademarks become associated with inferior quality or unsavory products in the minds of the consumer, thereby injuring or "tarnishing" the reputation of the trademark holder.[28]

2. *Dilution due to cybersquatting*

a) Caselaw

Although dilution has traditionally been found under theories of blurring or tarnishment, the Ninth Circuit recognized another theory of dilution in *Panavision International v. Toeppen*,[29] finding the defendant guilty of cybersquatting dilution (or dilution by "elimination"[30]). The court found cybersquatting dilution to occur when the defendant's actions diminished "the capacity of the [famous] marks to identify and distinguish [the famous mark holder's] goods and services on the Internet."[31] The court recognized that dilution could occur when "[p]rospective users of plaintiff's services . . . may fail to continue to search for plaintiff's own home page, due to anger, frustration or the belief that plaintiff's home page does not exist."[32]

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25. *See* Avery Dennison Corp. v. Sumpton, 189 F.3d 868, 880 (9th Cir. 1999) (recognizing that cybersquatting dilution "can occur if potential customers cannot find a web page at ⟨trademark.com⟩.").

26. Danielle Weinberg Swartz, *The Limitations of Trademark Law in Addressing Domain Name Disputes*, 45 UCLA L. REV. 1487, 1513 (1998).

27. Duffey, *supra* note 8, at 161.

28. *See* Swartz, *supra* note 26, at 1516.

29. Panavision Int'l L.P. v. Toeppen, 945 F. Supp. 1296, 1304 (C.D. Cal. 1996), *aff'd* 141 F.3d 1316 (9th Cir. 1998).

30. Ronald Abramson, *Internet Domain Name Litigation, 1999*, 558 PLI/PAT 7, at *20 (1999).

31. *Panavision*, 945 F. Supp. at 1304; *see also* Intermatic, Inc. v. Toeppen, 947 F. Supp. 1227, 1240 (N.D. Ill. 1996) (stating that registering the domain name "lessens the capacity of Intermatic to identify and distinguish its goods and services by means of the Internet.").

32. Panavision Int'l L.P. v. Toeppen, 141 F.3d 1316, 1327 (9th Cir. 1998) (quoting Jews for Jesus v. Brodsky, 993 F. Supp. 282, 307 (D.N.J. 1998)).

In *Panavision*, the defendant intentionally registered the plaintiff's trademarks as domain names and then attempted to extract payment from the plaintiff in exchange for relinquishing registration of the sites.[33] The district court found that the defendant had violated state and federal dilution statutes, holding that "registering a famous mark as a domain name for the purpose of trading on the value of the mark by selling the domain name to the trademark owner violates the federal and state dilution statutes."[34]

Similarly, in *Teletech*, the plaintiff sought a preliminary injunction against the defendant for use of their registered mark "Tele-Tech" as a domain name on the Internet.[35] Finding that the plaintiff had invested a large amount of resources in promoting the mark and that defendant's registration of the domain name "teletech.com" would likely result in dilution of the mark, the district court issued the injunction.[36]

b) Legislation

Congress has recently entered the cybersquatting arena.[37] The Anticybersquatting Consumer Protection Act, signed by President Clinton on November 29, 1999,[38] takes an expansive view of cybersquatting.[39] Under the Act, a person who profits from the goodwill of a trademark with "bad-faith intent" shall be liable if he uses a domain name that is "identical to, confusingly similar to, or dilutive of a trademark" that is distinctive at the time the domain name was registered.[40] However, this new legislation still leaves many issues unresolved. It is unclear how accidental trademark interferences will be handled.[41] There are also First Amendment issues: Would parody web pages be under attack under this legislation?[42] Another open question is the effect of TLD variations and whether or not second-

33. *See Panavision*, 945 F. Supp. at 1298.

34. *Id.* at 1304.

35. *See* TeleTech Customer Care Management, Inc. v. Tele-Tech Co., 977 F. Supp. 1407, 1411 (C.D. Cal. 1997).

36. *See id.* at 1413.

37. *See* Richard Martinelli, *Cybersquatters—Will their Effect on the Trademark Law Live On?*, MEALEY'S LITIG. REP.: INTELL. PROP., Nov. 15, 1999.

38. *See* Ritchenya A. Shepherd, *Cyberpirates Now May Have to Walk the Plank—Suits Begin Under New Law that Outlaws Registering Others' Marks and Names for Profit*, NAT'L L.J., Vol. 22, No. 17, Dec. 20, 1999, at B18.

39. *See* Martinelli, *supra* note 37.

40. S. 106-140, at 2 (1999).

41. *See* Ryan H. Sager, *Cybersquat Thrusts*, REASON MAGAZINE, Jan. 1, 2000, *available in* 2000 WL 2439995.

42. *See id.*

level domain names ("SLDs") which use other TLDs like ⟨.net⟩ or ⟨.org⟩ can dilute trademarks using ⟨.com⟩ web sites.[43]

C. Threshold Requirement of Famousness

Dilution is a special cause of action that can only be used to protect "famous" marks—"those marks with such powerful consumer associations that even non-competing uses can impinge on their value."[44] Without the requirement that the trademark be famous, the property right created by dilution legislation would have no practical boundaries and the balance would be upset in favor of over-protecting trademarks.[45] As stated by the Trademark Review Commission, "a higher standard must be employed to gauge the fame of a trademark eligible for this extraordinary remedy."[46]

The FTDA lists eight non-exclusive factors to be used in the famousness determination. These are:

> (A) the degree of inherent or acquired distinctiveness of the mark; (B) the duration and extent of use of the mark in connection with the goods or services with which the mark is used; (C) the duration and extent of advertising and publicity of the mark; (D) the geographical extent of the trading area in which the mark is used; (E) the channels of trade for the goods or services with which the mark is used; (F) the degree of recognition of the mark in the trading areas and channels of trade used by the mark's 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 . . . on the principal register.[47]

In theory, the famousness requirement is a difficult standard to meet. However, in practice, many courts have not required "the mark to have such great strength" in adjudicating dilution claims.[48] Examination of dilution cases in recent years reveals that the famousness determination has not been a major source of dispute in litigation. Some courts assumed the

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43. *See* Martinelli, *supra* note 37.

44. Avery Dennison Corp. v. Sumpton, 189 F.3d 868, 875 (9th Cir. 1999).

45. *See id.*

46. Trademark Review Commission, *Report and Recommendation*, 77 TRADEMARK REP. 375, 461 (1987).

47. 15 U.S.C. § 1125(c)(1) (Supp. IV 1998).

48. Megan E. Gray, *Defending Against a Dilution Claim: A Practitioner's Guide*, 4 TEX. INTELL. PROP. L.J. 205, 218 (1996) (citing Hester Indus., Inc. v. Tyson Foods, Inc., 16 U.S.P.Q.2d (BNA) 1275, 1278-79 (N.D.N.Y. 1990)).

mark was famous and did not make an explicit finding of famousness.[49] Other courts made the determination of famousness by confusing fame with distinctiveness.[50] In other cases, the court noted that the defendant did not contest the fame of the mark, and did not proceed further into the famousness inquiry.[51] This practice of bypassing the initial inquiry and proceeding directly to the dilution inquiry adds to existing inconsistent precedent by applying the FTDA to marks that fail to meet the threshold famousness requirement.[52] Specifically, where the courts analyzed the famousness inquiry according to the statutory factors, many courts interpreted the factors very broadly and found that the plaintiff's marks satisfied the requirements.[53]

II. CASE HISTORY

Against this background of inconsistent precedent, the Ninth Circuit confronted trademark dilution in *Avery Dennison*. The Ninth Circuit clearly set the famousness bar at a high level, consistent with the legislative intent.

A. The Parties

The appellants in *Avery Dennison*, collectively known as "Sumpton,"[54] license vanity e-mail addresses to individual users in the format

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49. *See* Lori Krafte-Jacobs, *Judicial Interpretation of the Federal Trademark Dilution Act of 1995*, 66 U. CIN. L. REV. 659, 690 (1998).

50. *See id.* (citing Elvis Presley Enters., Inc. v. Capece, 950 F. Supp. 783, 797-98 (S.D. Tex. 1996); Clinique Labs, Inc. v. Dep Corp., 945 F. Supp. 547, 561 (S.D.N.Y. 1996)).

51. *See* Dr. Seuss Enterprises, L.P. v. Penguin Books USA, Inc., 924 F. Supp. 1559, 1573 (S.D. Cal. 1996); *see also* Sony Computer Ent., Inc. v. Connectix Corp., 48 F. Supp. 2d 1212, 1222 (N.D. Cal. 1999) ("Connectix concedes that Sony's 'PlayStation' and 'Sony Computer Entertainment' trademarks are famous and distinctive. . . ."); Intermatic Inc. v. Toeppen, 947 F. Supp. 1227, 1239 (N.D. Ill. 1996) ("Toeppen does not dispute that the Intermatic mark is famous and no evidence has been presented to contradict Intermatic's long history and use of its mark.").

52. *See* Krafte-Jacobs, *supra* note 49, at 690.

53. *See generally* Hotmail Corp. v. Van$ Money Pie Inc., 47 U.S.P.Q.2d 1020, 1024 (N.D. Cal. 1998); Levi Strauss & Co. v. San Francisco 415 Co., No. C-96 03219 VRW, 1996 WL 724786, at *1 (N.D. Cal. Dec. 6, 1996); Panavision Int'l, L.P. v. Toeppen, 945 F. Supp. 1296, 1302-03 (C.D. Cal. 1996); Augusta Nat'l Inc. v. Sir Christopher Hatton, Inc., 41 U.S.P.Q.2d 1846, 1849 (N.D. Ga. 1996); Ringling Bros.-Barnum & Bailey Combined Shows, Inc. v. B.E. Windows Corp., 937 F. Supp. 204, 209 (S.D.N.Y. 1996); WAWA Inc. v. Haaf, 40 U.S.P.Q.2d 1629, 1631 (E.D. Pa. 1996).

54. Avery Dennison Corp. v. Sumpton, 189 F.3d 868, 871 (9th Cir. 1999) (referring to Jerry Sumpton and Freeview Listings Ltd. doing business as "Mailbank").

⟨alias@SLD.TLD⟩.[55] While appellants have registered some SLDs in categories that represent hobbies, careers, and other interests, the majority of Sumpton's registered SLDs are common surnames using ⟨.net⟩ or ⟨.org⟩ TLDs.[56] However, two SLD categories, entitled "Rude" and "Business," utilize the TLD ⟨.com⟩.[57] The Rude SLD category contains several lewd SLDs.[58]

The respondent, Avery Dennison, has been conducting business under the registered trademarks "Avery" and "Dennison" for many years.[59] It registered "Avery" in 1963, and has continually used the mark since the 1930s.[60] It registered "Dennison" in 1908 and has used it since the late 1800s.[61] Avery Dennison sells office products and industrial fasteners on the Internet through the web site addresses ⟨avery.com⟩ and ⟨averydennison.com⟩.[62] Avery Dennison also maintains registrations for numerous other domain name combinations using the TLD ⟨.com⟩.[63]

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55. *See id.* at 872; *see generally* Carl Oppedahl, *Half a Century of Federal Trademark Protection: The Lanham Act Turns Fifty: Analysis and Suggestions Regarding NSI Domain Name Trademark Dispute Policy*, 7 FORDHAM I.P., MEDIA & ENT. L.J. 73, 75 n.10 (1996) (explaining the structure of the Internet domain name system).

> Essentially, the domain name system is structured as a hierarchy of names. First, there is a set of generic [top-level domain names] TLDs, which include: (1) ".com" for a commercial entity; (2) ".net" for network; (3) ".gov" for government organizations; (4) ".int" for international organizations; (5) ".org" for miscellaneous organizations; (6) ".edu" for educational institutions; (7) ".mil" for the U.S. military; and (8) various country codes, such as ".us" for the United States. Under each TLD, there are "second-level domains," which are additional sets of domain names registered directly to individual organizations. The administrator of each individual organization may establish additional levels of domain names, which may include third-, fourth-, and fifth-level domain names. For example, in the domain name, "clue.hasbro.com," ".com" is the TLD, ".hasbro" is the second-level domain, and ".clue" is the third-level domain.

Id. (citations omitted).

56. *See Avery Dennison*, 189 F.3d at 872.
57. *See id.* at 873.
58. *See id.*
59. *See id.*
60. *See id.*
61. *See id.*
62. *See id.*
63. *See id.*

B. The District Court Decision

The controversy arose from Sumpton's registration of the ⟨avery.net⟩ and ⟨dennison.net⟩ domain names for its surname category.[64] Avery Dennison sued Sumpton, alleging federal and state claims of trademark dilution under the FTDA and California Business and Professional Code § 14330, respectively.[65]

After characterizing the defendants as "cybersquatters," the district court found that Avery Dennison's marks were famous based on the many years that it has used the marks and the community's recognition of these marks.[66] The court also found that Sumpton had engaged in a commercial use of the mark by registering domain names that he was not associated with and then licensing them to others.[67] After making these findings, the court analogized the case to two prior cybersquatting decisions which held that when a trademark is registered as a domain name by someone other than the mark's owner, it does "lessen the capacity of a famous mark to identify and distinguish goods or services."[68]

In sum, the district court found for Avery Dennison on all elements of its FTDA claim. Accordingly, the district court granted Avery Dennison's motion for summary judgment on both the state and federal dilution claims and denied Sumpton's cross-motion for summary judgment.[69] The court ordered Sumpton to relinquish its registrations of ⟨avery.net⟩ and ⟨dennison.net⟩ to Avery Dennison in exchange for the sum of $600.[70]

C. The Ninth Circuit Decision

The Ninth Circuit, however, reversed the district court's judgment, finding that Avery Dennison failed to create a genuine issue of fact on the famousness element of the FTDA.[71] Specifically, the Ninth Circuit found that Avery Dennison failed to meet the threshold requirement of famousness, an element of both the state and federal dilution statutes.[72] The court agreed with Avery Dennison that four of the eight statutory factors of the

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64. *See* Avery Dennison Corp. v. Sumpton, 999 F. Supp. 1337, 1338 (C.D. Cal. 1998).

65. *See id.*

66. *See id.* at 1339.

67. *See id.* at 1339-40.

68. *See id.* at 1340 (citing Panavision Int'l L.P. v. Toeppen, 945 F. Supp. 1296 (C.D. Cal. 1996); Intermatic, Inc. v. Toeppen, 947 F. Supp. 1227 (N.D. Ill. 1996)).

69. *See id.* at 1342.

70. *See id.*

71. *See* Avery Dennison Corp. v. Sumpton, 189 F.3d 868, 879 (9th Cir. 1999).

72. *See id.* at 874 ("[The Ninth Circuit has] interpreted § 14330, like the Federal Trademark Dilution Act, to protect only famous marks.").

famousness inquiry[73] were satisfied by their evidence of substantial investments in advertising made each year, their high annual volume of sales, and their international operation.[74] However, the Ninth Circuit found that Avery Dennison did not meet its burden of proving famousness in light of their analysis of the remaining factors.[75]

The court's examination of the statutory factor regarding distinctiveness of the marks[76] did not support Avery Dennison's assertion of famousness.[77] Because the parties did not dispute that "Avery" and "Dennison" were common surnames, the court held that these words were not protectable as trademarks unless they acquired secondary meaning.[78]

Courts have found secondary meaning when "the consuming public has come to associate the mark with the products or services of its user."[79] The court noted that, in order to qualify for protection under the FTDA, "a mark must have a degree of distinctiveness and 'strength' beyond that needed to serve as a trademark."[80] Even though Avery Dennison's registration of the marks on the primary register is prima facie evidence that the marks have achieved secondary meaning, the Ninth Circuit found this to be insufficient support since a showing beyond mere distinctiveness is required for famousness.[81]

The court analyzed the channels of trade for Avery Dennison's goods (statutory factor E) and the degree of recognition of the mark (statutory factor F) in the trading areas and channels of trade used by both parties.[82] The Ninth Circuit noted that even if the mark is not "famous throughout a substantial part of the United States,"[83] the trademark holder can still qualify for protection under the FTDA if the mark has a "specialized fame" and the "diluting uses are directed narrowly at the same market

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73. *See* 15 U.S.C. § 1125(c)(1)(B)-(D), (G) (Supp. IV 1998).

74. *See Avery Dennison*, 189 F.3d at 878-79.

75. *See id.* at 877-79.

76. *See* 15 U.S.C. § 1125(c)(1)(A).

77. *See* Avery Dennison Corp. v. Sumpton, 189 F.3d 868, 877 (9th Cir. 1999).

78. *See id.* (citing 15 U.S.C. § 1052(e)(4), (f) (1994)).

79. Nabisco, Inc. v. PF Brands, Inc., 51 U.S.P.Q.2d 1882, 1887 (2d Cir. 1999).

80. *Avery Dennison*, 189 F.3d at 876 (citing 3 J. THOMAS MCCARTHY, TRADEMARKS & UNFAIR COMPETITION § 24:109).

81. *See id.* at 877.

82. *See* 15 U.S.C. § 1125(c)(1)(E), (F) (Supp. IV 1998); *see also Avery Dennison*, 189 F.3d at 877-78.

83. *Avery Dennison*, 189 F.3d at 877 (citing Trademark Review Commission, *supra* note 46, at 461).

segment."[84] However, in the court's opinion, the record did not support a finding of famousness on either of these factors because the parties' customer bases did not overlap.[85] In addition, there was no evidence that Avery Dennison was recognized among Sumpton's e-mail users with vanity e-mail addresses or that Sumpton targeted their e-mail services at Avery Dennison's customer base.[86]

The Ninth Circuit again disagreed with the lower court's finding regarding factor G, "the nature and extent of use of the same . . . marks by third parties."[87] The court found that the evidence in the record demonstrated the widespread use of both "Avery" and "Dennison" as common trademarks by other businesses.[88] Thus, the Ninth Circuit found it unlikely that either mark qualified as a famous mark under the FTDA.[89]

Although the Ninth Circuit found that Avery Dennison failed to satisfy the threshold requirement of "famousness," the court went on to review the evidence regarding the remaining elements of the dilution cause of action: the defendant's commercial use of the mark and the likelihood of dilution.[90] The Ninth Circuit held that Sumpton's registration of ⟨avery.net⟩ and ⟨dennison.net⟩ did not constitute a commercial use.[91] Specifically, under the FTDA, the defendant must be using the trademark as a trademark in order for it to be considered a commercial use.[92] Sumpton's registration of "Avery" and "Dennison" used the names for their nontrademark value, in other words, as surnames, and therefore, did not satisfy this essential element of the dilution cause of action.[93]

Finally, the court addressed Avery Dennison's two theories of dilution. The court rejected the argument that Sumpton's activities were analogous to the cybersquatting dilution that was present in *Panavision*.[94] Sumpton had registered the SLDs ⟨avery⟩ and ⟨dennison⟩ under the TLD ⟨.net⟩. However, the Ninth Circuit noted that trademarks are usually registered

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84. Avery Dennison Corp. v. Sumpton, 189 F.3d 868, 878 (9th Cir. 1999) (citing Washington Speakers Bureau, Inc. v. Leading Auths., Inc., 3 F. Supp. 2d 488, 503 (E.D. Va. 1999)).

85. *See id.*

86. *See id.*

87. *See* 15 U.S.C. § 1125(c)(1)(G); *see also Avery Dennison*, 189 F.3d at 878.

88. *See Avery Dennison*, 189 F.3d at 878.

89. *See id.*

90. *See id.* at 878-81.

91. *See id.* at 879.

92. *See id.* at 880.

93. *See id.*

94. *See id.*

under the TLD ⟨.com⟩.[95] Therefore, summary judgment was inappropriate on this question of cybersquatting dilution, since a "factfinder could infer that dilution does not occur with a ⟨trademark.net⟩ registration."[96]

Avery Dennison argued that the presence of lewd SLDs in the same database as ⟨avery.net⟩ and ⟨dennison.net⟩ caused tarnishment of their marks.[97] However, a user wishing to move from a surname category like ⟨avery.net⟩ to a lewd SLD would have to return first to the Mailbank home page before purposefully linking to another category.[98] Therefore, the court concluded that tarnishment of the marks was unlikely to occur as the necessary linking step could remove any association between the marks and the lewd SLDs.[99]

III. ANALYSIS

When Congress created the FTDA, it only intended to protect "famous" trademarks.[100] However, almost all trademark owners, not only those with famous marks, are seeking (and often receiving) dilution protection.[101] Without restrictions on the application of this doctrine by the courts, there is danger of "moving toward a world in which 'famous' marks protected even in the absence of confusion are the rule rather than the exception."[102] The *Avery Dennison* decision can be seen as a departure from past cases where famousness was rarely an issue. The Ninth Circuit has made the threshold famousness determination a significant barrier to dilution protection, consistent with legislative intent. Analysis of the court's review of the statutory factor gives contours to this new barrier.

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95. *See id.*
96. *Id.* at 881.
97. *See id.*
98. *See id.*
99. *See id.*
100. *See* H.R. REP. NO. 104-374, at 3 (1995).
101. *Compare id.* ("The [FTDA] is intended to protect famous marks where the subsequent, unauthorized commercial use of such marks by others dilutes the distinctiveness of the mark.... Thus, for example, the use of DUPONT shoes, BUICK aspirin, and KODAK pianos would be actionable under this legislation."), *with* Wawa Inc. v. Haaf, 40 U.S.P.Q.2d 1629, 1633 (E.D. Penn. 1996) (finding that "Defendant's use of the name HAHA and HAHA 24 HR. Market dilutes through blurring and parody the strong and famous mark of Wawa.").
102. Mark A. Lemley, *The Modern Lanham Act and the Death of Common Sense*, 108 YALE L.J. 1687, 1699 (1999).

A. Statutory Famousness Factors

1. Distinctiveness

The "degree of inherent or acquired distinctiveness" [103] has been identified by one court as deserving slightly more consideration than the others.[104] In the famousness inquiry, the mark must have some significance beyond its normal use in order to be distinctive.[105] In the past, some courts found that the marks were famous where the mark's owners had merely demonstrated distinctiveness.[106] For example, in *Clinique Laboratories, Inc. v. Dep Corp.*,[107] the district court proceeded directly to the question of the likelihood of dilution after simply concluding that Clinique's mark was distinctive for the purpose of a claim of dilution under the FTDA without an express determination of famousness.[108]

In the recent dilution cases in which the famousness determination has posed a more significant barrier, however, acquired distinctiveness alone has not been enough to prove famousness. In *Washington Speakers Bureau, Inc. v. Leading Authorities, Inc.*[109] ("*WSB*"), the court stated that "[t]he FTDA's language and its underlying policy dictate that courts must 'be discriminating and selective in categorizing a mark as famous.'"[110] Likewise, in *Avery Dennison*, the Ninth Circuit clearly stated that "famousness requires a showing greater than mere distinctiveness."[111]

This higher standard was also seen recently in a district court case in Massachusetts, *Hasbro, Inc. v. Clue Computing, Inc.*[112] There, the court held that the "clue" trademark did not qualify as famous.[113] Although Hasbro's mark is widely recognized, "clue" is a common word with many

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103. *See* 15 U.S.C. § 1125(c)(1)(A) (Supp. IV 1998).

104. *See* Hasbro, Inc. v. Clue Computing, Inc., 66 F. Supp. 2d 117, 131 (D. Mass. 1999).

105. *See generally* Brendan Mahaffey-Dowd, *Famous Trademarks: Ordinary Inquiry by the Courts of Marks Entitled to an Extraordinary Remedy*, 64 BROOK. L. REV. 423, 436 (1998).

106. *See* Krafte-Jacobs, *supra* note 49, at 690.

107. 945 F. Supp. 547 (S.D.N.Y. 1996).

108. *See id.* at 561; *see also* Elvis Presley Enterprises, Inc. v. Capece, 950 F. Supp. 783, 797-98 (S.D. Tex. 1996) ("Undeniably, Plaintiff owns extremely strong marks. Thus, a finding of dilution . . . depends on whether there is the likelihood of dilution."), *rev'd on other grounds*, 141 F.3d 188 (5th Cir. 1998).

109. 33 F. Supp. 2d 488 (E.D. Vir. 1999).

110. *Id.* at 502.

111. Avery Dennison Corp. v. Sumpton, 189 F.3d 868, 877 (9th Cir. 1999).

112. Hasbro, Inc. v. Clue Computing, Inc. 66 F. Supp. 2d 117 (D. Mass. 1999).

113. *See id.* at 132.

meanings.[114] Clue Computing's use of "clue" is entirely consistent with the common usage of the word and therefore, weakens Hasbro's dilution claim in the court's view.[115]

2. *Third-party use*[116]

Because dilution is designed to protect marks that consumers perceive as "unique, singular, or particular," evidence of other third-party use decreases the likelihood that the mark's distinctiveness will be blurred as a result of the defendant's use of the mark.[117] Some courts have found the marks in question to be famous despite evidence of third-party use. In *Johnson Publishing Co. v. Willits Designs International, Inc.*,[118] the court found the relatively common word "ebony" to qualify as a famous trademark.[119] Johnson Publishing's use of the "ebony" trademark for over fifty years and the large number of *Ebony* magazine readers each month was sufficient to overcome evidence of substantial third-party use.[120]

Other courts have found significant third-party use to diminish the mark's famousness.[121] The *Avery Dennison* court noted that the record contained evidence of extensive use of "Avery" and "Dennison" by other businesses.[122] This evidence of widespread third-party use weighed

114. *See* WEBSTER'S NEW WORLD DICTIONARY 266 (3d ed. 1988) ("n. a fact, object, etc. that helps to solve a mystery or problem; v. 1. To indicate by or as by a clue; 2. To provide with the necessary information: often with *in*.").

115. *See Hasbro*, 66 F. Supp. 2d at 131 ("[A] mark may not be entitled to dilution by use consistent with the mark's usage as a common word.").

116. *See* 15 U.S.C. § 1125(c)(1)(G) (Supp. IV 1998) ("[T]he nature and extent of use of the same or similar marks by third parties.").

117. H.R. REP. NO. 104-374, at 3 (1995).

118. Johnson Publishing Co., Inc. v. Willits Designs Int'l, Inc., No. 98 C 2653, 1998 WL 341618 (N.D. Ill. June 22, 1998).

119. *See id.* at *7.

120. *See id.* at *7.

121. *See* Sports Authority, Inc. v. Abercrombie & Fitch, Inc., 965 F. Supp. 925, 941 (E.D. Mich. 1997) (finding that the Sports Authority's trademark for "authority" has been diminished by third party use and as not so famous as to deserve protection under the federal dilution standard); *see also* Trustees of Columbia Univ. in New York v. Columbia/HCA Healthcare Corp., 964 F. Supp. 733, 750 (S.D.N.Y. 1997) (finding that "any acquired distinctiveness" of Columbia University's mark for the name Columbia "in connection with medical or healthcare services has been seriously undermined by third party use of the same or similar marks").

122. *See* Avery Dennison Corp. v. Sumpton, 189 F.3d 1868, 878 (9th Cir. 1999) (citing evidence in the record of many businesses with "Avery" or "Dennison" in their names).

> The record includes copies of five trademark registrations for "Avery" or "Averys," a computer printout of a list of several businesses with "Avery" in their names who market products on the Internet, and a list

against a finding of famousness.[123] Similarly, the *Hasbro* court identified the analysis of third-party use to be a factor deserving slightly more weight than other factors.[124] The district court found that the defendant's evidence of a significant number of trademarks which use the word "clue" that are not owned by Hasbro suggests that "any acquired distinctiveness of the plaintiff's mark . . . has been seriously undermined by third party use of the same or similar marks."[125]

3. *Geographical extent/Channels of trade*

The *Avery Dennison* court combined its analysis of the channels of trade[126] in which the mark is used and the geographical extent[127] of the trading area.[128] The House Report stated that the FTDA was only intended to protect marks with nationwide fame.[129] However, the Ninth Circuit noted that the drafters of the FTDA did not follow the Trademark Review Commission's view that only marks which are famous "throughout a substantial portion of the United States" qualify for dilution protection.[130] Therefore, the Ninth Circuit found that "fame in a localized trading area may meet the threshold element [of famousness] under the [FTDA] if plaintiff's trading area includes the trading area of the defendant."[131]

The channels of trade inquiry is an indication of the breadth of the mark's use.[132] A debate currently exists over whether fame in a specialized market, rather than general fame, should qualify as "famous" under the

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> of business names including "Avery," which . . . is a representative sample of over 800 such businesses. The record also contains . . . a list of several businesses with "Dennison" in their names which market products on the Internet and a list of business names including "Dennison," a representative sample of over 200 such businesses.

Id.

123. *See id.*

124. *See* Hasbro, Inc. v. Clue Computing, Inc., 66 F. Supp. 2d 117, 131 (D. Mass. 1999).

125. *See id.* (quoting *Columbia University*, 964 F. Supp. at 750).

126. *See* 15 U.S.C. § 1125(c)(1)(E) ("the channels of trade for the goods or services with which the mark is used").

127. *See* 15 U.S.C. § 1125(c)(1)(D) (Supp. IV 1998) ("the geographical extent of the trading area in which the mark is used").

128. *See* Avery Dennison Corp. v. Sumpton, 189 F.3d 868, 877-78 (9th Cir. 1999).

129. *See* H.R. REP. NO. 104-374, at 3 (1995).

130. *Avery Dennison*, 189 F.3d at 877 (citing Trademark Review Commission, *supra* note 46).

131. *Id.* at 877-78 (citing S. REP. NO. 100-515, at 43 (1988)).

132. *See* Mahaffey-Dowd, *supra* note 105, at 445.

FTDA.[133] Some authorities argue that a mark which is only famous in a specialized market segment still qualifies for dilution protection when the diluting uses are directed at that same narrow segment of the market.[134] The plain language of the FTDA supports this idea, since one of the famousness factors considers "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."[135]

On the other side of the debate, some cases indicate that marks which are only famous in specialized markets should not be considered famous under the FTDA.[136] In *Breuer Electric Manufacturing Co. v. The Hoover Co.*,[137] although the marks were registered and sold nationwide, the plaintiffs did not show that the marks acquired enough recognition to be considered famous outside of their narrow commercial vacuum and floor cleaning market.[138] In light of the modest sum of money spent on advertising the plaintiff's mark and defendant's evidence of third-party use, the court believed that it was unlikely that the plaintiff's mark was famous.[139] Similarly, in *King of the Mountain Sports, Inc. v. Chrysler, Corp.*,[140] the mark was found not to be famous because the plaintiff provided no evidence that people outside the plaintiff's small market associated the phrase "King of the Mountain" with the plaintiff.[141]

In contrast to the Trademark Review Commission's recommendation requiring famousness throughout a substantial portion of the country,[142] the *Avery Dennison* court found that "fame in a localized trading area may meet the threshold element [of famousness] under the [FTDA] if plaintiff's trading area includes the trading area of the defendant."[143] However, Avery Dennison was unable to meet this lower standard of fame in the

133. *See* Washington Speakers Bureau, Inc. v. Leading Auths., Inc., 33 F. Supp. 2d 488, 503 (E.D. Vir. 1999).

134. *See id.* (citing TeleTech Customer Care Management, Inc. v. Tele-Tech Co., 977 F. Supp. 1407, 1413 (C.D. Cal. 1997)); *see also* 4 J. THOMAS MCCARTHY, TRADEMARKS AND UNFAIR COMPETITION § 24:112 (4th ed. 1996 & Supp. 1998).

135. *See Washington Speakers Bureau*, 33 F. Supp. 2d at 504 (citing 15 U.S.C. § 1125(c)(1)(F) (Supp. IV 1998)).

136. *See id.* at 503.

137. No. 97 C 7443, 1998 WL 427595 (N.D. Ill. July 23, 1998).

138. *See id.* at *16.

139. *See id.*

140. 968 F. Supp. 568 (D.Colo.1997), *aff'd*, 185 F.3d 1084 (10th Cir. 1999).

141. *See id.* at 578.

142. *See* Avery Dennison Corp. v. Sumpton, 189 F.3d 868, 877 (9th Cir. 1999).

143. *Id.* at 877-78 (9th Cir. 1999) (citing S. REP. NO. 100-515, at 43 (other citations omitted)).

same narrow market since the court found that the parties did not share the same customer base.[144]

B. ⟨.net⟩ vs. ⟨.com⟩

Although Avery Dennison did not prevail on its dilution cause of action because it failed to meet the threshold requirement of famousness, some attorneys in the field have expressed concern over the Ninth Circuit's discussion of the ⟨.net⟩ versus ⟨.com⟩ distinction.[145] Avery Dennison argued that Sumpton's registration of ⟨avery.net⟩ and ⟨dennison.net⟩ constituted the same type of cybersquatting dilution recognized by the *Panavsion* Court.[146] The Ninth Circuit rejected this argument, noting that the defendant in *Avery Dennison* registered in the TLD ⟨.net⟩ rather than ⟨.com⟩. The Ninth Circuit stated that "courts applying the dilution cause of action to domain-name registrations have universally considered ⟨trademark.com⟩ registrations."[147] Although this discussion concerning the ⟨.net⟩ vs. ⟨.com⟩ distinction is merely dicta, it has generated discussion over how this distinction among TLDs will affect future domain name disputes.[148] Some fear a very broad interpretation of the *Avery Dennison* holding, worrying that all ⟨.net⟩ websites would not be subject to trademark actions.[149] Others view the distinction as suggesting that ⟨.com⟩ and ⟨.net⟩ "have different functions and, consequently, the holders of names registered under those domains have different rights that may not extend to other top-level domains."[150]

Any sort of distinction between TLDs could have a huge effect in domain name litigation and business strategies. The *Avery Dennison* decision could imply that trademark rights extend only to ⟨.com⟩ domain names, and trademark rights are not diluted by domain names in other TLDs. With the current proposals for additional TLDs to help ease the congestion

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144. *See Avery Dennison*, 189 F.3d at 878 (noting that Sumpton's "sought after customer base is Internet users who desire vanity e-mail addresses, and Avery Dennison's customer base includes purchasers of office products and industrial fasteners").

145. *See, e.g.*, Brenda Sandburg, *Net Names No Threat to Trademarks*, THE RECORDER, Aug. 24, 1999, at 7.

146. *See Avery Dennison*, 189 F.3d at 880.

147. *Id.* at 880-81 (citing Leslie F. Brown, Note, *Avery Dennison Corp. v. Sumpton*, 14 BERKELEY TECH. L.J. 247, 251-54, 262-63 (1999)).

148. *See* David Akin, *U.S. Appeal Court Gives "Little Guy" Back His Name: Individual's Internet Name Does Not Infringe on Corporate Trademark*, NAT'L POST, Aug. 25, 1999, at C06.

149. *See* Sandburg, *supra* note 145.

150. *See* Akin, *supra* note 148.

of ⟨.com⟩,[151] such a reading of the *Avery Dennison* decision may force companies to register their trademark in all of the new TLDs to protect against their dilution. This outcome would be in direct contrast to the objective of reducing Internet congestion by introducing the new TLDs.

IV. CONCLUSION

As a consequence of the vague nature of the statutory famousness factors, dilution precedent has been inconsistent and the expansion of trademark rights under this cause of action has grown unchecked.[152] In the past, the "mere threat of a lawsuit" was often used successfully to obtain domain names from their registrants.[153] The courts are now recognizing that legitimate users of domain names are entitled to the use of their domain names if they were the first to register the web site.[154] "Trademark holders can no longer say 'I have the trademark, you have the domain name; it's the same, give it to me.'"[155]

Although the *Avery Dennison* court correctly applied a thorough analysis of the threshold famousness inquiry, Avery Dennison's trade-

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151. *See* ICANN, *FAQ on New Generic Top Level Domains* (Sept. 13, 1999) ⟨http:/ www.icann.org/general/faq1.htm#gtlds⟩ (explaining proposal for new gTLDs).

> ICANN and its constituent organizations have recently begun the process of considering whether, how, and when to add new generic top-level domains (gTLDs) to the domain name system. In recent years, a number of plans have been proposed to create new gTLDs, such as .firm, .store, .law, and .arts, and some companies have even taken orders for them. . . . There are many arguments both for and against new gTLDs: for example, those in favor argue that new gTLDs are technically easy to create, will help relieve perceived scarcities in existing name spaces, and are consistent with a general push towards consumer choice and diversity of options. . . .

Id.

152. *See* Duffey, *supra* note 8, at 143("[T]his [famousness requirement] of the FTDA will be the subject of litigation for years to come, especially in domain name disputes.").

153. *See* McWilliams, *supra* note 4 ("Carl Oppedahl . . . said the mere threat of a lawsuit has often enabled trademark holders to pry domains away from registrants. But he said the outcome of the clue.com case should cause both trademark attorneys to rethink their strategy.").

154. *See* Maharaj and Kaplan, *supra* note 6 (quoting Eugene Volokh, a UCLA professor) ("Until now a lot of people thought that if you own a trademark you could go to court and automatically stop someone else from registering a domain name that matches your trademark. . . . Now, people who register domain names in good faith—not to extort or confuse anyone—may win even if the domain name happens to match somebody else's trademark.").

155. Albert C. Pacciorini, *Monterey, Calif., Law Firms Wins Case over Internet Domian Names*, WORLD REP., Aug. 25, 1999, *available in* 1999 WL 22009534.

marks could be viewed as a casualty in the battle being waged between the large corporations and other domain name registrants. In light of the previous, less rigorous analysis applied by many courts in the past, Avery Dennison may not have submitted all of the supporting material at their disposal in the district court case in making their original case.[156] After this Ninth Circuit opinion, Avery Dennison is arguably legally worse off because it will have to contend with this finding of nonfamousness in their future trademark dealings.[157]

The *Avery Dennison* decision should serve as a warning to aggressive trademark owners that they are not automatically entitled to rights in the domain names containing their trademarks. A finding of famousness is clearly required under the FTDA before the court can rule on the dilution claim.[158] As noted by the House Report, one of the reasons behind the passage of the FTDA was that many of the state courts were unwilling to issue nationwide injunctions since many states had not passed anti-dilution laws.[159] Since a finding of dilution under the FTDA can lead to a nationwide injunction, granting this remedy to a mark which is not famous would result in granting that mark undeserved protection. *Avery Dennison* correctly supports the contention that courts should perform a thorough analysis of the facts supporting famousness before ever considering whether the mark has been diluted. Otherwise, dilution legislation creates a property right with little or no practical boundary to protect against overprotection of nonfamous marks.

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156. Personal Communication with David Dillard, Partner at Christie, Parker & Hale. L.L.P., in Pasadena, Cal. (Oct. 20, 1999).

157. *See also* McWilliams, *supra* note 4.

158. *See* 15 U.S.C. § 1125(c)(1) (Supp. IV 1998) ("The owner of a *famous* mark shall be entitled subject to the principles of equity and upon such terms as the court deems reasonable, to an injunction against another person's commercial use in commerce of a mark or trade name, if such use begins after the mark has become famous and causes dilution of the distinctive quality of the mark, and to obtain such other relief as is provided in this subsection. . . .") (emphasis added). Section 1125(c)(1) then lists factors courts may consider in finding whether or not a mark is famous. *See id.*

159. *See* H.R. REP. NO. 104-374, at 3-4 (1995).

RINGLING BROS.-BARNUM & BAILEY COMBINED SHOWS, INC. V. UTAH DIVISION OF TRAVEL DEVELOPMENT & NABISCO, INC. V. PF BRANDS, INC.

By Matthew S. Voss

What could the "The Greatest Show On Earth" and goldfish crackers possibly have in common? As it happens, both are at the center of a controversy between the Fourth and Second Circuit Courts of Appeal over precisely what a plaintiff must demonstrate in order to establish dilution under the Federal Trademark Dilution Act ("Dilution Act").[1] While ostensibly a disagreement over interpretation, the split between the two circuits goes to the heart of an ongoing debate over the need for federal dilution protection,[2] and what many commentators perceive as an unjustified propertization of trademark law.[3]

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1. 15 U.S.C. § 1125(c) (1998). The Federal Trademark Dilution Act of 1995 (effective January 16, 1996) amended section 43 of the Lanham Act to provide a federal cause of action for trademark dilution.

2. *Compare* Milton W. Handler, *Are the State Antdilution Laws Compatible with the National Protection of Trademarks?*, 75 TRADEMARK REP. 269, 281 (1985) (questioning the rationale of dilution doctrine), *and* Kenneth L. Port, *The "Unnatural" Expansion of Trademark Rights: Is a Federal Dilution Statute Necessary?*, 18 SETON HALL LEGIS. J. 433, 438 n.9 (1994) (opining that a federal trademark dilution act would create a remedy without a wrong, and would be at odds with the fundamental principles of trademark law), *with* Beverly W. Pattishall, *Dawning Acceptance of the Dilution Rationale for Trademark-Trade Identity Protection*, 74 TRADEMARK REP. 289, 290 (1984) ("[T]he dilution rationale is a sound basis for affording needed protection to the immense but fragile 'commercial magnetism' values of trademarks." (citations omitted)).

3. *See, e.g.*, Mark A. Lemley, *The Modern Lanham Act and the Death of Common Sense*, 108 YALE L.J. 1687, 1695-96 (1999) ("Vesting trademarks with the mantle of property . . . defeats the purpose of linking trademarks to goods in the first place."); Port, *supra* note 2, at 466-67 (opining that trademark principles are based in tort and are therefore incompatible with dilution, which creates a property ownership in the mark itself). Not all commentators, however, view the propertization of trademarks as a bad thing. *See, e.g.*, Stephen L. Carter, *Does it Matter Whether Intellectual Property Is Property?*, 68 CHICAGO-KENT L. REV. 715, 721 (1993) ("How simple and elegant it would be to conclude that secondary meaning is unnecessary because the first to appropriate the mark owns it. . . ."); Simone A. Rose, *Will Atlas Shrug? Dilution Protection for "Famous" Trademarks: Anti-Competitive "Monopoly" or Earned "Property" Right?*, 47 FLA. L. REV. 653, 739-40 (1995) (opining that dilution protection is necessary to protect the earned property interest in a trademark's "persona" and "quality image.").

Dilution offers much broader protection than traditional trademark infringement law, which seeks to prevent consumer confusion as to product source and requires a showing of likelihood of confusion.[4] In contrast, dilution seeks to prevent the loss of a mark's distinctiveness as a unique identifier, regardless of the likelihood of confusion.[5] Consequently, unlike traditional trademark law, dilution can be applied to prevent use of a mark on completely unrelated, noncompeting goods.

Dilution doctrine has been criticized as monopolistic, anticompetitive, and at odds with the consumer protection rationale of trademark law.[6] Proponents, however, have maintained that a properly limited dilution doctrine provides a much-needed remedy for a harm inadequately addressed by traditional trademark infringement.[7] The latter view was presumably adopted by Congress with the passage of the Dilution Act. However, the language of the Dilution Act, while providing guidance for determining whether a mark is sufficiently famous to qualify for protection,[8] is silent on the issue of how to prove dilution.[9]

Because dilution offers such a potentially expansive exclusionary right, determining precisely what a plaintiff must prove to establish dilution is vital to maintaining the proper balance between fair competition

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4. *See* 15 U.S.C. §§ 1114, 1125(a) (1999); *see also* Two Pesos, Inc. v. Taco Cabana, Inc., 505 U.S. 763, 779-80 (1992).

5. *See* H.R. REP. NO. 104-374, at 3 (1995), *reprinted in* 1995 U.S.C.C.A.N. 1029, 1030 ("[Dilution] applies when the unauthorized use of a famous mark reduces the public's perception that the mark signifies something unique, singular, or particular.").

6. *See, e.g.*, Toho Co., Ltd. v. Sears, Roebuck & Co., 645 F.2d 788, 793 (9th Cir. 1980) ("We have regarded the antidilution doctrine with some concern lest it swallow up all competition in the claim of protection against trade name infringement. . . ." (citations and quotations omitted)); Handler, *supra* note 2, at 282 ("Much of the problem stems from the general orientation of the dilution theory. While it strongly enhances the rights of plaintiffs, it fails to consider those of defendants."); Port, *supra* note 2, at 485.

7. *See* Pattishall, *supra* note 2, at 290; *see also* J. THOMAS MCCARTHY, 4 MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 24.114 (4th ed. 1999) ("There is a place in our jurisprudence for a legal remedy to protect strong, famous marks from dilution of their distinctiveness. . . . However, this is a potent legal tool, which must be used as a scalpel, not a sledgehammer.").

8. *See* 15 U.S.C. § 1125(c)(1)(A)-(H) (1999) (providing eight non-exclusive factors courts may consider in determining whether a mark is sufficiently distinctive and famous).

9. The Dilution Act sets forth four general elements to be proven: 1) famousness, 2) commercial use in commerce, 3) use beginning after the mark became famous, and 4) use which causes dilution of the distinctive quality of the mark. *See* 15 U.S.C. §1125(c). The disagreement between the two circuits and the focus of this Note is on establishing the "causes dilution" element.

and free competition.[10] An overbroad interpretation would effectively give trademark owners property rights in gross, and thereby upset the careful balance achieved in the existing system where similar marks can coexist on noncompeting products. An overly-restrictive reading, however, would provide no remedy at all, and thereby defeat the Dilution Act's purpose—to protect truly famous and distinctive marks from a loss in distinctiveness.

The Fourth and Second Circuit opinions represent opposite approaches to solving the dilution dilemma. The Fourth Circuit, in *Ringling Brothers-Barnum & Bailey Combined Shows, Inc. v. Utah Division of Travel Development*,[11] adopted a highly restrictive test requiring a plaintiff to show actual harm through proof of economic loss, thereby making it virtually impossible to establish dilution in all but the most extreme case. The Second Circuit, on the other hand, in *Nabisco, Inc. v. PF Brands, Inc.*,[12] adopted an expansive multi-factor test incorporating likelihood of confusion factors, which in practice merely serves as a fallback for plaintiffs unable to meet a traditional likelihood of confusion test. Ultimately, neither approach properly balances the need for a dilution remedy with the need for adequate limitations on the doctrine. An approach which rigorously applies the key dilution inquiries into fame, distinctiveness, similarity, and mental association can better address these problems, and more accurately reflect Congressional intent to provide an effective remedy for that narrow class of marks most likely to suffer dilution.[13]

I. FEDERAL TRADEMARK DILUTION ACT OF 1995

Dilution theory is generally traced to a 1927 article by Frank I. Schechter.[14] According to Schechter, the value of a modern trademark is its selling power, and this power derives not only from the quality of the goods on which it is used, but equally from the mark's "uniqueness and

10. *See* RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 25 cmt. b (1995) ("[B]road interpretation of the [dilution] statutes would undermine the balance between private and public rights reflected in the traditional limits of trademark protection. . . .").

11. 170 F.3d 449 (4th Cir.), *cert. denied*, 120 S. Ct. 286 (1999).

12. 191 F.3d 208 (2d Cir. 1999).

13. *See* S. REP. NO. 100-515, at 41-42 (1988) ("Section 43(c) of the [Lanham] Act is to be applied selectively and is intended to provide protection only to those marks which are both truly distinctive and famous. . . ."). *See generally* 4 MCCARTHY, *supra* note 7, § 24.92.

14. Frank I. Schechter, *The Rational Basis of Trademark Protection*, 40 HARV. L. REV. 813 (1927).

singularity."[15] Schechter argued that even a noncompeting, nonconfusing use of a unique mark would result in a "gradual whittling away or dispersion of the identity and hold upon the public mind of the mark. . . ."[16] Schechter proposed abandoning the consumer protection model for trademark law entirely and basing trademark law on preventing the "dilution" of unique marks.[17] Under Schechter's model, dilution protection would be limited to coined, fanciful or arbitrary marks, and to situations where the senior and junior marks were identical and used on noncompeting products.[18]

Early attempts at incorporating dilution theory into federal law failed,[19] but with the urging of the International Trademark Association,[20] states slowly began to adopt anti-dilution statutes, starting with Massachusetts in 1947.[21] By 1995, twenty-six states had adopted some form of dilution, almost exclusively by statute. While state anti-dilution statutes vary in minor details, most are based on or are similar to section 12 of the 1964 United States Trademark Association Model State Trademark Bill, which states:

> Likelihood of . . . dilution of the distinctive quality of a mark . . . shall be a ground for injunctive relief notwithstanding the absence of competition between the parties or the absence of confusion as to the sources of goods or services.[22]

Courts applying state anti-dilution statutes have traditionally distinguished between two types of dilution: "blurring" and "tarnishment."[23] Dilution through blurring refers to the classic dilution injury posited by Schechter; it is the "whittling away" of a mark's ability to serve as a unique and distinctive identifier because the mark is used for more than one product, regardless of the likelihood of confusion.[24] Oft-quoted exam-

15. *Id.*

16. *Id.* at 829.

17. *See id.* at 831-32.

18. *See id.* at 825-30; *see also* Handler, *supra* note 2, at 274-75.

19. *See* 4 MCCARTHY, *supra* note 7, § 24.68.

20. At the time, the International Trademark Association was known as the United States Trademark Association.

21. *See* Port, *supra* note 2, at 438.

22. *Reprinted in* 3 MCCARTHY, *supra* note 7, § 22.8.

23. *See* 4 MCCARTHY, *supra* note 7, §§ 24.68-.69. McCarthy also identifies a third type of dilution for "cybersquatting," where courts have applied dilution to enjoin a party who obtains internet domain name registration for the sole purpose of selling it to the holder of the trademark with the same or similar name. *See id.* § 24.69.1. *See, e.g.*, Panavision Int'l., L.P. v. Toppen, 141 F. 3d 1316 (9th Cir. 1998).

24. *See* 4 MCCARTHY, *supra* note 7, § 24.68.

ples of blurring include "DUPONT shoes, BUICK aspirin, SCHLITZ varnish, KODAK pianos and BULOVA gowns."[25] Dilution by tarnishment, on the other hand, occurs when an identical or similar junior mark is used in such a way as to "tarnish, degrade, or dilute the distinctive quality of the [senior] mark."[26] Tarnishment focuses on injury to the senior mark holder's business reputation that results from the association of the senior mark with the unwholesome, unsavory, or degrading aspects of the junior mark's products.[27]

Between 1930 and 1977, courts remained openly hostile to the concept of dilution. Since 1977, only a handful of cases have resulted in sustained injunctions based solely on dilution.[28] However, in 1987, proponents of a federal statue received a much-needed boost when the Supreme Court suggested in dicta that Congress could choose to protect trademarks from dilution.[29] In 1996, after one failed attempt,[30] Congress enacted the Federal Trademark Dilution Act of 1995.[31] According to the House Report, the statute was enacted to provide uniform nationwide protection for famous marks, and to address international treaty obligations and international enforcement concerns.[32]

The Dilution Act provides:

> The owner of a famous mark shall be entitled . . . to an injunction against another person's commercial use in commerce of a mark or trade name, if such use begins after the mark has become famous and causes dilution of the distinctive quality of the mark. . . .[33]

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25. *Id.* § 24.68.

26. *Id.* § 24.69.

27. *See id.*

28. *See* Port, *supra* note 2, at 440 (observing that of 159 state law dilution cases heard by federal circuit courts between 1977 and 1995, only ten resulted in preliminary injunctions and only four of those resulted in sustained injunctions based exclusively on dilution).

29. *See* San Francisco Arts & Athletics, Inc. v. United States Olympic Comm., 483 U.S. 522, 539 (1987) ("[Congress] could determine that unauthorized uses, even if not confusing, nevertheless may harm the [trademark owner] by lessening the distinctiveness and thus the commercial value of the marks."); *Report of the T.R.C.*, 77 TRADEMARK REP. 375, 455 (1987) ("[S]everal positive decisions on dilution laws in recent years make the adoption of a federal law timely.").

30. *See* S. REP. NO. 100-515, at 41-43 (1988); *see also* 4 MCCARTHY, *supra* note 7, § 24.86.

31. Trademark Dilution Act of 1995, Pub. L. No. 104-98, 109 Stat. 985 (codified at 15 U.S.C. §§ 1125, 1127).

32. *See* H.R. REP. NO. 104-374, at 3-4 (1995).

33. 15 U.S.C. § 1125(c) (1999).

> The term "dilution" means the lessening of the capacity of a famous mark to identify and distinguish goods or services, regardless of (1) competition, . . . or (2) likelihood of confusion, mistake, or deception.[34]

Several key differences exist between the Dilution Act and most state anti-dilution statutes. First, the Dilution Act, unlike state statutes, specifically requires that a mark be famous and distinctive to qualify for protection, and provides eight nonexclusive factors courts may weigh in determining whether a mark is sufficiently famous and distinctive.[35] Second, the Dilution Act, unlike state statutes, does not contain explicit "likelihood of dilution" language; rather, it simply proscribes use which "causes dilution,"[36] suggesting that, unlike state statutes, the plaintiff must prove actual rather than likely harm. Third, unlike state statutes, the Dilution Act specifically defines dilution in terms of a loss in a mark's ability to "identify and distinguish goods or services."[37]

While the language of the Dilution Act provides substantial guidance for determining the threshold requirements of fame and distinctiveness, it is silent as to how a court should establish dilution. Courts applying state anti-dilution laws generally: (1) establish dilution by inference from balancing certain "relevant" factors (the so called *Mead Data* test),[38] or (2) simply presume dilution based on the similarity of the two marks.[39] Early lower court decisions applying the federal Dilution Act generally applied some variation of the *Mead Data* test.[40]

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34. *Id.* § 1127.

35. *See id.* § 1125(c)(1)(A)-(H).

36. *Id.*

37. 15 U.S.C. § 1127 (1999).

38. *See* Mead Data Central, Inc. v. Toyota Motor Sales, U.S.A., Inc., 875 F.2d 1026, 1035 (2d Cir. 1989) (Sweet, J., concurring) (holding six factors must be weighed to determine likelihood of dilution under New York statute: "1) similarity of the marks 2) similarity of the products covered by the marks 3) sophistication of consumers 4) predatory intent 5) renown of the senior mark [and] 6) renown of the junior mark.").

39. *See* Ringling Bros.-Barnum & Bailey Combined Shows, Inc. v. Celozzi-Ettelson Chevrolet, Inc., 855 F.2d 480, 484 (7th Cir. 1988) (presuming likelihood of dilution under Illinois law based on the similarity of the marks).

40. *See, e.g.*, Ringling Bros.-Barnum & Bailey Combined Shows, Inc. v. B.E. Windows Corp., 937 F. Supp. 204, 211-14 (S.D.N.Y. 1996) (adopting multi-factor test to establish dilution under the Dilution Act).

II. PROVING DILUTION: A SPLIT BETWEEN THE CIRCUITS

A. Ringling Bros.-Barnum & Bailey Combined Shows, Inc. v. Utah Division of Travel Development

1. The facts

Ringling Bros.-Barnum & Bailey Combined Shows, Inc. ("Ringling") has promoted its circus as The Greatest Show On Earth ("Greatest Show") since 1872, and obtained federal registration for the mark in 1961.[41] In 1997, it spent approximately $19 million on advertising with its Greatest Show mark, reaching over 70 million people, and generating revenues exceeding $103 million.[42]

Utah Division of Travel ("Utah"), a Utah state agency, began using its mark, The Greatest Snow On Earth ("Greatest Snow"), to promote winter tourism as early as 1962.[43] Utah's primary use of its mark is on vehicle license plates, but it has also spent approximately $375,000 annually in advertising the mark.[44] Utah registered its mark with the State of Utah in 1975, and received federal registration in 1997 after an unsuccessful opposition by Ringling.[45]

2. District court decision

After the unsuccessful opposition, Ringling brought an action against Utah under the Dilution Act alleging dilution of its Greatest Show mark.[46] It attempted to establish dilution merely by demonstrating a mental association between the two marks by consumers, but the district court held that dilution required more than a mere association: it also required that the association cause actual harm to the senior mark's capacity to identify and distinguish goods and services.[47] Applying this test, the district court found Ringling's consumer survey failed to establish actual harm, and Ringling had therefore failed to prove dilution.[48] In a separate analysis, the

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41. *See* Ringling Bros.-Barnum & Bailey Combined Shows, Inc. v. Utah Div. of Travel Dev., 170 F.3d 449, 451 (4th Cir.), *cert. denied*, 120 S. Ct. 286 (1999).

42. *See id.*

43. *See id.*

44. *See id.*

45. *See id.* at 451-52.

46. *See* Ringling Bros.-Barnum & Bailey Combined Shows, Inc. v. Utah Div. of Travel Dev., 955 F. Supp. 605 (E.D. Va.), *aff'd*, 170 F.3d 449 (4th Cir.), *cert. denied*, 120 S. Ct. 286 (1999).

47. *See id.* at 615-16.

48. *See id.* at 618. Ringling's survey asked consumers to complete the statement, "THE GREATEST ___ ON EARTH". *Id.* at 612. Among the results, 21% of Utah respondents filled in SHOW and associated that phrase with Ringling and also completed

district court applied a multi-factor balancing test using the *Mead Data* factors, and also found that, on balance, Utah's mark had not diluted Ringling's mark.[49]

3. *Fourth Circuit opinion*

On appeal, the Fourth Circuit Court of Appeals agreed with the lower court that Ringling had failed to prove dilution, but it adopted a somewhat different "actual cause" test, and rejected the lower court's alternative application of the *Mead Data* factors to establish dilution.[50] Instead, the court interpreted the Dilution Act to require actual economic loss to a mark's selling power demonstrated by evidence that the defendant's use of the junior mark had in fact caused such a loss.[51]

The court reached this decision by first comparing state anti-dilution laws with the federal Dilution Act. Noting that the Dilution Act only proscribes use of a famous mark when it "causes dilution,"[52] not when it is *likely* to cause dilution, as with state anti-dilution statutes,[53] the court concluded that the Dilution Act requires actual, consummated dilution. Second, by defining dilution as "the lessening of the capacity of a famous mark to identify and distinguish goods or services,"[54] the court found that the Dilution Act, unlike state statutes, specifically defines the end harm at which it is aimed as a loss of selling power, rather than a loss of distinctiveness.[55]

The court rejected Ringling's argument that the Dilution Act protects "the senior mark's distinctiveness as such," holding that such an interpretation would effectively grant a property right in gross, giving mark holders the right to enjoin the commercial use of a mark simply on the grounds of similarity.[56] The court also refused to allow a presumption of actual economic harm based only on the similarity of the marks, because similarity in and of itself did not create enough probability of the actual eco-

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the statement with SNOW and associated it with Utah; outside of Utah, fewer than 0.5% of respondents did the same. *Id.*

49. *See id.* at 616-18.

50. *See* Ringling Bros.-Barnum & Bailey Combined Shows, Inc. v. Utah Div. of Travel Dev., 170 F.3d 449, 464 (4th Cir.), *cert. denied*, 120 S. Ct. 286 (1999).

51. *See id.* at 461.

52. 15 U.S.C. § 1125(c) (1999).

53. *See, e.g.*, N.Y. GEN. BUS. LAW § 360-1 (McKinney 1998); *see also* Model State Trademark Bill, *reprinted in* 3 MCCARTHY, *supra* note 7, § 22.8.

54. 15 U.S.C. § 1127 (1999).

55. *See Ringling*, 170 F.3d at 458.

56. *See id.* at 459.

nomic harm required under the Dilution Act.[57] Finally, the court rejected the argument that its interpretation would institute an impossible burden of proof by suggesting that economic loss could be shown by (1) proof of an actual loss of revenues and elimination of other causes, or (2) a skillfully constructed consumer survey.[58]

Ultimately, the court interpreted the Dilution Act to require proof of:

> (1) a sufficient similarity between the junior and senior marks to evoke an instinctive mental association of the two by a relevant universe of consumers which (2) is the effective cause of (3) an actual lessening of the senior mark's selling power, expressed as "its capacity to identify and distinguish goods or services."[59]

Applying this test to the facts of the case, the court found that the district court had not erred: Ringling's survey evidence was designed to prove its theory that it need only show an instinctive mental association, and not actual economic harm.[60] It had therefore failed to meet all the requirements to prove dilution.[61]

B. Nabisco, Inc. v. PF Brands, Inc.

1. The facts

Pepperidge Farms ("Pepperidge") has produced goldfish-shaped, bite-sized cheese crackers continuously since 1962 and has obtained numerous trademark registrations for its Goldfish design.[62] Between 1995 and 1998, Pepperidge spent more than $120 million marketing Goldfish crackers, during which time net sales more than doubled to $200 million per year.[63]

In 1998, Nabisco also began producing animal shaped crackers as part of a licensing agreement to promote Nickelodeon Television's "CatDog" cartoon program.[64] Nabisco's product contained three character shapes based on the cartoon, with a quarter of the crackers shaped and colored like Pepperidge's Goldfish cracker, although Nabisco's fish cracker was somewhat larger and flatter, and had markings on its sides.[65]

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57. *See id.* at 459-60.
58. *See id.* at 464.
59. *Id.* at 458.
60. *See id.* at 462.
61. *See id.* at 462-63.
62. *See* Nabisco, Inc. v. PF Brands, Inc., 191 F.3d 208, 212 (2d Cir. 1999).
63. *See id.* at 213.
64. *See id.*
65. *See id.*

Upon learning of Nabisco's product plans, Pepperidge sent Nabisco a cease and desist demand,[66] and Nabisco responded with a suit for declaratory judgment. Pepperidge counterclaimed that Nabisco's goldfish constituted trademark infringement and dilution under federal law, as well as unfair competition and dilution under New York law.

2. *District court decision*

The district court found that Pepperidge would likely prevail on both the federal and state dilution claims, and entered a preliminary injunction.[67] In considering the dilution claims, the court applied the multi-factor *Mead Data* test, and found that each of the six factors weighed in favor of a finding of dilution.[68]

3. *Second Circuit opinion*

On appeal, the Second Circuit Court of Appeals affirmed the district court's finding that Pepperidge would likely prevail on the dilution claims, but rejected the lower court's use of the *Mead Data* test for establishing dilution as too mechanical, and as containing factors irrelevant to the dilution inquiry.[69] It also declined to adopt the Fourth Circuit's "actual consummated harm" interpretation which it viewed as "excessive literalism to defeat the intent of the statute."[70] The court noted that because relief under the Dilution Act, absent a showing of willfulness, is limited to an injunction, waiting until actual harm has occurred would result in an uncompensated injury, and would also be disadvantageous for the junior user who would want to know if use of a mark causes dilution before investing.[71] Similarly, the court rejected the Fourth Circuit's economic loss requirement, finding it "an arbitrary and unwarranted limitation on the methods of proof."[72] It noted that a senior user may never be able to show loss attributable to dilution, no matter how obvious the dilution.[73]

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66. *See id.*

67. *See* Nabisco, Inc. v. PF Brands, Inc., 50 F. Supp. 2d 188, 212 (S.D.N.Y. 1999), *aff'd*, 191 F.3d 208 (2d Cir. 1999).

68. *See id.* at 210. On the infringement claims, the district court found confusion unlikely because Nabisco's fish cracker made up only a fraction of the shapes in the package, noting that the "products are just not visually similar." *Id.* at 211.

69. *See Nabisco*, 191 F.3d at 227. The court criticized the *Mead Data* test for conflating the fame and distinctiveness factors, and omitting other factors it found relevant. *See id.*

70. *Id.* at 224.

71. *See id.*

72. *Id.* at 223.

73. *See id.* at 223-24.

The court adopted a new test consisting of an expanded non-exclusive list of ten factors for establishing likelihood of dilution: (a) distinctiveness; (b) similarity of the marks; (c) proximity of the products and likelihood of bridging the gap; (d) interrelationship between the first three factors; (e) shared consumers and geographic limitations; (f) sophistication of consumers; (g) actual confusion; (h) adjectival or referential quality of the junior use; (i) harm to the junior user and delay by the senior user; and (j) effect of senior's prior laxity in protecting the mark.[74]

In formulating this test, the court emphasized the importance of the distinctiveness factor as a limit to the dilution remedy—both as a statutory threshold and as a separate factor in weighing likelihood of dilution.[75] It also emphasized the interdependent relationship between the distinctiveness, similarity, and proximity factors, noting that "[t]he weaker any of the three factors may be, the stronger the others must be to make a case for dilution."[76] While it found Pepperidge's selection of a goldfish shape arbitrary and therefore only moderately distinctive, the court ultimately held that the strong similarity and proximity of the two products on balance favored Pepperidge.[77]

The court went on to find that as direct competitors with similar products, "shared consumers" would be likely.[78] It also found that while Nabisco's use of a fish shaped cracker might be "referential" to the CatDog cartoon, if placed in a bowl, the product would appear confusingly similar to Pepperidge's goldfish.[79] The court held the "harm to the junior user" and "actual confusion" factors irrelevant because no actual use had yet occurred, and it held the prior use of the goldfish shape for crackers by others too insignificant to constitute prior laxity by Pepperidge.[80] At the end of its exhaustive analysis, the court ultimately found that on balance, Pepperidge had established it would likely prevail in its dilution claim, and sustained the injunction.[81]

III. DISCUSSION

The Fourth Circuit's actual harm through proof of economic loss test in *Ringling* erects a barrier insurmountable by all but the strongest of dilu-

74. *See id.* at 217-24.
75. *See id.* at 215-17.
76. *Id.* at 219.
77. *See id.* at 218-19.
78. *See id.* at 219.
79. *See id.* at 222.
80. *See id.*
81. *See id.*

tion claims, and can be challenged both on its own terms as a textual interpretation, and as sharply at odds with the intent and purpose of the statute. The Second Circuit's test in *Nabisco*, while avoiding the problem of no remedy, unnecessarily lengthens and obfuscates the dilution inquiry by incorporating likelihood of confusion factors, which in practice provides a fallback for plaintiffs unable to meet a traditional likelihood of confusion test. Ultimately, neither approach properly balances the need for a dilution remedy and the need for adequate limitations on the doctrine.

A. Fourth Circuit: Proof of Actual Economic Loss

The Fourth Circuit's interpretation of the Dilution Act in *Ringling* requiring actual dilution and proof of economic harm addresses the issue of overprotection, but provides no effective remedy even for famous and distinctive marks, and is therefore at odds with the intent and purpose of the Dilution Act.

1. Textual interpretation

In interpreting the Dilution Act to require actual consummated harm, the Fourth Circuit in *Ringling* relies almost exclusively on the plain meaning rule,[82] but its textual interpretation can be challenged by applying interpretive corollaries to the rule. As the case the court itself cites makes clear, the plain meaning interpretation must involve "no absurdity, nor any contradiction with other parts of the instrument."[83] Because the Dilution Act only provides damages in those rare cases where willful dilution is shown, interpreting the Act to require proof of actual rather than likely harm creates an uncompensable injury by forcing a plaintiff to wait until its mark has actually suffered a material loss in distinctiveness before an injunction can be issued. More subtly, requiring actual harm rather than likely future harm logically leads to requiring a higher standard of proof.[84] When considered in light of the nature of the dilution injury, which occurs through a gradual whittling away of a mark's distinctiveness, interpreting the Dilution Act to require actual harm creates not only an uncompensable injury, it makes it unlikely the holder of a famous mark could enjoin any

82. The court's textual interpretation requiring actual harm relies largely on the lack of "likelihood of dilution" language in the Dilution Act, which only proscribes use which "causes dilution." *See* Ringling Bros.-Barnum & Bailey Combined Shows, Inc. v. Utah Div. of Travel Dev., 170 F.3d 449, 458-60 (4th Cir.), *cert. denied*, 120 S. Ct. 286 (1999). For general background on statutory interpretation, see WILLIAM N. ESKRIDGE, JR. & PHILIP P. FRICKEY, CASES AND MATERIALS ON LEGISLATION STATUTES AND THE CREATION OF PUBLIC POLICY (2d ed. 1995).

83. Lake County v. Rollins, 130 U.S. 662, 670 (1889).

84. *See Ringling*, 170 F.3d at 459.

diluting use until substantial injury had already occurred. By inevitably leading to a substantial uncompensated injury, the court's actual harm interpretation arguably creates an absurdity.[85]

The absurdity argument gains force when considered in light of the Fourth Circuit's further requirement that dilution be established through evidence of economic harm. This raises the possibility of not only a substantial uncompensated injury, but worse, no remedy at all. The court itself acknowledged that establishing facts showing economic harm may be impossible.[86] Ultimately, the court's plain meaning interpretation requiring actual harm may have resulted in a statute that effectively provides no remedy at all—an arguably absurd result.

The court's application of the plain meaning rule to interpret "causes dilution" to mean actual dilution may also be inappropriate given the acquired legal meaning of "dilution." Another corollary to the plain meaning rule is that words which have acquired specific legal meaning should be given that meaning unless the statute otherwise dictates.[87] The overwhelming history of state anti-dilution law has been not only to permit the injunction of actual harm, but also to prevent likely future harm.[88] Perhaps more importantly, the very nature of dilution as a "gradual whittling away" or "an infection, which if allowed to spread, will inevitably destroy the advertising value of the mark,"[89] represents a slow, gradual type of harm that is simply not amenable to proof through a showing of actual economic harm.

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85. Depending on how one views the injury of dilution, however, a substantial uncompensated injury may be a necessary evil to prevent over-protection. For example, some commentators have questioned whether the dilution injury is a recognizable harm at all. *See, e.g.*, Port, *supra* note 2, at 447 (opining that the Dilution Act creates a remedy without a harm); Note, *Dilution: Trademark Infringement or Will-O'-the-Wisp?*, 77 HARV. L. REV. 520, 528 (1964) ("An owner's interest in the distinctiveness of his mark . . . is not only bewilderingly intangible, but must be weighed against countervailing interests in preventing impoverishment of the supply of available marks. . . .").

86. *See Ringling*, 170 F.3d at 460. The court went on to hold that difficulty in establishing facts showing economic harm did not support a judicial presumption of those facts. *See id.* at 464.

87. *See* NLRB v. Amax Coal Co., 453 U.S. 322, 329 (1981) ("Where Congress uses terms that have accumulated settled meaning under either equity or the common law, a court must infer, unless the statute otherwise dictates, that Congress means to incorporate the established meaning of these terms.").

88. *See* 4 MCCARTHY, *supra* note 7, § 24.90.

89. Mortellito v. Nina of California, Inc., 335 F. Supp. 1288, 1296 (S.D.N.Y. 1972). This characterization of the nature of dilution was quoted from *Mortellito* in the Dilution Act's legislative history. *See* H.R. REP. NO. 104-374, at 3 (1988).

The court rejected Ringling's argument that the word "capacity" in the Dilution Act's definition of dilution imports an element of futurity.[90] However, viewed in light of the arguably absurd results reached by the court's "plain meaning" interpretation, the word "capacity" may well bear the meaning of "future capacity," and may ultimately be the better interpretation.[91]

2. *Intent and purpose: legislative history*

While purely textual arguments undoubtedly carry the greatest interpretive weight, legislative history plays a useful role in the interpretive process.[92] The court in *Ringling*, however, makes no attempt to reconcile its interpretation requiring actual harm and proof of economic loss with the Dilution Act's legislative history.[93]

If there is a smoking gun in the legislative history, it is that Congress specifically sought to address the problems that an overly-expansive application of dilution would create by limiting the dilution remedy to truly famous and distinctive marks.[94] The legislative history is replete with discussion of the fame and distinctiveness barrier,[95] but nowhere in the legislative history of either the 1988 dilution bill, the Dilution Act, or the Report of the Trade Mark Commission is it suggested that a plaintiff must demonstrate not only fame and distinctiveness, but must also make the far

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90. *See Ringling*, 170 F.3d at 459.

91. *See* 4 MCCARTHY, *supra* note 7, § 24.90. McCarthy notes that the Dilution Act's definition of dilution as "the lessening of the capacity of a famous mark to identify and distinguish" may be a "likelihood or probability test built right into the definition of what constitutes dilution," *id.* at 24-142 to 24-143, and opines that such an interpretation is "more in accord with traditional anti-dilution law," *id.* 24-143 n.21.

92. *See* Wisconsin Public Intervenor v. Mortier, 501 U.S. 597, 610 n.4 (1991) ("As for the propriety of using legislative history at all, common sense suggests that inquiry benefits from reviewing additional information rather than ignoring it. . . . Our precedents demonstrate that the Court's practice of utilizing legislative history reaches well into its past. . . . We suspect that the practice will likewise reach well into the future.").

93. In his treatise on trademark law, McCarthy notes that the Dilution Act is a direct descendant of both the nearly identical 1988 dilution bill, S. 1883, 100th Cong. (1988), passed by the Senate, but ultimately not enacted, and the Report of the Trade Mark Review Commission. Given the Dilution Act's sparse legislative history, McCarthy argues that these two additional sources provide helpful guidance in interpreting the Dilution Act. *See* 4 MCCARTHY, *supra* note 7, § 24.87.

94. *See, e.g.*, S. REP. NO. 100-515, at 41-42 (1988) ("[T]o ensure that the bill does not supplant the current protection of trademarks based on likelihood of confusion, the committee amended the legislation to place greater emphasis on the factors the courts must weigh in determining whether a mark possesses a sufficient level of fame and distinctive quality to qualify for federal protection. . . .").

95. *See id.*

more difficult showing of actual consummated harm to establish dilution. The House Report flatly states, "The use of DUPONT shoes, BUICK aspirin, and KODAK pianos would be actionable under this legislation."[96] It seems strange that Congress would omit any mention of an actual harm requirement in its example—a substantial additional hurdle—if one was intended. When Ringling argued this very point, the court rejected it in a footnote, stating that an identical replication was not involved in the case before it.[97] The court seems to suggest that a separate standard would be applied for a case such as "BUICK aspirin," but fails to provide any justification for such differential treatment under a statute that makes no such distinction.

The Fourth Circuit's limitation of proof to economic loss is also at odds with congressional intent. The "loss" Congress sought to remedy was a loss in a mark's distinctiveness, not solely its economic value. The Senate Judiciary Report on the 1988 dilution bill envisioned that the Act would apply "when the unauthorized use of a famous mark reduces the public's perception that the mark signifies something unique, singular, or particular," and noted that "[t]he distinctive quality of a mark could be materially reduced during a period of rising sales."[98] While an economic loss may indicate a loss in distinctiveness, as the Judiciary Report indicates, a loss in distinctiveness can also occur where there is an economic gain.

In the final analysis, the Fourth Circuit's test for dilution can be challenged on its own terms as a textual interpretation, and it can also be challenged as at odds with congressional intent and purpose as discernable from the Dilution Act's legislative history.

B. Second Circuit: Proof of Likely Dilution through Inference

The Second Circuit's dilution test in *Nabisco* offers significant improvements over the *Ringling* test. First, by permitting the inference of *likelihood* of dilution from multiple relevant factors, and not limiting proof to evidence of economic loss, the test avoids the problem of providing no remedy. Second, by not confining its test to a mechanical set of factors, the court establishes that the dilution analysis is a dynamic inquiry for which different factors may prove relevant in different cases. Finally, by emphasizing the importance of the distinctiveness inquiry, the court's test brings the dilution analysis more in line with the plain meaning of the

96. H.R. REP. NO. 104-374, at 3 (1995).

97. *See* Ringling Bros.-Barnum & Bailey Combined Shows, Inc. v. Utah Div. of Travel Dev., 170 F.3d 449, 459 n.5 (4th Cir.), *cert. denied*, 120 S. Ct. 286 (1999).

98. S. REP. NO. 100-515, at 41-45 (1988).

statute, its legislative history, and the conception of dilution theory's originator. However, the Second Circuit's analysis ignores relevant differences between the Dilution Act and state statutes, unnecessarily lengthens and obfuscates the inquiry by considering confusion factors irrelevant to dilution, and ultimately fails to achieve a proper balance between over- and under-protection.

1. Ignoring important differences

If *Ringling* relies too heavily on textualism, *Nabisco* goes too far the other way—completely ignoring the significant differences between state anti-dilution statutes and the federal Dilution Act. Without analysis, the court simply assumed the New York anti-dilution statute and the Dilution Act require the same showing despite substantially different language. As a practical matter, such a finding is understandable; the exponential increase in factors to be considered, and the complexity of dilution in general provide strong pragmatic reasons for ignoring the differences. However, such an approach tends to de-emphasize differences in the Dilution Act such as the fame and distinctiveness requirements, which mandate a much narrower scope of protection, and tends to merge an arguably more permissive body of state law precedent with the federal Dilution Act.[99]

2. Confusing dilution

The Second Circuit's opinion in *Nabisco* is subject to further criticism for adopting contextual factors that speak to consumer confusion rather than dilution—an approach widely criticized by other courts and commentators.[100] Even more troubling, the court departs from dilution by blurring as it is generally understood, and it does so in precisely the type of case in which an expansive, imprecise interpretation can do the most harm to free competition: trade dress.[101]

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99. For example, in holding that the Dilution Act applies to competitors, the court in *Nabisco* stated, "[w]e have already held that New York's antidilution statute applies to 'competitors as well as noncompetitors,' and we now so hold under the [Dilution Act]." Nabisco, Inc. v. PF Brands, Inc., 191 F.3d 208, 223 (2d Cir. 1999) (citations omitted).

100. *See* I.P. Lund Trading v. Kohler Co., 163 F.3d 27, 49 (1st Cir. 1998); *see also* 4 MCCARTHY, *supra* note 7, § 24.94.1.

101. In *Nabisco*, the court creates an expansive dilution test, which, in effect, provides Pepperidge with a quasi-patent on the shape of a cheese cracker, unlimited in time, and not justified on grounds of preventing source confusion. The ramifications of applying dilution doctrine to protect trade dress are beyond the scope of this Note. For more on this topic, see *I.P. Lund*, 163 F.3d at 53 (Boudin, J., concurring) ("[T]he threat to the public interest, ordinarily countered by the time limit on patent protection, is acute where a permanent protection is offered not to a word or symbol but to the design of an article of manufacture."); *Syndicate Sales, Inc. v. Hampshire Paper Corp.*, No. 98-4217, 1999

The state of mind required for confusion and dilution are distinct and dissimilar. The essence of dilution by blurring is a loss of distinctiveness as a unique identifier that occurs when consumers realize the same mark is used for more than one product, and are *not* confused as to source.[102] If consumers are confused, blurring of the mark cannot occur simply because in their minds the mark remains the sole identifier for the senior user's product. This is in contrast to traditional trademark infringement, which requires precisely the opposite: consumer confusion as to the source of the mark. Thus, it is impossible for unauthorized use of a trademark to cause both confusion and dilution by blurring in the mind of any one person.[103]

Despite this well-accepted definition of dilution, the court in *Nabisco* appears to equate consumer confusion with dilution when it flatly states: "When consumers confuse the junior mark with the senior, blurring has occurred."[104] The court makes this and similar statements in rejecting the argument that dilution should not apply to competing products, and in support of the inclusion of confusion factors in its new test.[105] While the observation that dilution can be found in circumstances that would also support an action for infringement is undoubtedly true, it is a logical flaw to conclude that where confusion is present, so too must be dilution.[106] In

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WL 707786, *6 (7th Cir. 1999) (suggesting that application of dilution to protect product configuration may be unconstitutional and textually unjustified by the Dilution Act); and Lemley, *supra* note 3, at 1700-01.

102. *See* H.R. REP. NO. 104-374, at 3 (1988) ("Dilution does not rely upon the standard test of infringement, that is likelihood of confusion, deception or mistake."); Avery Denison Corp. v. Sumpton, 189 F.3d 868, 875 (9th Cir. 1999) ("In the dilution context, likelihood of confusion is irrelevant."); Community Federal Savings and Loan Assoc. v. Orondorff, 678 F.2d 1034, 1036 (11th Cir. 1982) ("[Confusion is] a factor totally absent from the state antidilution statutes . . . [and is] contrary to the plain meaning of those statutes."); Toho Co., Ltd. v. Sears, Roebuck & Co., 645 F.2d 788, 793 (9th Cir. 1980) ("The focus [in dilution] is on damage to the mark's inherent value as a symbol, rather than on whether consumers have been misled as to origin or sponsorship."); Allied Maintenance Corp. v. Allied Mechanical Trades, Inc., 42 N.Y.2d 538, 544 (1977) ("The evil which the Legislature sought to remedy [with the New York anti-dilution statute] was not public confusion caused by similar products or services sold by competitors. . . ."). *See generally* 4 MCCARTHY, *supra* note 7, § 24.94.

103. *See* 4 MCCARTHY, *supra* note 7, § 24.94.1.

104. Nabisco, Inc. v. PF Brands, Inc., 191 F.3d 208, 221 (2d Cir. 1999).

105. For example, in its analysis of the proximity factor, the court states that "[c]onsumer confusion would undoubtedly dilute the distinctive selling power of a trademark," *id.* at 219, and goes on to state that "[a] junior use that confuses consumers as to which mark is which surely dilutes the distinctiveness of the senior mark," *id.*

106. *See* 4 MCCARTHY, *supra* note 7, § 24.71 ("[I]t is erroneous to conclude from a finding of a likelihood of confusion that dilution automatically and logically follows. It

some cases, the stronger the likelihood of confusion factors like similarity and proximity, the *less* likely it is that dilution will occur simply because most consumers will still see the mark as representing the same source.

The court's conclusion that consumer confusion factors are relevant to establishing dilution is troubling because dilution was never intended as a mere fallback for traditional infringement claims.[107] Merging the two doctrines effectively creates a watered-down infringement doctrine where weak infringement factors can be used to buttress an otherwise weak dilution claim.[108]

This is not to say that all confusion factors are completely irrelevant to determining dilution; however, their inclusion without properly distinguishing their probative purpose obfuscates the dilution inquiry, and unnecessarily lengthens what is already an exhaustive multifactor analysis. For example, actual confusion is only probative for dilution as an inquiry into similarity and mental association: a product is likely to confuse if it is the same type of product bearing a similar mark. If it is likely to confuse, it is likely to be *similar*, and if it is the same type of product, it is likely that a relevant universe of consumers will see marks used on both products. However, some consumers may be confused as to source, while others may perceive the same mark as being used to identify two separate sources. Using actual confusion as a proxy for these considerations merely hides the real inquiry and is unnecessarily redundant.

In the final analysis, the court's multi-factor test represents an improvement over previous tests, but by inserting confusion factors into dilution it ultimately converts dilution into a fallback provision for weak infringement claims, and unnecessarily lengthens what is already an exhaustive multi-factor analysis. In so doing, the court reduces the emphasis on the key dilution inquires into fame, distinctiveness, similarity, and mental association.

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does not follow because dilution is a separate legal theory positing a different kind of damage to a mark caused by a different form of consumer perception.").

107. *See* I.P. Lund Trading v. Kohler Co., 163 F.3d 27, 48 (1st Cir. 1998) ("Dilution laws are intended to address specific harms; they are not intended to serve as mere fall back protection for trademark owners unable to prove trademark infringement.").

108. *See id.*; *see also* S. REP. NO. 100-515, at 41-42 (1988) ("[T]o ensure that the bill does not supplant the current protection of trademarks based on likelihood of confusion, the committee amended the legislation to place greater emphasis on the [fame and distinctiveness factors]. . . .").

IV. REMOVING CONFUSION FROM DILUTION

There is a solution to establishing dilution under the Dilution Act which both addresses the concerns raised by the *Ringling* and *Nabisco* courts, and overcomes many of the problems arising from the approaches taken by each. The "solution" is really nothing new; it is simply a rigorous application of existing doctrine in light of the new limitations imposed by the Dilution Act.

A. Identifying the Test

1. *Inference of factors, proof of harm, or both*

Permitting plaintiffs to establish dilution through inference based on a relevant set of contextual factors is consistent with a plain meaning interpretation of the Dilution Act, and is more consistent with the intent and purpose of the statute as expressed from its structure and legislative history. Using this test does not mean that *Ringling's* actual harm test should not be used at all, but rather, that plaintiffs should not be limited to it.

2. *Key limitations on the dilution doctrine: fame, distinctiveness, similarity, and mental association*

The primary factors relevant to any dilution inquiry under the Dilution Act are fame, distinctiveness, similarity, and mental association. By focusing on the paradigm case, and applying the existing limitations on the dilution doctrine rigorously, the fear of creating property rights in gross or providing a mere fallback provision for a weak infringement claim can be adequately addressed, and the problem of providing no remedy at all can be avoided.

a) Fame

The fame requirement is critical to limiting the risk of trademark overprotection that dilution presents. Congress took pains to ensure that the extraordinary remedy of dilution would be confined to truly famous marks by providing a list of eight factors courts may weigh in determining whether a mark is sufficiently famous.[109] However, there is tremendous pressure on courts to lower the bar as to what constitutes a famous mark,

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109. *See* 15 U.S.C § 1125(c)(1)(A)-(H) (1999). These factors include: 1) the degree of inherent or acquired distinctiveness; 2) the duration and extent of use of the mark in connection with the goods or services with which the mark is used; 3) the duration and extent of advertising; 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 channels of trade used by the mark owner and the defendant; 7) the extent of use of the mark by third parties; and 8) whether the mark is registered. *See id.*

leading to what one commentator has termed "doctrinal creep."[110] This occurs when a remedy developed for an extraordinary case is increasingly applied to the ordinary case. The prospect of obtaining near property right status, avoidance of having to prove confusion, and obtaining a back up cause of action, coupled with the risk of permanently losing these rights if they are not vigorously pursued, have all created enormous incentives for trademark owners to assert that their marks are famous. In addition, some courts eager to apply dilution to the domain name cybersquatting problem have permitted relatively obscure marks to receive protection under the Dilution Act.[111] To ensure that dilution does not swallow up all trademark law, courts must remain vigilant, and rigorously apply the Dilution Act's fame requirement, permitting only truly famous marks to qualify for the "extraordinary" remedy of dilution.

b) Distinctiveness

In addition to being famous, the Dilution Act specifically requires that a mark be "distinctive" to qualify for protection.[112] However, the distinctiveness requirement is far more rigorous for dilution than it is for traditional infringement analysis.[113] Distinctiveness is the very thing the Dilu-

110. Lemley, *supra* note 3, at 1698 ("If Congress creates a new statute that protects some but not all trademark owners, every trademark owner will want his or her mark to be included in the new group. . . .").

111. *See, e.g.*, Avery Dennison Corp. v. Sumpton, 999 F. Supp. 1337 (C.D. Cal. 1998) (finding the marks AVERY and DENNISON sufficiently famous under the Dilution Act), *rev'd*, 189 F.3d 868, 875 (9th Cir. 1999) (emphasizing the importance of the fame limitation in reversing the lower court); *see generally* Diane K. Wong, Note, *Avery Dennison Corp. v. Sumpton*, 15 BERKELEY TECH. L.J. 245 (2000). The new anticybersquatting bill recently passed by Congress should reduce the need to apply dilution to the domain name problem. *See* Anticybersquatting Consumer Protection Act, Pub. L. No. 106-113, § 1000(a)(9), 113 Stat. 1501, 36 (Consolidated Appropriations Act, 2000, enacting S. 1948, 106th Cong., §§ 3001-3010 (1999)) (to be codified at 15 U.S.C. § 1125(d)) (1999); *see also* Sporty's Farm L.L.C. v. Sportsman's Market, Inc., Nos. 98-7452(L), 98-7538(XAP), 2000 WL 124389 (2d Cir. Feb. 2, 2000) (applying the Anticybersquatting Act to a case on appeal, even though the district court decided the case based on the Dilution Act).

112. 15 U.S.C. § 1125(c)(1) (1999) ("In determining whether a mark is *distinctive* and famous, a court may consider. . . ." (emphasis added)).

113. *See* Nabisco, Inc. v. PF Brands, Inc., 191 F.3d 208, 215-16 (2d Cir. 1999) ("A mark that, notwithstanding its fame, has no distinctiveness is lacking the very attribute that the antidilution statute seeks to protect."); *see also* Handler, *supra* note 2, at 278 ("An overbroad view of the distinctiveness requirement could result in an undesirable monopolization of language."). Even strong proponents of dilution protection recognize the importance of a high distinctiveness barrier. *See, e.g.*, Rose, *supra* note 3, at 739-40 (opining that the Dilution Act should be amended to better define when a mark has reached a sufficiently high level of distinctiveness to qualify for protection).

tion Act seeks to preserve; accordingly, the less distinctive a marks is, the less there is to preserve.[114] The Second Circuit emphasized the higher distinctiveness standard in the dilution inquiry by considering distinctiveness both as a threshold barrier, and as an individual factor that must be weighed against other factors in determining whether dilution is likely.[115] Thus, while a moderately distinctive mark may cross the threshold, other factors such as similarity and mental association must be particularly strong in order to find dilution.[116]

c) Similarity

The similarity requirement recognizes the ephemeral harm that dilution seeks to protect,[117] and is absolutely critical to establishing a claim for dilution. Dilution by blurring occurs only when consumers see the same mark used on more than one product and are not confused as to source, notwithstanding the *Nabisco* court's statements to the contrary. If the senior and junior mark are not identified as the same or substantially the same in the minds of consumers, there simply can be no blurring.

d) Mental association

As the court in *Ringling* noted, logic dictates that at a minimum, dilution requires that there be some mental association between the junior and senior marks in the minds of a relevant universe of consumers.[118] The mental association factor is particularly important to ensure that dilution is not simply a fallback for infringement.[119] There must be a legally significant percentage of consumers who recognize that the junior and senior marks identify separate sources, but see them as essentially the same mark.[120] It is critical to distinguish this from the confusion inquiry, which requires that consumers see the two marks representing the same source.

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114. *See Nabisco*, 191 F.3d at 215-16 ("The degree of distinctiveness of a mark governs in part the breadth of the protection it can command. . . .").

115. *See id.* at 217.

116. Whether descriptive marks that have acquired distinctiveness solely through secondary meaning are eligible for dilution protection remains unclear; at least one court has recently held that they are not. *See* New York Stock Exchange, Inc. v. New York, New York Hotel, LLC, 1999 WL 787195, *10 (S.D.N.Y. 1999) ("[A] famous mark that has acquired secondary meaning is not 'distinctive' as that term is used in the federal antidilution statute, and is thus not entitled to protection thereunder.").

117. *See* sources cited *supra* note 85.

118. *See* Ringling Bros.-Barnum & Bailey Combined Shows, Inc. v. Utah Div. of Travel Dev., 170 F.3d 449, 457 (4th Cir.), *cert. denied*, 120 S. Ct. 286 (1999); Mead Data Central, Inc. v. Toyota Motor Sales, U.S.A., Inc., 875 F.2d 1026, 1031 (2nd Cir. 1989).

119. *See* I.P. Lund Trading v. Kohler Co., 163 F.3d 27, 48 (1st Cir. 1998).

120. *See* 4 MCCARTHY, *supra* note 7, § 24.70.

In some cases of identical use on directly competing products, the possibility of confusion greatly increases while the possibility that consumers will recognize that the same mark identifies two different sources decreases.

B. Applying the Test

In both *Ringling* and *Nabisco*, the fame requirement has almost certainly been met. Both marks have been advertised and distributed on a nationwide basis for many years.

Ringling's Greatest Show mark is a descriptive phrase that has acquired distinctiveness only through secondary meaning. Even if descriptive marks with secondary meaning may qualify for dilution protection, the other dilution factors such as similarity and mental association must be particularly strong for dilution to be likely.

The similarity between the Greatest Show mark and the Greatest Snow mark is moderate at best. While differing only in a single word, that word is arguably the most important part of the slogan. While "show" and "snow" may be visually similar, they sound different, and have vastly different meanings. At least one other court has come to the same conclusion.[121] The mental association factor, based solely on Ringling's consumer survey evidence, also indicates a weak-to-moderate showing. The survey failed to show a statistically significant number of respondents who recognized and associated both marks, but remained unconfused as to source.[122] The district court found that the survey tended to show no mental association.[123] In the final analysis, Ringling's mark, while sufficiently famous and possibly sufficiently distinctive to qualify for dilution protection, is an otherwise descriptive phrase, and its relatively weak showing in both the similarity and mental association factors weigh decidedly against a finding of dilution.

In *Nabisco*, the court found that the choice of a goldfish color and shape for a cheese flavored cracker was arbitrary, and therefore moderately distinctive,[124] but when weighed against the similarity and proximity

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121. *See* Ringling Bros.-Barnum & Bailey Combined Shows, Inc. v. B.E. Windows Corp., 937 F. Supp. 204, 209-11 (S.D.N.Y. 1996) (Finding "show" is the most important word in senior's "The Greatest Show On Earth" mark, and is not similar enough to "Bar" for "The Greatest Bar On Earth" mark to infringe senior's mark).

122. *See* Ringling Bros.-Barnum & Bailey Combined Shows, Inc. v. Utah Div. of Travel Dev., 955 F. Supp. 605, 616 (E.D. Va. 1997), *aff'd*, 170 F.3d 449 (4th Cir.), *cert. denied*, 120 S. Ct. 286 (1999).

123. *See id.*

124. *See* Nabisco, Inc. v. PF Brands, Inc., 191 F.3d 208, 217 (2d Cir. 1999).

factors, the court held that dilution was likely.[125] Arguably, however, the goldfish design is merely suggestive: the orange color of a goldfish suggests the cheddar cheese flavor of the cracker much like Coppertone suggests suntan lotion. As a weaker suggestive mark,[126] the strength of the dilution factors must be that much stronger to find likelihood of dilution.

In considering the similarity factor, the court in *Nabisco* made a substantial leap from what the two products would look like on the store shelf, to what they would look like served in dish or bowl.[127] Even using the court's "bowl" test, the two goldfish crackers differ in several significant respects: the Nabisco cracker is flatter, larger, and has markings on its sides,[128] and is arguably, therefore, only moderately similar to Pepperidge's goldfish.[129]

The *Nabisco* court did not consider mental association as laid out above, but it did consider the "relevant universe of consumers" aspect under its "shared consumers" factor, and found that as competing products, they would share consumers.[130] The court muddled the analysis, however, by including confusion factors in its finding that consumers would likely confuse Nabisco's goldfish crackers with the Pepperidge Goldfish cracker when seen in a bowl.[131] Of course, dilution, not confusion, is the relevant inquiry. While the "bowl" test could conceivably demonstrate a likelihood of mental association, a consumer survey would arguably be a more accurate, less subjective gauge. Given the low-to-moderate distinctiveness of the goldfish design, the moderate degree of similarity, and the lack of any evidence of likely mental association, the *Nabisco* decision could easily have come out the opposite way.

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125. *See id.* at 219-20.

126. *See* Brookfield Communications, Inc. v. West Coast Entertainment Corp., 174 F.3d 1036, 1058 (9th Cir. 1999) ("[U]nlike arbitrary or fanciful marks which are typically strong, suggestive marks are presumptively weak.").

127. *See Nabisco*, 191 F.3d at 218-22.

128. *See id.* at 213.

129. The court brushed aside these differences in appearance by finding that someone "intent on popping the crackers into his mouth" would not notice them. *Id.* at 218. This is troubling, as it seems to suggest that a brief, inattentive viewing is sufficient to find a product "very similar." *Id.* The court also ignored the obvious distinguishing effect shape and texture would have when "popping" the crackers into the mouth. *See id.*

130. *See id.* at 220.

131. *See id.* at 219.

V. CONCLUSION

The approaches taken by each circuit represent opposite extremes to solving the problem of how to permit plaintiffs to establish dilution without being so permissive as to risk creation of property rights in gross, nor so restrictive as to effectively preclude a remedy even for those marks most deserving. A fair reading of the Dilution Act provides a remedy for both actual and potential future harm, and permits establishing that harm through either evidence of actual economic loss, or inferred through a set of relevant contextual factors, rigorously applying the key dilution inquiries of fame, distinctiveness, similarity and mental association.

ICANN'S UNIFORM DOMAIN NAME DISPUTE RESOLUTION POLICY

By Luke A. Walker

From Oklahoma's land-runs to San Francisco's gold rush, new frontiers have always drawn on the spirit of risk-taking. Today, the rush for gold is in cyberspace as speculators race to register valuable domain names in the hopes that they hit the jackpot.[1]

The Internet, as we know it, began in 1973 as a small research program funded by the U.S. Defense Department to investigate technologies that could interlink various kinds of network packets.[2] It was not until 1984 that the number of Internet addresses (websites and email addresses) first reached a figure that necessitated an organizational system.[3] And it was not until 1994 that domain name disputes first appeared.[4] Since, the growth of the Internet has been sudden and remarkable. Less than ten years after the creation of the first organizational system, the Internet swelled to include almost 5,000 networks spread across three dozen countries.[5] By the end of 1998, an estimated 148 million people worldwide were using the Internet, and 760 new U.S. households were joining the

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1. ⟨Business.com⟩ recently sold for $7.5 million, the highest price ever paid for an Internet address, to the San Jose-based "incubator" for start-ups, Ecompanies. *See* Andrew Pollack, *What's in a Cybername? $7.5 Million for the Right Address*, N.Y. TIMES, Dec. 1, 1999, at C8.

2. *See* Vint Cerf, *A Brief History of the Internet and Related Networks* (visited Oct. 2, 1999) ⟨http://www.isoc.org/internet/history/cerf.html⟩.

3. *See Domain Name System Privatization: Is ICANN Out of Control? Hearings Before the Subcomm. on Oversight and Investigations of the House Comm. on Commerce*, 106th Cong. (1999) [hereinafter *ICANN Hearings*] (prepared testimony of Jonathan Weinberg, Professor of Law, Wayne State University), *available at* ⟨http://commnotes.house.gov/cchear/hearings106.nsf/a317d879d32c08c2852567d300539946/a897f153ecc07feb852567b7005100ec?OpenDocument⟩ [hereinafter Weinberg Testimony].

4. *See Internet Domain Names and Intellectual Property Rights: Hearings Before the Subcomm. on Courts and Intellectual Property of the House Comm. on the Judiciary*, 106th Cong. (1999) [hereinafter *Domain Name Hearings*] (prepared testimony of Michael Daniels, Chairman of the Board of Directors, Network Solutions, Inc.), *available at* ⟨http://www.house.gov/judiciary/dani0728.htm⟩ [hereinafter Daniels Testimony].

5. *See* Cerf, *supra* note 2.

Internet per hour.[6] Even more telling than these statistics, the Internet's expanded uses, both informational and commercial, indicate the importance of the Internet today and for the future.[7]

The Internet is expanding more rapidly than anyone foresaw; yet, we may only be seeing the tip of the iceberg.[8] But this exponential growth has not come without growing pains, one of the most recognized being domain name disputes. In the past, these disputes have involved everyone from corporations[9] to famous athletes[10] as the value of desired domain names grows each day.[11] Many of these disputes are a result of cybersquatting, defined as "the abusive registration of domain names by bad faith actors . . . in order to mislead consumers . . . or to extort payment from the right-

6. *See* Win Treese, *The Internet Index* (visited Jan. 20, 2000) ⟨http://newwebsite.openmarket.com/intindex/99-05-s.htm⟩.

7. *See Domain Name Hearings*, *supra* note 4 (testimony of Jonathan C. Cohen, President of the Intellectual Property Constituency of the Domain Name Supporting Organization), *available at* ⟨http://www.house.gov/judiciary/cohe0728.htm⟩ (describing Internet use to do business, meet people, be entertained, shop, study, and discuss politics) [hereinafter Cohen Testimony].

8. *See* Global Internet Project, *How the Internet Works* (visited Dec. 16, 1999) ⟨http://www.gip.org/gip7.htm⟩ (quoting Vint Cerf, Senior Vice President MCI, as saying that "I anticipate big surprises and monumental changes in the way in which the Network [the Internet] can serve us. . . .").

9. In September 1999, the online toy retailer eToys, who uses the domain name ⟨etoys.com⟩, filed a trademark infringement suit against a Swiss art group using the domain name ⟨etoy.com⟩ after angry parents who had mistakenly landed on the ⟨etoy.com⟩ website began complaining to eToys. The ⟨etoy.com⟩ site occasionally includes graphic language and nude images on its website. In one example, an enraged consumer wrote to eToys after his grandson mistakenly visited the ⟨etoy.com⟩ site: "Are you completely nuts? What an irresponsible thing to show young children. We will never buy from you again." Less than two weeks later, eToys filed suit. *See* Claire Barliant, *E-Toy Story*, THE VILLIAGE VOICE, Dec. 7, 1999, at 37. In late January 2000, eToys and the Swiss art group reached a settlement out of court. Among other terms of the agreement, the art group will keep the domain name ⟨etoy.com⟩, and eToys will pay the art group up to $40,000 for legal fees. *See* Patricia Jacobus, *eToys Settles Net Name Dispute With etoy*, CNET NEWS.COM (Jan. 25, 2000) ⟨http://news.cnet.com/news/0-1007-200-1531854.html?tag=st.ne.1002⟩.

10. Two attorneys were recently sued by tennis stars Serena and Venus Williams over the registration of the domain names ⟨serenawilliams.com⟩ and ⟨venuswilliams.com⟩. The attorneys agreed to transfer the domain names and settled out of court. *See* Brenda Sandburg, *Lawyers Hit a Double Fault with Net Racket*, THE RECORDER, Oct. 28, 1999, at 5.

11. *See* Karen Kaplan, *Domain Name Trade Gives Rise to Whole New Breed of Brokers*, L.A. TIMES, Dec. 13, 1999, at C1.

ful trademark owner. . . ."[12] In October 1999, the Internet Corporation for Assigned Names and Numbers ("ICANN") adopted its Uniform Domain Name Dispute Resolution Policy ("UDRP") designed to provide a quick resolution to these types of disputes.

This Note will provide a review of the content and scope of ICANN's UDRP and a discussion on whether the UDRP has succeeded where previous dispute resolution policies have failed. The Note begins with a brief overview of domain names and domain name registration. The historical overview then shifts to the creation of ICANN and the criticisms of Network Solutions, Inc.'s dispute resolution policy. The discussion focuses first on how domain name policy should be formulated, arguing that it is more efficient to focus on promoting consumer growth on the Internet than creating bright lines between disputing parties. The second section will address the issue of whether cybersquatters deserve to be targeted, and if so, what is their relative harm. The discussion then looks at the inherent problems intertwined with bad faith domain name disputes and policies that are most responsive. The Note concludes by exploring possible areas in which ICANN's policy can improve with respect to the protection of non-consumer users.

I. BACKGROUND

A. The Domain Name System

1. How the domain name system works

Each computer connected to the Internet has a unique 32-bit Internet protocol ("IP") address that is separated into a series of four 8-bit groups called octets (e.g., ⟨123.45.67.89⟩).[13] Like a telephone system, each address must be unique.[14] Because remembering these strings of numbers is difficult and inconvenient, the IP address corresponds to a domain name or an easy-to-remember group of words or numbers such as ⟨law.berkeley.edu⟩ or ⟨mccain2000.com⟩.[15] These domain names are then

12. *See Domain Name Hearings*, *supra* note 4 (testimony of Andrew J. Pincus, General Counsel to the Department of Commerce), *available at* ⟨http://www.house.gov/judiciary/pinc0728.htm⟩.

13. *See Details About Internet Addresses: Subnets and Broadcasting* (visited Dec. 17, 1999) ⟨gopher://gopher-chem.ucdavis.edu:70/11/Index/Internet_aw/Intro_the_Internet/intro.to.ip/07_Internet_addresses⟩. Each octet can range in value from 0-255. However, the numbers 0 and 255 have special meanings and are not generally used. Furthermore, the first octet is rarely 0, 127, or any number above 223. *See id.*

14. *See* Weinberg Testimony, *supra* note 3.

15. *See id.*

organized into a hierarchical retrieval system created by U.S.C.'s Information Sciences Institute ("ISI") in 1984.[16] At the apex of the system is the "root server," which holds the root directory of all computers that hold top-level domain ("TLD") directories. TLDs include geographic identifiers (e.g., ⟨.jp⟩, ⟨.uk⟩) as well as generic identifiers (e.g., ⟨.com⟩, ⟨.edu⟩, ⟨.net⟩).[17] These computers, in turn, contain a directory of computers which hold the directories of second-level domains. Second-level domains ("SLDs") include identifiers within each top-level domain (e.g., ⟨gap.com⟩, ⟨yahoo.com⟩, ⟨berkeley.edu⟩)[18] which hold directories of third-level domains (e.g., ⟨law.berkeley⟩, ⟨psychology.berkeley⟩, ⟨history.berkeley⟩) and so on. This system retrieves the domain name address by breaking down the domain name into its TLD and SLDs and retrieving those addresses from their respective databases, which are held by various computers across the Internet.[19]

When a user types in a domain name, the user's computer sends a request to a domain name server, which then searches for the IP address associated with that URL in a hierarchical fashion. The server then returns the corresponding IP address to the host computer.[20] Using ⟨www.law.berkeley.edu⟩ as an example, the user's local domain name server will first query the root server to find the IP address for the computer holding the directory for the ⟨.edu⟩ TLD. After receiving this address, it will then query the ⟨.edu⟩ server for the IP address of the computer holding the directory for the ⟨.berkeley⟩ SLD. Finally, it will query the ⟨.berkeley⟩ server for the IP address of the computer holding the directory for the ⟨.law⟩ sub-domain, which it will query for the IP address of the machine named "www."[21] This IP address will then be returned to the user's computer.

2. *A brief history of domain name registration*

To access a domain name, the name must be registered or listed in the proper corresponding domain directory. If "berkeley" is not registered in

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16. *See id.*

17. *See* Joseph P. Liu, *Legitimacy and Authority in Internet Coordination: A Domain Name Case Study*, 74 IND. L.J. 587, 590-91 (1999).

18. *See id.* at 591.

19. *See id.*

20. *See Keeping Track of Names and Information: The Domain Name System* (visited Dec. 17, 1999) ⟨gopher://gopher-chem.ucdavis.edu:70/11/Index/Internet_aw/Intro_the_Internet/intro.to.ip/05_Names_and_Info_Domain_System⟩.

21. Fortunately, it is usually not necessary most of the time to go through each query. The computer's cache will store recent answers it received, so many of the queries can be eliminated. *See id.*

the ⟨.edu⟩ master server, querying the ⟨.edu⟩ server for its address would be equivalent to searching for an unlisted phone number in a telephone directory.

Unlike telephone directories, though, servers have a finite number of desirable domain names. Whereas a telephone directory can contain an infinite number of "McDonald, R." listings, each with a different phone number, the Internet can only have one ⟨mcdonalds.com⟩. Domain name disputes, therefore, arise when one entity (the domain name holder)[22] registers and owns a domain name like ⟨mcdonalds.com⟩, and another entity (usually the registered trademark owner) wants to use it.[23]

There are three generic top-level domains ("gTLDs")—⟨.com⟩, ⟨.net⟩, and ⟨.org⟩—in which any person can register a domain name without any prerequisites apart from uniqueness.[24] In 1985, the Defense Department first assigned the job of registering domain names in these top-level domains to SRI International, a non-profit Silicon Valley research institute.[25] Later, the National Science Foundation ("NSF") became the leading funder for the Internet infrastructure, and on December 31, 1992, it entered into a five-year cooperative agreement with Network Solutions, Inc. ("NSI"). This agreement gave NSI the responsibility and sole control over domain name registration in these gTLDs.[26] Initially, NSI attempted to remain neutral in domain name disputes, registering domain names on a first-come, first-served basis.[27]

When NSI's initial agreement expired,[28] NSI entered into an agreement with the Department of Commerce which extended the terms of the

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22. The term "domain name holder" obviously includes some parties that own both the domain name and the registered trademark just as the term "trademark owner" encompasses parties that own the domain name as well as the trademark. However, as this Note focuses primarily on domain name disputes, the term "domain name holder" will refer exclusively to domain name holders who do not also possess the trademark. Likewise, "trademark owner" will not include those parties who own both the domain name and the trademark.

23. *See* Angela Proffitt, Note, *Drop the Government, Keep the Law: New International Body for Domain Name Assignment Can Learn from United States Trademark Experience*, 19 LOY. L.A. ENT. L.J. 601, 601 (1999).

24. *See* Daniels Testimony, *supra* note 4.

25. *See* Weinberg Testimony, *supra* note 3.

26. *See* Management of Internet Names and Addresses, 63 Fed. Reg. 31,741, 31,742 (1998), [hereinafter White Paper].

27. *See* Development, *The Domain Name System: A Case Study of the Significance of Norms to Internet Governance*, 112 HARV. L. REV. 1657, 1664 (1999) [hereinafter *Domain Name System*].

28. The initial agreement was scheduled to expire on September 30, 1998. *See ICANN*, *supra* note 3 (prepared statement of Esther Dyson, Interim Chairman of the

initial agreement until September 30, 2000.[29] In exchange for this two-year extension, NSI agreed to create a Shared Registry System to allow competing companies to register domain names in the ⟨.com⟩, ⟨.org⟩, and ⟨.net⟩ domains.[30] In addition, once a competitive registrar system was created, NSI agreed to apply for accreditation through the same process as other registrar companies, so it would no longer hold any advantage over its competitors.[31]

B. Why ICANN was Created

1. Concerns about NSI

By 1998, NSI and the domain name registry system as a whole had attracted critics. Some felt that NSI had been given an economic windfall on its control of domain name registration in the ⟨.com⟩, ⟨.org⟩, and ⟨.net⟩ gTLDs.[32] NSI had registered over 2.7 million domain names and reaped estimated gross profits of almost $36 million.[33] With the Internet experiencing an explosive economic boom,[34] allowing this windfall to continue seemed increasingly inequitable.[35] Others lamented that the lack of competition and the absence of alternative means to register domain names led to high registration fees,[36] high annual fees,[37] and a poor customer service record.[38]

Board of Directors, ICANN), *available at* ⟨http://com-notes.house.gov/cchear/hearings106.nsf/a317d879d32c08c2852567d300539946/8467221f7c9d1630852567b70049d574?OpenDocument⟩ [hereinafter Dyson Statement].

29. *See id.*

30. *See id.*

31. *See id.*

32. *See Domain Name System, supra* note 27, at 1663.

33. *See id.* at 1662.

34. In 1998, total e-commerce business totaled $102 billion. *See Domain Names Hearings, supra* note 4 (testimony of Anne Chasser, President of the International Trademark Association), *available at* ⟨http://www.house.gov/judiciary/chas0728.htm⟩ [hereinafter Chasser Testimony].

35. NSI currently charges the public $35 per year for registration fees. Richard Forman, president of Register.com claims that NSI would make $80 million per year even if it charged only $16 per year, which is NSI's current proposal for registration fees when its agreement with the Department of Commerce expires. Forman suggests that a fair registration fee would be between $1.50 and $2. Tom McDonald, founder of domainwatch.com, suggests that a fair registration fee would be less than $1 per year. Other market analysts predict between a $10 and $16 annual fee. *See* Spencer Ante, *Network Solutions' Complicated Name Game*, THESTREET.COM (April 6, 1999) ⟨http://fnews.yahoo.com/street/99/04/06/valley_990406.html⟩.

36. Science Applications International Corporation ("SAIC") purchased NSI in 1995 and negotiated a deal with the U.S. Government which allowed NSI to charge $100 for each new domain name. Many customers lamented the fact that if they wanted to be-

At the forefront of complaints was NSI's policy (or lack of policy) for resolving domain name disputes[39] and its highly disputed first-come, first served policy for domain name priority.[40] Before 1995, NSI asserted that the domain name holder bore the responsibility for ensuring that a domain name did not infringe upon any trademark rights, but otherwise, did not provide a formal dispute resolution policy.[41] In 1995, NSI issued its first formal domain name dispute policy and allowed trademark owners to challenge the registration of a domain name by presenting NSI with evidence that the domain name violated their trademark rights.[42] Notwithstanding a challenge by trademark owners, however, NSI still allowed domain names to be registered on a first-come, first-served basis.[43] In 1998, NSI issued another dispute resolution policy, which allowed trademark owners to place domain names "on hold" pending the resolution of the dispute.[44] The domain name owner, if challenged, could prevent the domain name from being placed on hold by providing proof that either (1) the domain name was registered before the complainant's trademark or (2) the domain name holder also held a trademark for the domain name.[45]

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come part of the Internet, they had no choice but to pay this arbitrary fee. To compound the dissatisfaction, the IANA previously provided registration service for free. *See Domain Name System*, *supra* note 27, at 1662 n.32, 1663 n.40.

37. In addition to the registration fee, SAIC negotiated with the Government to allow NSI to charge a $50 annual fee for each existing domain name holder. *See* Weinberg Testimony, *supra* note 3.

38. Among other complaints, many customers found NSI's domain name owner database, "Whois," often out of date or incorrect. This created significant problems in domain name disputes because the domain name owner could not be consistently located. *See Domain Name System*, *supra* note 27, at 1663 n.39.

39. *See* White Paper, *supra* note 26, at 31,742 (declaring that among the pressures for changing the domain name management system are that "[c]onflicts between trademark owners and domain name holders are becoming more common," and the fact that the preexisting "[m]echanisms for resolving these conflicts are expensive and cumbersome.")

40. *See* Jonathan Zittrain, *ICANN: Between the Public and the Private—Comments before Congress,* 14 BERKELEY TECH. L.J. 1071, 1079 (1999).

41. *See* Domain Name System, *supra* note 27, at 1664.

42. *See id.* at 1664 n.46.

43. *See id.* at 1664.

44. When placed on hold, a domain name is unavailable for use by either party until the domain name dispute is resolved. *See* G. Peter Albert, Jr., *Eminent Domain Names: The Struggle to Gain Control of the Internet Domain Name System*, 16 J. MARSHALL J. COMPUTER & INFO. L. 781, 787-88 (1998).

45. *See NSI Dispute Resolution Policy* (visited Nov. 2, 1999), *available at* ⟨http://www.networksolutions.com/legal/dispute-policy.html⟩ ; *see also Domain Name Dispute Policy FAQ* (visited Nov. 2, 1999), *available at* ⟨http://www.networksolutions.com/help/general/dispute.html⟩.

Both domain name holders and trademark owners attacked NSI's policy for its breadth because of its failure to consider the common law likelihood of confusion requirement necessary for trademark infringement in the United States.[46] For domain name holders, NSI's policy was overbroad and placed them at an unfair disadvantage because trademark owners could invoke the dispute resolution policy and place a domain name on hold even if the domain name registration was for products or services that bore no similarity to the trademark use.[47] In other words, trademark owners were allowed to place domain names on hold even though they would have had only a very weak claim under trademark law.

On the other hand, by not following the likelihood of confusion standard in US trademark law, the policy was under-inclusive for trademark owners.[48] Whereas NSI's dispute resolution process could only be invoked if the domain name was identical to the registered trademark, American trademark law allows an action against nonidentical marks that create a "likelihood of confusion."[49] For example, under NSI's dispute resolution policy, Microsoft could not invoke the process to dispute the domain name ⟨microsoftsoftware.com⟩.[50]

This bright line drawn between trademark owners and domain name holders created steadfast rules for the polar extremes, but did not provide an answer for the middle ground. Instead, it implemented an all-or-nothing rule. If the domain name was identical, then it was treated as infringing without regard to whether it actually infringed in real life. And on the other side, unless the domain name was identical, trademark owners were helpless to invoke NSI's policy for protection.

2. *The creation of ICANN*

In response to the growing criticisms of NSI's domain name registration system, the Commerce Department issued a Green Paper[51] and then a White Paper[52] expressing its views on the domain name system. Citing the

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46. *See* Lisa T. Oratz, *Trademarks and the Internet*, Perkins Coie LLP (visited Sept. 12, 1999), *available at* ⟨http://www.perkinscoie.com/webrelease/trademarks.htm⟩.

47. *See id.*

48. *See id.*

49. *See id.*

50. *See id.* NSI's policy also stated that the registered trademark had to be identical to the portion of the domain name *before* the TLD. That is, the registered trademark "Amazon.com" would apply to the domain name ⟨amazoncom.com⟩ but not to ⟨amazon.com⟩. *See id.*

51. *See* Improvement of Technical Management of Internet Names & Addresses, 63 Fed. Reg. 8826, 8827 (1998).

52. White Paper, *supra* note 26.

evolution of the Internet into an international medium for commerce with growing demands for change, the Commerce Department called for a new, private, non-profit organization, independent of the U.S. Government, to centralize domain name system management.[53]

Following the release of the White Paper, a coalition of the Internet's communities formed the Internet Corporation for Assigned Names and Numbers ("ICANN").[54] In 1998, the Government gave ICANN the responsibility of centralizing the management of the domain name system in accordance with the White Paper.[55] Jon Postel, who helped develop the hierarchical domain name system and who had chaired the InterNet Assigned Numbers Authority ("IANA"), agreed to serve as Chief Technical Officer for ICANN.[56]

Initially, ICANN suffered from continual financial problems[57] and controversies[58] that were only compounded by Postel's unexpected death in 1998.[59] But ICANN endured,[60] and has since made significant strides in

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53. *See id.* at 31,749-51.

54. *See Internet Domain Names and Intellectual Property Rights: Hearings Before the Subcomm. on Courts and Intellectual Property of the House Comm. on the Judiciary*, (July 28, 1999) ⟨http://www.house.gov/judiciary/robe0728.htm⟩ (testimony of Michael Roberts, Interim President and Chief Executive Officer of ICANN).

55. In addition to overseeing policy for creating new domain name registrars and new gTLDs, ICANN was given the responsibility of coordinating the assignment of Internet protocol parameters, allocating IP address space, and managing the Internet root server system. *See* White Paper, *supra* note 26, at 31,749 & 31,751.

56. *See* Weinberg Testimony, *supra* note 3.

57. *See* Carolyn Duffy Marsan, *ICANN't Make Ends Meet: Internet Names Group Cries Poverty*, NETWORK WORLD FUSION (July 15, 1999) ⟨http://www.nwfusion.com/news/1999/0715icannt.html⟩.

58. In response to its financial difficulties and lack of a stable source of income, ICANN initially proposed charging a volume-based user fee (not to exceed $1 per registration per year) paid by registrars based on the volume of their registrations. *See* Weinberg Testimony, *supra* note 3. This proposal was met with much criticism, the source of which one commentator argues is not the actual fee policy but the failure to obtain community support before announcing the policy. *See id. But see* Dyson Statement, *supra* note 28 (arguing that the registry fee was adopted following a thorough process of public notice and comment which resulted in what appeared to be community consensus of a broad support for the fee).

59. Apart from Dr. Postel, the initial Board of Directors were selected specifically for their non-involvement in the previous "DNS wars" with the belief that they would begin operations with an open mind. It was believed that Dr. Postel's reputation in the Internet community would offset the other Directors' lack of experience in the Internet world. When Dr. Postel died, the Board of Directors came under intense scrutiny, and ICANN's legitimacy was immediately questioned because of its lack of experience in domain name disputes. *See* Weinberg Testimony, *supra* note 3.

addressing many of the main concerns with the past domain name system registry.[61]

ICANN immediately addressed the need for increased competition in domain name registrars by licensing five testbed registrars on April 26, 1999.[62] Since then, it has licensed 110 additional registrars, including the twelve newest companies on January 25, 2000.[63] As of September 1999, nineteen were in various stages of creating software that will allow them to soon offer registrar services.[64] And after a lengthy struggle, ICANN reached an agreement with NSI in which NSI agreed to recognize ICANN's authority and operate its registry in accordance with ICANN's Registrar Accreditation Agreement.[65]

Not surprisingly, the most significant policy which ICANN has adopted is its Uniform Domain Name Dispute Resolution Policy. After

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60. *See generally* Mary Mosquera, *Net Governance Will Take Time to Get Right*, TECHWEB (July 23, 1999) ⟨http://www.techweb.com/wire/story/TWB19990723S0016⟩ (discussing ICANN's first-year and potential future).

61. The Global Internet Project ("GIP") endorsed ICANN for its administration of the domain name system, applauding ICANN for working hard to provide "a transparent, participatory process." GIP is an international group of senior executives from Internet-centric companies. It was founded by former Netscape Communications Corporation Chairman, Dr. James Clark, and is currently chaired by IBM Vice President for Internet Technology, John Patrick. *See* Global Internet Project, *Leading Internet Executives Speak Out in Support of ICANN; Address New Internet Policies* (Sept. 16, 1999) ⟨http://www.gip.org/pr19990916a.htm⟩.

62. *See* ICANN, Press Release, *ICANN Names Competitive Domain-Name Registrars* (April 21, 1999) ⟨http://www.icann.org/announcements/icann-pr21apr99.htm⟩. The testbed registrars were the first registrars to participate with NSI in the Shared Registry System, which implemented the new competitive system for gTLD registration services. The five registrars were America Online, CORE (Internet Council of Registrars), France Telecom/Oléane, Melbourne IT, and register.com. *See id.*

63. *See* ICANN, Press Communique, *ICANN Accredits Twelve New Domain Name Registrars* (Jan. 25, 2000) ⟨http://www.icann.org/announcements/icann-pr25jan00.htm⟩.

64. *See* Business Wire, *Network Solutions, Department of Commerce and ICANN Working Together to Reach Agreement on Domain Name Registration Services* (Sept. 10, 1999) ⟨http://library.northernlight.com/FC1999091030000021.html?cb=0&dx=1066&sc=0⟩.

65. *See Network Solutions, Department of Commerce and ICANN Reach Long-Term Agreements for Internet's Domain Name System* (Sept. 28, 1999), *available at* ⟨http://www.netsol.com/news/1999/pr_19990928.html⟩; *see also Fact Sheet on Tentative Agreements Among ICANN, the U.S. Department of Commerce, and Network Solutions, Inc.* (Sept. 28, 1999) *available at* ⟨http://www.icann.org/nsi/factsheet.htm⟩. ICANN and NSI had been involved in a bitter dispute over control over the domain name registry. Prior to the agreement, NSI had asserted intellectual property rights over the contents of the gTLD databases and had hindered ICANN's integration of the shared registry system. For further discussion on these battles, see Weinberg Testimony, *supra* note 3.

over a year of formulation, ICANN proposed a policy adapted from the World Intellectual Property Organization ("WIPO") proposal[66] to resolve certain domain name disputes. The proposal was accepted on October 24, 1999, and the first dispute-resolution provider was approved on November 29, 1999.[67] Complaints were first allowed to be submitted on December 1, 1999, and the first complaint under ICANN's UDRP was submitted one day later over the domain name, ⟨worldwrestlingfederation.com⟩.[68] On January 14, 2000, a single panelist ruled that the domain name was being used in bad faith and required that the registration be transferred to World Wrestling Federation Entertainment, Inc. pursuant to section 4(i) of the UDRP.[69] As of February 7, 2000, three dispute resolution service providers had been approved,[70] and fifty-eight disputes were pending.[71]

II. ICANN'S UNIFORM DISPUTE RESOLUTION POLICY

The UDRP differs from NSI's dispute-resolution policy in three main areas. First, trademark owners are no longer able to place a hold on domain names during any dispute-resolution process.[72] Second, unless the domain name is being held in bad faith, the trademark owner cannot invoke the UDRP proceedings. For traditional trademark infringement or

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66. *See* WORLD INTELLECTUAL PROPERY ORG., FINAL REPORT OF THE WIPO INTERNET DOMAIN NAME PROCESS, WIPO Pub. No. 92-805-0779-6 (1999), *available at* ⟨http://ecommerce.wipo.int/domains/process/eng/processhome.html⟩.

67. *See* ICANN, *Implementation Schedule for Uniform Domain Name Dispute Resolution Policy* (visited Dec. 16, 1999) ⟨http://www.icann.org/udrp/udrp-schedule.htm⟩.

68. *See* ICANN, *List of Proceedings Under Uniform Dispute Resolution Policy* (visited Feb. 7, 2000) ⟨http://www.icann.org/udrp/proceedings-list.htm⟩.

69. *See* World Wrestling Federation Entertainment, Inc. v. Michael Bosman, WIPO Case No. D99-0001 § 7 (1999) (Donahey, Arb.). For additional information about the specifics of the first dispute resolution, see *infra* III.A.2.

70. The three providers are WIPO, The National Arbitration Forum, and Disputes.org/eResolution Consortium. *See* ICANN, *Approved Providers for Uniform Domain Name Resolution Policy* (visited Feb. 7, 2000) ⟨http://www.icann.org/udrp/approved-providers.htm⟩.

71. The domain names vary from ⟨alcoholicsanonymous.net⟩ to ⟨fossilwatch.com⟩ to ⟨sixnet.com⟩. *See* ICANN, *supra* note 68.

72. *See* Network Solutions, Inc., *Domain Magistrate Frequently Asked Questions* (visited Feb. 7, 2000) ⟨http://www.domainmagistrate.com/faqs.html#2⟩.

dilution claims, ICANN will not alter the status[73] of the domain name absent an independent settlement between the parties or a court decision.[74]

The third and most significant change with the UDRP is a mandatory administrative dispute resolution proceeding for the disputes that do involve "bad faith" domain name holders.[75] The dispute resolution procedure will be handled primarily online,[76] and is designed to cost approximately $1,000 and take less than forty-five days to reach resolution.[77] In order to invoke this proceeding, the registered trademark owner must make a preliminary showing of bad faith on the part of the domain name holder, and in most cases, pay the entire fees for the proceeding.[78] Although either party may dispute the ruling in court following the decision,[79] this proceeding provides a quick and relatively inexpensive opportunity for the trademark owner to challenge the abusive ownership of a domain name.

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73. Change of status includes cancellation, transfer, activation, and deactivation. *See* ICANN, *Uniform Domain Name Dispute Resolution Policy* § 7 (visited Dec. 16, 1999) available at ⟨http://www.icann.org/udrp/udrp-policy-24oct99.htm⟩ [hereinafter *The Policy*].

74. *See id.* at §§ 3 (a)-(b), 5, 7.

75. *See id.* § 4.

76. The initial complaint and response will be submitted electronically. All other correspondence from the complainant or respondent to the Provider will be made via either facsimile, telecopy, electronic mail, or through a Internet-based case filing administration system. All other correspondence from the Provider to the complainant or respondent shall be made according to their preferred means of communication (postal service, facsimile/telecopy, or electronic mail) stated in their complaint or response respectively. *See ICANN, Rules for Uniform Domain Name Dispute Resolution Policy,* §§ 2, 13. (visited Dec. 16, 1999) available at ⟨http://www.icann.org/udrp/udrp-rules-24oct99.htm⟩ [hereinafter *The Rules*]. *See also WIPO Supplemental Rules for Uniform Domain Dispute Resolution Policy* § 3 (visited Dec. 16, 1999), *available at* ⟨http://arbiter.wipo.int/domains/rules/supplemental.html⟩ [hereinafter *Supplemental Rules*].

77. *See* ICANN, *Frequently Asked Questions on Uniform Dispute Resolution Policy* (visited Dec. 16, 1999), *available at* ⟨http://www.icann.org/general/faq1.htm⟩ [hereinafter *ICANN FAQ*].

78. The complainant must pay all fees associated with the administrative proceeding except in cases when the domain name holder elects to expand the number of panelists on the Administrative Panel, in which case the fees will be split evenly. *See The Policy, supra* note 73, § 4(g).

79. In cases in which the Administrative Panel decides that the domain name should be transferred, ICANN will not implement the decision if the domain name holder presents within ten days official documentation that a lawsuit has been commenced. Official documentation includes a file-stamped copy of the complaint filed in court. *See id.* § 4(k).

A. The Substantive Threshold

In his initial complaint, the trademark owner must include the grounds on which the domain name holder has violated *each* of the following three elements:

1) the domain name is identical or confusingly similar to a trademark or service mark in which the complainant has rights;

2) the domain name holder has no rights or legitimate interests in respect of the domain name;

3) the domain name has been registered and is being used in bad faith.[80]

The "bad faith" prong of the test rests on whether the domain name holder's actions include *any* of the following:

1) acquisition of the domain name primarily for the purpose of selling, renting or transferring the domain name to the trademark owner or competitor for a price in excess of the costs directly related to acquiring the domain name;

2) registration of the domain name for the purpose of preventing the trademark owner from using the domain name;

3) registration of the domain name for the purpose of disrupting the business of a competitor; or

4) an intentional attempt to attract Internet web users to the domain name site for commercial purposes by creating a likelihood of confusion between the trademark and the source, product, or service offered on the domain name website.[81]

B. The Procedural Process

The dispute resolution process can be initiated by any individual or entity through the submission of a formal complaint that includes the above allegations to an administrative dispute resolution service provider ("Provider") of its choice.[82] After the formal complaint is filed, the Provider will review the complaint for administrative compliance.[83] If in

80. *See id.* § 4(a).
81. *See id.* § 4(b).
82. *See The Policy, supra* note 73 § 4(d).
83. *See The Rules, supra* note 76, § 4(a).

compliance,[84] the Provider will forward the complaint to the domain name holder,[85] and the domain name holder will have twenty days after receipt in which to respond to the complaint.[86] Within the reply, the domain name holder may address the statements and allegations in the complaint and include all bases for which the domain name holder should retain registration and use of the disputed domain name.[87] If the domain name holder fails to respond within twenty days, the Administrative Panel will decide the dispute based on the complaint alone.[88] In exceptional cases, the Provider may extend the twenty day deadline at the request of the domain name holder.[89]

After the response has been submitted, an Administrative Panel will be selected, at least in part, by the Provider. The Administrative Panel will consist of a single panelist selected by the Provider unless either the domain name holder or the trademark owner requests a three member panel.[90] If a three member panel is requested, then both parties will submit a list of candidates in order of their preference. The Provider will then choose one panelist from each list. The third panelist will then be chosen by the Provider.[91] All panelists and their biographies shall be made public by the Provider.[92]

Once the Administrative Panel has received the complaint and reply, a decision must be forwarded to the Provider within fourteen days absent exceptional circumstances.[93] In the case of a three member panel, a majority decision is sufficient.[94] Within three days of receiving the decision from the panel, the Provider must communicate the full text of the decision to each party. In addition, absent instructions from the Panel otherwise, the Provider must publish the full decision on a publicly accessible website.[95]

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84. If the complaint is administratively deficient, the complainant will have five calendar days to correct the deficiencies else the complaint will be dismissed without prejudice. If the complaint is dismissed, the trademark owner must pay a new fee if she chooses to submit another complaint. *See id.* § 4(b).

85. *See id.* § 4(a).

86. *See id.* § 5(a).

87. *See id.* § 5(b).

88. *See id.* § 5(e).

89. *See id.* § 5(d).

90. *See id.* § 6(b).

91. *See id.* § 6(c)-(e).

92. *See id.* § 6(a).

93. *See id.* § 15(b).

94. *See id.* § 15(c).

95. *See id.* § 16(a)-(b).

III. DISCUSSION

Whether ICANN's policy is the right solution depends, in part, upon the basic goals for any Internet policy. With the Internet's continued growth and rapid expansion within the international community, one obvious goal is to maximize the Internet's benefit to the greatest number of people. The White Paper articulated one method of achieving this objective by calling for a broad representation of interests, both geographically and with respect to differing interests involved, when formulating policy.[96] In the domain name context, this means considering the interests of both the domain name holder and the trademark owner as well as those the individual users of the Internet and the international community. The same characteristics that make this representation so important, however (the Internet's amazing growth and the skyrocketing value of domain names), have made the challenge of broad representation be void of easy solutions.

Possibly the best solution is to attempt to formulate domain name policy based on consensus[97] within the Internet community. In fact, ICANN's president, Esther Dyson, has testified before Congress that ICANN's purpose and objective are to implement policies based on this "[Internet] community-wide consensus."[98] Yet as some observers have noted, consensus is elusive if not impossible in a Pareto-optimal game.[99] For domain name disputes, a Pareto-optimal result may be inevitable. The continued surge in domain name registrations[100] coupled with a limited number of desirable domain names usually ensures that one party must lose.[101] In this win-lose environment, a consensus-based policy may well be unworkable. Instead, the focus should shift from attempting to represent the interests of

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96. *See* Zittrain, *supra* note 40, at 1084.

97. In the Internet context, "[c]onsensus is defined . . . in such terms as 'there does not appear to be any one complaining all that much' or 'most people seem to agree, except for a few outliers.'" *Id.*

98. *See* Dyson Statement, *supra* note 28.

99. *See* Zittrain, *supra* note 40, at 1085 (arguing that the first goal should be openness in the decision making process since consensus will be impossible in some situations). An outcome is Pareto-optimal if no party may be made better off without making another party worse off.

100. By the year 2000, it is estimated that 100 million domain names will be registered. *See* Proffitt, *supra* note 23, at 202; *see also* Eileen Smith, *Master of Your Domain Name*, PC WORLD, Jan. 21, 2000 ⟨http://www1.pcworld.com/pcwtoday/article/0,1510,14899,00.html⟩ (stating that more than 15,000 domain names are created every day).

101. Even cybersquatters lose in domain name disputes. Although they may not lose a valuable source for e-commerce, they lose the "investment" they made in registering valuable domain names. Depending on who is evaluating the investment, this loss can range from anywhere between the actual cost of registration, $70, or millions of dollars.

the domain name holder against the often conflicting interests of the trademark owner to a focus on representing the interests of the Internet *users*, both corporate and individual.

A. The UDRP Helps Focus on Consumer Growth

One way to represent the interests of the users of the Internet is to create policies that aim to promote continued growth in Internet use by consumers. For as consumer use on the Internet expands, retailers receive greater commercial value for their websites both online and offline. Already, in addition to the over $102 billion in e-commerce in 1998,[102] the Internet has become an integral source of research for offline purchases and transactions.[103] As consumer use[104] increases, the retailer's advertising dollars return even greater value. In turn, users benefit because as the commercial value of websites rise, more and more companies will provide services and goods online. As long as consumer growth continues, this loop perpetuates. Thus, by shifting the focus to promoting continued growth in consumer use, Internet and domain name policies are no longer muddled in creating distinctions between domain name holders and trademark owners or between big businesses and small businesses or individuals.

Revisiting NSI's dispute resolution policy, one can see where that policy failed. Instead of providing a policy that focuses on a positive goal, promoting consumer growth, it attempted to draw a line between trademark owners and domain name holders. In the end, domain name holders felt that this categorization unfairly treated them all as cybersquatters. At the same time, trademark owners felt that the process was too narrow and failed to include some domain name holders who were infringing trademarks.

Whether intentionally or not, ICANN's policy does not draw the same bright lines between domain name owners and trademark owners. By specifically limiting the application of its policy to disputes involving "bad faith" domain name holders,[105] ICANN's policy resets the situation to one

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102. *See* Chasser Testimony, *supra* note 34; *see also Domain Name System*, *supra* note 32, at 1663 (predicting that by the beginning of the 21st century, e-commerce could reach as high as $300 billion).

103. *See* Chasser Testimony, *supra* note 34.

104. "Consumer use" includes use of the Internet for online purchases as well as for seeking information about a company or product

105. *See The Policy*, *supra* note 73, § 4(a); *see also generally* Courtney Macavinta *Domain Restrictions Target Cybersquatters,* CNET NEWS.COM (May 3, 1999) ⟨http://news.cnet.com/news/0-1005-200-341968.html⟩ (describing "cybersquatter" problem and reporting that WIPO Report was passed onto ICANN).

that recognizes that not all identical names should invoke special dispute resolution processes, but conversely, an identical name is not always required to infringe. Without having to evaluate whether the line was properly drawn between domain name holders and trademark owners, one can focus instead on whether the policy has effectively addressed potential roadblocks along the way towards increased consumer use.

1. Targeting cybersquatters

Although there may be many reasons behind recent growth in consumer use of the Internet, one undeniable reason is convenience.[106] Cybersquatters can detract from the convenience of the Internet consumer in either of two ways. They can either misdirect the consumer to a website she did not wish to access or keep an easily recognizable and memorable domain name out of Internet use altogether. Certainly, both of these methods may potentially hinder continued consumer growth on the Internet, and ICANN's policy rightfully includes both in its definition of a "bad faith" user.

On the other hand, although directing consumers to undesired websites can be both frustrating and time consuming, it is not permanent. Users who are led to undesired websites can easily revert to a search engine or even just return to the previously viewed webpage with little more than a click of the mouse.[107] The time lost is measured only in seconds. In addition, with the increased use of search engines like AOL's Keywords search, users can often reach desired websites regardless of domain names by typing in easy abbreviations or words.[108] Likewise, trademark owners are not often deterred from creating a website merely because their desired domain name is unavailable. Users may not be able to access the desired site with the ease of an already-established trademark name, but nevertheless, the website will still be available. Most importantly, the court system is always available for registered trademark owners who encounter cybersquatters.[109]

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106. *See, e.g.*, Michelle Slatalla, *How to Spend an Allowance Without Leaving Home*, N.Y. TIMES ON THE WEB, Aug. 12, 1999 ⟨http://search.nytimes.com/search/daily/homepage/bin/fastweb?getdoc+cyber-lib+cyber-lib+5678+10+wAAA+Internet%7Eand%7Econvenience⟩.

107. *See* Shannon N. King, Note, *Brookfield Communications, Inc. v. West Coast Entertainment Corp.*, 15 BERKELEY TECH. L.J. 313, 325 (2000).

108. For example, the keyword "BofA" would directly link the user to Bank of America's homepage even if their domain name were not ⟨BofA.com⟩.

109. Trademark owners now have an even greater protection in court now with the newly enacted Anticybersquatting Consumer Protection Act, Pub. L. No. 106-113, § 1000(a)(9), 113 Stat. 1501, 36 (Consolidated Appropriations Act, 2000, enacting S. 1948.

Although cybersquatters do not completely block consumer growth, they still hinder it. Furthermore, the e-commerce value of a domain name used by Internet consumers far outweighs the price value an individual cybersquatter can extract from the trademark owner. Therefore, ICANN was not mistaken in targeting cybersquatters. The possibly more difficult issue lies in determining how should domain name policies deal with cybersquatters considering they pose a threat to continued consumer-use growth, yet at the same time, engage in activities that are normally only minor hindrances.

2. *The UDRP is time- and cost-efficient*

For consumers, a time- and cost-efficient dispute resolution policy is justified by the low relative importance of resolving the domain name disputes to the consumer. In terms of damaging Internet e-commerce, cybersquatting is unlikely to result in repercussions to the consumer more severe than a minor headache. Accordingly, the dispute resolution policy must be equally simple in regards to both time and economic costs. It is inefficient to have a complex dispute resolution policy with high economic and time costs when the end result may not make a noticeable difference to the everyday consumer.

On the other hand, business users of the Internet need a time- and cost-efficient method to resolve domain name disputes because of the growing value of easily recognizable domain names[110] associated with their trade-

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106th Cong., § 3002 (1999)) (to be codified at 15 U.S.C. § 1125(d)) (1999). In response to the sometimes difficult task for courts in applying old trademark law to new Internet domain name disputes, this Act amends the Trademark Act in regards to domain name disputes involving "bad faith" domain name holders. *See id.* In particular, the amendments provide for a cause of action for famous personal names as well as registered trademarks, and provide for statutory damages up to $100,000 per domain name in lieu of actual damages. *See id.*

110. Tom Millitzer, owner of New Commerce Communications, the international Internet merger and acquisition firm that brokered the sale of ⟨wallstreet.com⟩ for the then largest sum ever of $1.03 million, argues that "Good domains are valuable real estate, and ownership of the right name can translate into visitors, traffic, and unlimited business opportunity." *See* Business Wire, *HitDomains.com Announces Internet Auction of "autos.com" to Shift Online Auto Market Into High Gear; Record Sales Price is Predicted for Valuable Single Word Domain Name* (Nov. 22, 1999). For additional information about the online domain name brokerage industry, see generally DNRealtors.com, Inc., *DNRealtors.com Home Page* (visited Feb. 13, 2000) ⟨http://www.dnrealtors.com⟩. DNRealtors.com is one of the largest Internet domain name brokerage firms, having represented domain names such as ⟨injurylawyers.com⟩, ⟨slim.com⟩, and ⟨iFinancial.com⟩. *Id.* It provides media advertisements, e-mail/telephone/fax campaigns, auction setup, and press releases. *Id.* Currently, it represents over 80,000 domain name listings. *Id.*

marks.[111] This high value to the business owner, however, creates two main advantages for the cybersquatter. First, the value of a domain name to the trademark owner may justify cumbersome and expensive litigation.[112] This gives cybersquatters leverage to sell the domain name to the trademark owner at its nuisance value—a price below litigation costs, but well above the actual costs of obtaining the name. A cost-efficient dispute resolution policy will help balance out this leverage that cybersquatters have over trademark owners.

Second, the trademark owner is potentially losing the value of the domain name every day the dispute resolution process goes unresolved by losing potential customers who are not finding the correct site. Considering that, on average, over 30 million people use the Internet per day,[113] this result magnifies with each passing day. As the process wears on, the trademark owner faces more and more pressure to settle with the cybersquatter with a price in excess of the original costs of obtaining the domain name. Obviously, a dispute resolution policy that is time-efficient will help eliminate this inherent advantage of cybersquatters in lengthy dispute resolution processes.

Once again, it is evident where NSI's policy was lacking. By attempting to protect itself from wrong results, NSI's policy was neither time- nor cost-efficient. The "holding" period did not lessen the harm to the trademark owner. Although the NSI policy allowed the trademark owner to place the domain name on hold, it did not speed the process of resolving the domain name dispute, nor did it allow the trademark owner to use the domain name. As a result, trademark owners were still susceptible to the fear of losing potential customers during drawn-out court proceedings. In addition, by relying on the court system to ultimately resolve disputes, NSI's policy failed to resolve the cost issue as well. The potentially high litigation costs were the driving force behind the high nuisance value of domain names for cybersquatters.

ICANN's policy, on the other hand, is both time- and cost-efficient. It is designed to take approximately forty-five days and cost only $1,000.[114] Not only does this policy provide a quick resolution, it provides the resolution at a price that is affordable to even small business owners and individual domain name owners. On January 14, 2000, the WIPO Arbitration

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111. *See* Zittrain, *supra* note 40, at 1076.

112. Estimates for litigation costs in even simple cases in federal civil court are between $10,000 and $15,000. *See* Jeri Clausing, *International Panel Resolves First Domain Dispute*, N.Y. TIMES, Jan. 14, 2000, at B10.

113. *See* Cohen Testimony, *supra* note 7.

114. *See ICANN FAQ, supra* note 77.

and Mediation Center resolved the first domain name dispute under ICANN's UDRP.[115] In terms of time and cost efficiency, the results were generally a success.

The dispute was resolved in less than forty days, and the total cost for the World Wrestling Federation ("WWF") was limited to between $2,000 and $3,000.[116] The timeliness of the dispute resolution was especially beneficial to the WWF as the group is currently working hard to build its profile and brand name.[117] The attorney fees, included in the overall cost estimate, were a relative bargain compared to the $10,000 to $15,000 estimate for resolving even simple cases in federal civil court. Likewise, Michael Bosman, the individual who was forced to relinquish the ⟨worldwrestlingfederation.com⟩ domain name, expressed his satisfaction that the entire dispute did "not cost [him] a dime"[118] even though he was disappointed in the arbitrator's decision. Overall, Mr. Bosman called the proceedings "fair and unbiased."[119]

B. Protecting the Nonconsumer User: Unresolved Problems

The continued growth of the Internet most likely depends primarily on e-commerce; however, it would be a mistake to develop Internet policy that overlooks those who use the Internet for entertainment and informational purposes only. In fact, even consumer use of the Internet is becoming more interlinked with informational or entertainment value. A Forrester study showed that thirty-six percent of e-commerce sites have discovered that having editorial content on their websites is the best way to sell

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115. The dispute occurred when Michael Bosman registered the domain name ⟨worldwrestlingfederation.com⟩ after ICANN began allowing domain names up to sixty-three characters, up from the previous limit of twenty-two. Mr. Bosman said that he originally intended to host a wrestling fan site, but due to lack of expertise and finds, decided to attempt to sell the domain name to the World Wrestling Federation ("WWF"). On October 10, 1999, three days after registering the domain name, Mr. Bosman sent an e-mail to the WWF informing them of his intent to sell or rent the domain name. *See* Clausing, *supra* note 112. However, on December 3, 1999, Mr. Bosman contacted the WWF via email and stated that cybersquatting cases "typically accomplish very little and end up costing the companies thousands of dollars in legal fees, wasted time and energy." In order for the WWF to avoid this trouble, he offered to sell the domain name for $1,000. *See* World Wrestling Federation Entertainment, Inc. v. Michael Bosman, WIPO Case No. D99-0001 § 4 (1999) (Donahey, Arb.).

116. *See* Clausing, *supra* note 112, at B10.

117. *See id.*

118. *See id.*

119. *See id.*

their products.[120] Large corporations and sole proprietorships alike now pay thousands of dollars per month to online news syndicates[121] for the right to have news, sports, and entertainment content hyperlinked to their websites.[122] In sum, the growth of the Internet will always remain dependant, at least in part, on the "goodwill" of the Internet.

For domain name policy, this goodwill for nonconsumer users is found in the ability to create their own websites or view websites created by a family member, a friend, or a favorite public figure. Domain name policies can address these issues, and to be successful, they must.

1. Cyber-wildcatters

Contrary to the concern that ICANN's resolution policy expands the meaning of cybersquatting too far,[123] ICANN's real failure lies in not extending the protection far enough. Cyber-wildcatters are a good example. Cyber-wildcatters differ from cybersquatters in that the domain names they hoard are not protected trademarks. However, like cybersquatters, they register domain names for the sole purpose of resale or "renting" the domain name for a profit. Their hundreds of thousands of registered domain names range from family names[124] to ⟨Athens-2004.com⟩[125] to ⟨Republicans.org⟩.[126]

In order to make the dispute resolution policy fair, it must benefit every party who wishes to have a desired domain name address regardless of whether they own a registered trademark. There would be very little change needed if any at all in ICANN's current dispute-resolution policy if ICANN were to give nonregistered trademark owners the right to initiate proceedings.

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120. *See* Benny Evangelista, *Online News Syndicates Provide Missing Links*, S.F. CHRON., Dec. 13, 1999, at B1.

121. Businesses who obtain licenses from multiple news providers and then license the license pool to websites for a monthly fee. *See id.*

122. *See id.*

123. *See Paper: Concerns about ICANN Uniform Dispute Resolution Policy* (visited Oct. 7, 1999), *available at* ⟨http://www.icann.org/comments-mail/comment-udrp/current/msg0012.html⟩.

124. The successful defendant in *Avery Dennison Corp. v. Sumpton*, 51 U.S.P.Q.2d (BNA) 1801 (9th Cir. 1999), registered 10,000 domain names based on family surnames. According to his website, these names accounted for 70 percent of the population in the United States and Canada and over 200 million people. *See* Lawrence J. Siskind, *Striking it Rich*, THE RECORDER, Oct. 6, 1999, at 4.

125. Offered for $50,000 at ⟨http://www.netezy.com⟩.

126. Offered for $100,000. *See* Siskind, *supra* note 124, at 4.

Already, ICANN's policy does not attempt to address matters that do not involve a bad-faith domain name holder. For disputes in which the domain name holder is actually using, as opposed to selling, the domain name, ICANN's policy would not apply and could not be invoked. Hence, the first-come, first-served policy for registering domain names would remain unaffected for the domain names that, for example, include family or personal names as long as that domain name is actually being used rather than hoarded for sale.

On the other hand, bad-faith domain name holders could no longer evade ICANN's policy merely because they chose to hoard family or personal names rather than trademarked names. Individuals and small businesses would be afforded the same opportunity as trademark owners to attempt to obtain desired domain names without the high costs of traditional legal proceedings, high costs that they are the least likely to be able to afford in the first place.

2. *Reverse domain name hijacking*

Finally, ICANN must not overlook the domain name holder. One of the most publicized domain name dispute cases to date was a reverse domain name hijacking attempt by a large company to take a domain name away from a twelve-year-old boy.[127] ICANN must implement a policy to protect domain name holders from reverse domain name hijacking or bad-faith attempts to deprive a domain name holder of her domain name.[128] Currently, a trademark owner can use ICANN's dispute resolution policy to attempt to reverse domain name hijack without any penalty or fine above the $1,000 cost of arbitration.[129] In response, many commentators favor a balanced penalty system which punishes reverse domain name hijacking attempts as well as cybersquatting.[130] To make its dispute resolu-

127. The domain name ⟨pokey.org⟩ generated possibly the most attention of any domain name dispute in history when the trademark owner of the toys characters Gumby and Pokey initiated NSI's dispute resolution policy against a twelve-year-old domain name holder, who posted boredom-fighting tips and pictures of his puppy on his website. For further discussion of the facts of the story, see Jeri Clausing, *Boy's Web Site Becomes a Domain Name Cause*, N.Y. TIMES, March 25, 1998, at B10.

128. *See The Rules*, *supra* note 76, §1 (reverse domain name hijacking definition).

129. ICANN only states that attempts at reverse domain name hijacking will be considered an abuse of the administrative proceeding, yet provides no additional penalty other than dismissal of the complaint. *See The Rules*, *supra* note 76, § 15.

130. *See* Non-Commercial Domain Name Holders Constituency, *Non-Commercial Constituency Petitions for Review of WIPO Ch. 3*, (visited Oct. 7, 1999) ⟨http://www.icann.org.comments-mail/comment-udrp/current/msg0000.html⟩.

tion policy complete, ICANN must include a measure that will combat reverse hijacking just as forcefully as it attempts to combat cybersquatting.

IV. CONCLUSION

At the Internet's inception, few could have predicted its rapid growth, and only the imaginative could have foreseen its impact on society. Likewise, few would have thought that the next race for gold would be in valuable domain names. ICANN's dispute resolution policy succeeds in addressing the main problems created by domain name disputes. It promotes the quick and efficient elimination of cybersquatting while at the same time, creating a policy that is flexible. Yet two serious issues remain: protecting nontrademark owners from cybersquatters and protecting domain name holders from reverse domain name hijacking.

ICANN has taken several steps forward by implementing a domain name policy that encourages consumer use of the Internet while remaining flexible. It must address, however, nonconsumer and reverse domain name hijacking issues to avoid taking a significant step back.

BROOKFIELD COMMUNICATIONS, INC. V. WEST COAST ENTERTAINMENT CORP.

By Shannon N. King

New technologies require novel analysis of existing legal doctrines in order to accommodate those new technologies in a manner consistent with established principles.[1] The increasing accessibility of the Internet has caused new concerns in the area of trademark law and corresponding problems in the application of trademark doctrine such as the federal anti-dilution statute[2] and trademark infringement analysis in the context of domain names.[3] In *Brookfield Communications, Inc. v. West Coast Entertainment Corporation*,[4] the Ninth Circuit Court of Appeals declared the use of another's trademark in website metatags to be actionable infringement under the Lanham Act.[5] While appealing to established notions of fairness, this ruling employs an unusual confusion analysis that does not

1. *See generally* Marguerite S. Dougherty, *The Lanham Act: Keeping Pace With Technology*, 7 J.L. & POL'Y 455 (1999) (positing that utilizing a physical contacts analysis of personal jurisdiction in trademark Internet controversies is not appropriate because the application is uneven and therefore defeats the purpose of a uniform national policy like the Lanham Act); Thomas A. Magnani, Note, *The Patentability of Human-Animal Chimeras*, 14 BERKELEY TECH. L.J. 443 (1999) (suggesting that existing patent laws cannot deal with the moral issues raised by the fast-changing biotechnology field and concluding that biotechnology should be regulated by Congress directly rather than via alteration of patent laws by the courts).

2. *See generally* Avery Dennison Corp. v. Sumpton, 189 F.3d 868 (9th Cir. 1999) (reversing district court's summary judgment finding as to issue of dilution under the Federal Trademark Dilution Act). Recent articles discussing dilution include: Jennifer Golinveaux, *What's in a Domain Name: Is "Cybersquatting" Dilution?*, 33 U.S.F. L. REV. 641 (1999); Mark A. Lemley, *The Modern Lanham Act and the Death of Common Sense*, 108 YALE L.J. 1687 (1999); Edward E. Vassallo & Maryanne Dickey, *Protection in the United States for "Famous Marks": The Federal Trademark Dilution Act Revisited*, 9 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 503 (1999).

3. *See generally* Intermatic Inc. v. Toeppen, 947 F. Supp. 1227 (N.D. Ill. 1996) (finding a genuine issue of material fact as to whether use of another's trademark in a domain name created likelihood of confusion, and entering summary judgment for mark owner when finding that such use constitutes dilution). Recent domain name articles include: Carl Oppedahl, *How Is a Domain Name Like a Cow?*, 15 J. MARSHALL J. COMPUTER & INFO. L. 437 (1997); Ira S. Nathenson, *Showdown at the Domain Name Corral: Property Rights and Personal Jurisdiction Over Squatters, Poachers, and Other Parasites*, 58 U. PITT. L. REV. 911 (1997).

4. 174 F.3d 1036 (9th Cir. 1999).

5. *See id.* at 1065.

take into account the unique expectations of Internet consumers. As a result, the court finds actionable consumer confusion where there is none.

This Note discusses *Brookfield* in the context both of prior cases involving metatag use and prior cases recognizing initial interest confusion as actionable under the Lanham Act.[6] The Ninth Circuit is the first court to reach a confusion analysis of metatag use; other cases are instructive, however, in determining the harm, if any, caused by using another's trademark in a website metatag. This Note asserts that courts should not apply trademark law to metatag cases because the use of another's trademark in a metatag does not create consumer confusion of the type protected by trademark doctrine, and inconsistent application of trademark doctrine promotes litigation, increases business costs, and taxes judicial resources.[7]

I. BACKGROUND

A. Technical Background

1. Metatags

Web page source code is written in a scripting language called hypertext markup language ("HTML"), which a computer user's web browser software reads and interprets in order to create the web pages that collectively are known as websites. Metatags are identifiers provided for in HTML and included in a web page's source code, primarily to communicate information about a site's contents. As scripting code, the metatag itself is invisible to the average unsophisticated user.[8] Metatags can be used to include various kinds of information in a web page, but the two types implicated in a trademark context are those utilized by some search

6. 15 U.S.C. §§ 1051-1127 (1994).

7. For a brief discussion of the interests that trademark law must balance while fostering commercial functions, see DONALD S. CHISUM & MICHAEL A. JACOBS, UNDERSTANDING INTELLECTUAL PROPERTY LAW § 5A (1992). The four interests identified by the authors are (1) consumer interest in not being confused about the origin of goods or services; (2) trademark owner interest in preserving goodwill; (3) consumer and potential competitor interest in free competition and entering into expanding markets for goods and services; and (4) public interest in a fair and efficient legal system comprising specific and consistently applied trademark doctrines. *Id.* at 5-8.

8. Note that a sophisticated user can utilize one of several techniques to read the source code behind a web page, and thus can read the site's metatags. The easiest method is to use the web browser's built-in menu function for browsing source code (View|Source with Internet Explorer, View|Page Source with Netscape Navigator).

engines to index and rank websites—the "keyword" and "description" tags.[9]

The "keyword" metatag specifies a list of terms which search engines will then associate with the particular page or site.[10] It is commonplace for developers to include both generic and specific terms in "keyword" metatags in order to capture the attention of every possible interested user. The "description" metatag usually contains a summary of a page or site's contents. Some search engines include the entire description when the site is returned as a result; other engines just use the terms in the description to index the site, in much the same manner as the "keyword" metatags are used.

2. *Search engines*

Search engines provide a central point from which to gather large amounts of disparate information. Typical Web-based search engines are comprised of multiple software packages, including a spider, an index, and index-searching software.[11] The spider is a piece of software that "travels" the World Wide Web, cataloging the full text of websites.[12] The spider scans documents and adds them to the index by following links.[13] The index is a searchable catalog of documents, containing the information collected by the spider. The index-searching software performs searches on the index contents in response to user requests.

Different search engines treat metatags differently. Typically, an engine sends out a spider, which collects metatags in addition to visible web

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9. For example, the description metatag from the home page of the website for Boalt Hall School of Law at the University of California at Berkeley reads, "⟨meta name="description" content="Boalt Hall School of Law Home Page"⟩". The keyword metatag for the same page reads, "⟨meta name="keywords" content="boalt, boalt hall, school of law, boalt hall school of law, law school, university of california, berkeley, uc berkeley, ucb, uc, cal, law"⟩". *See* Boalt Hall School of Law, *Boalt Hall School of Law Home Page* (visited Oct. 4, 1999) ⟨http://www.law.berkeley.edu⟩.

10. *See* Maureen A. O'Rourke, *Defining the Limits of Free-Riding in Cyberspace: Trademark Liability For Metatagging*, 33 GONZ. L. REV. 277, 281 (1997).

11. *See* SearchEngineWatch.com, *Search Engine Glossary*, (visited Jan. 31, 2000) ⟨http://searchenginewatch.com/facts/glossary.html⟩ (noting that although the terms "spider" and "index" may be used as synonyms for "search engine," they are in fact separate components which comprise the search engine).

12. This Note draws a distinction between metatags (and other HTML constructs) and web page text on the basis of visibility. Therefore, a spider that collects all the information about a particular site collects both metatags (not visible in the default browser view) and web page text (visible via the browser).

13. *See* SearchEngineWatch.com, *Search Engine Glossary*, (visited Jan. 31, 2000) ⟨http://searchenginewatch.com/facts/glossary.html⟩.

page text. The contents of the "keyword" metatag may be used to index the site in a specific category.[14] Once those pages are indexed and available for user search requests, the search engine may also use a ranking algorithm in conjunction with the metatags to rank the relevance of the website to the particular user-requested search.

B. Trademark Law

1. *The purpose and function of trademark law*

United States trademark law is codified in the Lanham Act of 1946, enacted in 1947, and amended several times since, with the last major revision in 1988.[15] The essence of trademark law the is prevention of confusion as to the origin or sponsorship of goods or services,[16] and it establishes exclusive rights to use marks that distinguish one manufacturer, merchant or service provider's goods or services from those of others.[17] A trademark owner may prevent others from using the same or similar marks that create a likelihood of confusion, mistake, or deception.[18]

Trademarks serve several commercial functions: (1) they identify the goods or services to consumers; (2) they identify the source of the goods or services and may serve as an indication of their quality; and (3) they are advertising devices, used to develop consumer association and good will toward the product being advertised.[19] The service of these commercial functions requires the balancing of consumer, trademark owner, and potential competitors' interests.[20]

2. *Infringement and likelihood of confusion*

Trademark infringement is the unauthorized use of a mark that so resembles another person's valid trademark or service mark as to create a likelihood of confusion. The Lanham Act gives registrants of federally registered marks a civil right of action against any person who uses, without the registrant's consent, a "reproduction, counterfeit, copy, or color-

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14. For instance, the Boalt Hall School of Law Home Page may be placed in the "law school" category because the term "law school" is in the keyword metatag. Note that it may also be categorized under "Berkeley," although the law school is not technically affiliated with the City of Berkeley. Such indexing benefits the user who seeks information about schools in Berkeley and simply searches under the city name.

15. *See* 15 U.S.C. §§ 1051-1127 (1994).

16. *See* CHISUM & JACOBS, *supra* note 7 at 5-8.

17. *See id.* at 5-7.

18. *See id.* at 5-8.

19. *See id.*

20. *See id.*

able imitation" of the mark to (a) sell, offer for sale, distribute, or advertise "any goods or services on or in connection with which such use is likely to cause confusion," or (b) reproduce the mark and apply it to "labels, signs, prints, packages, wrappers, receptacles or advertisements" intended for such sale, distribution, or advertising.[21] Trademark infringement remedies include injunctions, damages, infringer profits, and other relief.[22]

Likelihood of confusion for purposes of infringement is determined via evaluation of a fluid list of factors. The 1938 Restatement of Torts set forth four factors for determining likelihood of confusion,[23] and those factors have been expanded and refined by the various circuits, creating similar tests that vary as to wording and number of factors.[24] While some circuits treat likelihood of confusion as an issue of law and therefore freely reviewable on appeal, the Ninth Circuit has indicated that likelihood of confusion is a mixed question of law and fact and that a district court's determination of that question is reviewable on appeal under the clearly erroneous standard.[25]

At one time, trademark law only gave a right of action against likelihood of confusion by the purchaser as to source of goods. Today, "the test for likelihood of confusion . . . is broader, embracing confusion as to the association between the goods or sponsorship of the allegedly infringing goods."[26]

3. *Prior metatag disputes*

Some federal courts have enjoined use of a trademark in metatags when the trademark was also allegedly being infringed via an Internet do-

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21. 15 U.S.C. § 1114(1) (1999).
22. *See* 15 U.S.C. § 1116(a), 1117 (1999).
23. *See* RESTATEMENT OF TORTS § 738 (1938). The factors are:

    (a) the degree of similarity between the designation and the trade-mark or trade name in
        (i) appearance;
        (ii) pronunciation of the words used;
        (iii) verbal translation of the pictures or designs involved;
        (iv) suggestion;
    (b) the intent of the actor in adopting the designation;
    (c) the relation in use and manner of marketing between the goods or services marketed by the actor and those marketed by the other;
    (d) the degree of care likely to be exercised by purchasers.

Id.

24. *See infra* note 88 for the Ninth Circuit confusion factors.
25. *See* Levi Strauss & Co. v. Blue Bell, Inc., 778 F.2d. 1352, 1355-56 (9th Cir. 1985).
26. Lindy Pen Co., Inc. v. Bic Pen Corp., 725 F.2d 1240 (9th Cir. 1984).

main name or actual website content.[27] While other courts have enjoined use upon a finding of wrongful intent, one court has allowed trademark use in metatags upon a finding that it constituted a fair use.[28] The *Brookfield* court discussed three decisions dealing with the metatag issue,[29] but no prior metatag case has utilized (or reached) an initial interest confusion analysis.

The first trademark complaints related to metatag use appeared in mid-1997.[30] *Insituform Technology, Inc. v. National Envirotech Group*[31] involved the use of the trademarks "Insituform" and "Insitupipe" both in metatags and in website images and text taken from plaintiff's marketing materials.[32] The case settled, with the defendant agreeing to remove the use of the trademarks from the metatags on its website.[33] *Oppedahl & Larson v. Advanced Concepts*[34] has been the only case thus far to revolve solely around metatag use, without also dealing with other complications such as direct code copying, allegedly infringing site content, other buried code,[35] or a domain name. The common law marks "Oppedahl" and "Larson," claimed by the New York intellectual property firm of Oppedahl & Larson, were used in the metatags of various sites having no connection to the practice of law.[36] The parties settled when the defendants agreed to a permanent injunction barring the use of the marks in their website metatags.[37]

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27. *See infra* note 38 and accompanying text.

28. *See infra* notes 43-50 and accompanying text.

29. *See* Brookfield Communications, Inc. v. West Coast Entertainment Corp., 174 F.3d 1036, 1064-65 (9th Cir. 1999).

30. *See generally*, Wendy R. Leibowitz, *Firm Sues For Invisible Use of Its Trademark on 'Net*, NAT'L L.J., Sept. 8, 1997, at A7 (describing the district court complaint filed by Oppedahl & Larson); Robert Baron, *Metatags Raise Serious Legal Issues*, N.Y.L.J., Sept. 14, 1998, at S4 (reporting on several early metatag controversies).

31. Civ. Action No. 97-2064, P 2 (E.D. La. filed July 1, 1997) (final consent judgment entered Aug. 26, 1997).

32. *See* Jeffery J. Look, *The Virtual Wild, Wild West (WWW): Intellectual Property Issues In Cyberspace—Trademarks, Service Marks, Copyrights, and Domain Names*, 22 U. ARK. LITTLE ROCK L. REV. 49, 81 (1999).

33. *See* Meeka Jun, *Meta Tags: The Case of the Invisible Infringer*, N.Y.L.J. Oct. 24, 1997, at 5.

34. Civ. Action No. 97-Z-1592 (D. Colo. filed July 23, 1997).

35. Buried code is technically similar to metatags in that it is invisible to the user and can possibly boost a website's search engine ranking. It usually consists of a word (the trademarked term) repeated multiple times on a page background that is the same color as the text, rendering the word invisible to users but visible to search engines.

36. *See* Barbara Anna McCoy, *An Invisible Mark: A Meta-tag Controversy*, 2 J. SMALL & EMERGING BUS. L. 377, 385-86 (1998).

37. *See id.*

Courts have been quickest to enjoin metatag use when viewed in conjunction with other allegedly infringing uses such as a domain name or site content. Playboy Enterprises, in particular, has been vigilant about filing such suits in an effort to disassociate itself from websites that use the Playboy marks in their metatags but feature hard-core pornography.[38] In *Playboy Enterprises, Inc. v. Calvin Designer Label*,[39] Playboy asserted federal trademark infringement based on defendant's use of domain names and buried code utilizing Playboy's trademarks "playboy" and "playgirl."[40] The court issued a preliminary injunction ordering cessation of use of the buried code as well as of the domain names.[41] In *Playboy Enterprises, Inc. v. AsiaFocus International*,[42] upon a finding of actual consumer confusion caused by deceptive tactics to lure consumers to a website, a federal court ordered AsiaFocus to pay $3,000,000 in damages.[43]

Courts have also focused on wrongful or malicious intent when enjoining trademark use in metatags.[44] The *AsiaFocus* court found evidence of deceptive tactics.[45] In *Niton Corporation v. Radiation Monitoring Devices*,[46] the district court considered a Niton employee's affidavit asserting that the defendant's website metatag descriptions were copied verbatim from Niton's website to their own.[47] It determined that Niton was likely to succeed on an unfair competition theory, and entered a preliminary injunction against the misleading use of the metatags based on the likelihood of harm to Niton.[48] Evidence of wrongful intent simplifies a court's decision regarding infringement because trademarks logically protect against source confusion, so a party deliberately attempting to create such confusion makes itself vulnerable to a cause of action.

Yet another case involving Playboy but allowing trademark use in metatags revolved around a former Playboy Bunny and Playmate of the

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38. *See, e.g.*, Playboy Enters., Inc. v. Calvin Designer Label, Civ. Action No. C-97-3204 CAL, at P38, 44, 49 (N.D. Cal. filed Sept. 8, 1997); Playboy Enters., Inc. v. Welles, 7 F. Supp 2d. 1098 (S.D. Cal.), *aff'd*, 162 F.3d. 1169 (9th Cir. 1998) (unpublished); Playboy Enters., Inc. v. AsiaFocus Int'l, Inc., 1998 WL 724000 (E.D. Va. 1998).

39. 985 F. Supp. 1220 (N.D. Cal. 1997).

40. *See id.* at 1221.

41. *See id.* at 1221-22.

42. No. Civ.A. 97-734-A, 1998 WL 724000 (E.D. Va. Apr. 10, 1998).

43. *See id.* at *1.

44. *See* Niton Corp. v. Radiation Monitoring Devices, Inc., 27 F. Supp. 2d 102, 104 (D. Mass. 1998); *AsiaFocus*, 1998 WL 724000 at *3 (E.D. Va. 1998).

45. *See AsiaFocus*, 1998 WL 724000 at *3.

46. 27 F. Supp. 2d 102 (D. Mass. 1998).

47. *See id.* at 104.

48. *See id.* at 104-05.

Year's use of the "playboy" and "playmate" trademarks in her website's content and metatags. In *Playboy Enterprises v. Welles,*[49] the court found that Terri Welles used the trademarks to promote herself, not to confuse the user, and that the use of the marks was descriptive in nature, and so constituted fair use.[50] The recognition of the fair use defense in the metatag context illustrates a desire to fold the issue into trademark law.

4. Initial interest confusion

Several courts have discussed an initial interest confusion theory, albeit using different descriptors.[51] Universally, use of the theories has depended upon a definition that required the consumer to assume an association between the alleged infringer and the source of the goods, thus defining confusion by identifying the harm inflicted.

In one of the first cases developing the initial interest confusion theory, the court in *Grotrian, Helfferich, Schulz, Th. Steinweg Nachf. v. Steinway & Sons*[52] stated that while the prospective buyer of an expensive piano is often a musical expert, he or she may be misled into considering the purchase of a Grotrian-Steinweg piano because the prospective buyer initially is under the mistaken impression that the maker of the Grotrian-Steinweg is somehow affiliated with the maker of the famous Steinway pianos.[53] The harm to Steinway occurred when a potential customer, thinking there was a connection, was attracted by the Grotrian-Steinweg name to consider that brand of piano, even though later investigation revealed that there was no connection with the makers of the Steinway.[54]

The *Mobil Oil Corp. v. Pegasus Petroleum Corp.*[55] court relied upon the *Steinway* decision to hold that potential oil purchasers would be initially confused because they would assume an association between Pegasus Petroleum and Mobil.[56] The court held that the initial confusion cre-

49. Playboy Enters. v. Welles, 7 F. Supp. 2d. 1098 (S.D. Cal. 1998).

50. *See id.* at 1104.

51. *See* Dorr-Oliver, Inc. v. Fluid-Quip, Inc., 94 F.3d 376, 382 (7th Cir. 1996) ("[T]he Lanham Act forbids a competitor from luring potential customers away from a producer by initially passing off its goods as those of the producer's. . . . This 'bait and switch' of producers [is] also known as 'initial interest' confusion. . . ."). Other terms used to describe the theory include initial confusion, consumer confusion, and pre-sale confusion. This Note utilizes "initial interest confusion" in accordance with the court's usage in *Brookfield.*

52. 523 F.2d 1331 (2d Cir. 1975).

53. *See id.* at 1342.

54. *See id.*

55. 818 F.2d 254 (2d Cir. 1987).

56. *See id* at 260.

ated a sufficient trademark injury, regardless of the fact that the potential customers would learn that Pegasus and Mobil were unrelated well in advance of any sale.[57] The identified harm to Mobil was that an oil trader might listen to a cold call from Pegasus based on an assumed association with Mobil and later enter into a contract with Pegasus, although no longer confused about the relationship between the companies.

The *Dr. Seuss Enterprises, L.P. v. Penguin Books USA, Inc.*[58] court relied upon the *Mobil Oil* decision to find that the use of the familiar Cat in the Hat marks or a confusingly similar title (e.g., "The Cat NOT in the Hat!") to capture initial consumer attention may still be trademark infringement, even though no sale is finally completed as a result of the confusion.[59] The harm to Dr. Seuss caused by the sale of a book with a confusingly similar title and appearance was not clearly laid out in the decision.

C. Brookfield Communications, Inc. v. West Coast Entertainment Corp.

1. Procedural history

Brookfield Communications ("Brookfield") creates and markets software containing entertainment industry-related information.[60] Initially, Brookfield only offered software that organized and presented industry information (film submissions, future projects, etc.) to film studios, production companies, actors, and other professionals in the film industry,[61] but in December 1993, Brookfield expanded its target audience to the greater consumer market when it developed and marketed a searchable database containing movie credits, film release schedules, and lists of actors and producers.[62] This "MovieBuff" software is sold at major retail stores throughout the country.[63] Additionally, Brookfield offers online access to the MovieBuff database at ⟨inhollywood.com⟩ and sells the MovieBuff software at ⟨brookfieldcomm.com⟩ and ⟨moviebuffonline-.com⟩.[64]

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57. *See id.* at 259.

58. Dr. Seuss Enters. L.P. v. Penguin Books USA, Inc., 109 F.3d 1394 (9th Cir. 1997).

59. *Id.* at 1405.

60. *See* Brookfield Communications, Inc. v. West Coast Entertainment Corp., 174 F.3d 1036 (9th Cir. 1999).

61. *See id.* at 1041.

62. *See id.*

63. *See id.* at 1041-42.

64. *See id.* at 1042.

West Coast Entertainment Corporation ("West Coast") is one of the country's largest video rental store chains. It registered the domain name ⟨moviebuff.com⟩ with Network Solutions on February 6, 1996.[65] West Coast has had a federally registered service mark, "The Movie Buff's Movie Store," since 1991.[66] West Coast also claimed to have used the phrase "Movie Buff" to promote goods and services in its video stores in Massachusetts.[67]

Upon learning in October 1998 that West Coast planned to launch a website at ⟨moviebuff.com⟩ consisting of, among other things, a searchable entertainment database similar to the MovieBuff software, Brookfield sent West Coast a cease-and-desist letter alleging that such use of the MovieBuff mark would infringe Brookfield's trademark rights.[68] One day after receiving the letter, West Coast issued a press release detailing its plans for the site.[69] Brookfield then filed suit in federal district court alleging trademark infringement and unfair competition and applied for a temporary restraining order ("TRO") enjoining West Coast from using the term MovieBuff in domain names or metatags.[70]

In opposition to the TRO request, West Coast argued that it was the senior user of the MovieBuff mark because it had used its federally registered service mark in commerce since 1986.[71] Alternatively, West Coast argued for seniority based on its common law rights in the domain name, secured prior to Brookfield's offering of the database on the Internet.[72] West Coast also argued that there was no likelihood of confusion.[73]

The district court construed the TRO request as a motion for a preliminary injunction and denied the motion, stating that West Coast was the senior user of the mark and that Brookfield had failed to show a likelihood of confusion.[74] West Coast therefore launched its website in January 1999. Brookfield, fearing that the operation of the site would cause irreparable injury, applied for and received an emergency motion for injunction pending appeal.[75]

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65. *See id.*
66. *See id.*
67. *See id.*
68. *See id.*
69. *See id.*
70. *See id.* at 1043.
71. *See id.*
72. *See id.*
73. *See id.*
74. *See id.*
75. *See id.*

2. *The Ninth Circuit decision*

The Ninth Circuit reversed, determining that Brookfield was the senior user of the MovieBuff mark. In doing so, it rejected West Coast's arguments that it should be allowed to tack its prior use of "The Movie Buff's Movie Store" to its use of ⟨moviebuff.com⟩. The court noted that the standard for tacking is extremely strict; marks must create the same commercial impression and not differ materially from one another or alter the character of the tacking mark.[76] Accordingly, the court found that "The Movie Buff's Movie Store" and ⟨moviebuff.com⟩ are very different in terms of, among other things, the number of words in the phrase.[77] West Coast also failed to show that consumers view the marks as identical.[78]

The court also rejected West Coast's alternative argument, that it had used ⟨moviebuff.com⟩ in commerce before Brookfield began offering the MovieBuff searchable database on the Internet.[79] The court found that West Coast's registration of the domain name in February 1996 did not constitute a use in commerce for the purpose of acquiring trademark protection.[80] As Brookfield first used MovieBuff on its Internet-based products in August 1997 and West Coast did not actually use the domain name in any commercial sense until November 1998, the Court determined that Brookfield was still the senior user of the mark.[81]

According to the court, Brookfield had shown a likelihood of confusion regarding the use of the MovieBuff mark in the domain name, utilizing a "pliant" and nonexhaustive list of factors.[82] It concluded that ⟨moviebuff.com⟩ is essentially identical to "MovieBuff", especially since Internet users regularly tack ".com" onto the end of familiar trademarks to find the corresponding website.[83] The court held that the two companies' products were sufficiently related so as to cause confusion in the minds of consumers, and that both companies' use of the Internet as a marketing tool furthered the likelihood of such confusion.[84]

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76. *See id.* at 1048.
77. *See id.* at 1049.
78. *See id.*
79. *See id.* at 1053.
80. *See id.* at 1052-54. The Brookfield decision is among the first to require that a domain name actually be used in commerce (as opposed to merely registered) in order to accrue trademark rights. This aspect of the decision is interesting in its own right, but outside the scope of this Note.
81. *See id.* at 1053
82. *Id.* at 1053-54.
83. *See id.* at 1055.
84. *See id.* at 1055-56.

The court then analyzed the strength of Brookfield's mark, finding it to fall "within the weak side of the . . . spectrum" but to be not so "flabby" as to mandate a finding of no likelihood of confusion.[85] With regard to intent, the court found that the intent factor should favor the plaintiff where the alleged infringer adopts the mark with knowledge that it is the trademark of another.[86] There was, however, no evidence that West Coast registered the domain name with the principal intent of causing consumer confusion.[87]

Finally, the court analyzed the important metatag issue: would West Coast's use of "moviebuff" in the HTML metatags on any of its sites create confusion on the part of the consumer? The court declined to utilize traditional confusion factors[88] when evaluating Brookfield's metatag confusion claim; instead, it focused on the potential initial interest confusion created by West Coast's use of the MovieBuff mark in website metatags.[89] It held that because a search engine might list West Coast's sites as hits on a search for "moviebuff", the consumer would suffer from initial interest confusion.[90] Although there would be no confusion over which company offered the product, West Coast would benefit from the goodwill previously established by Brookfield's use of MovieBuff. The court held this was enough to make such metatag use actionable under the Lanham Act.[91]

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85. *Id.* at 1058.

86. *See id.* at 1059.

87. *See id.*

88. The Ninth Circuit test used to analyze the likelihood of confusion, commonly called the "Sleekcraft Factors" and articulated in *AMF Incorporated v. Sleekcraft Boats*, 599 F.2d 341 (9th Cir. 1979), includes the following eight flexible factors: (1) strength of the mark; (2) proximity of the goods; (3) similarity of the marks; (4) evidence of actual confusion; (5) marketing channels used; (6) type of goods and the degree of care likely to be exercised by the purchaser; (7) defendant's intent in selecting the mark; and (8) likelihood of expansion of the product lines. *Id.* at 348-349. The *Sleekcraft* court noted that the list is not exhaustive. *Id.*

89. *See* Brookfield Communications, Inc. v. West Coast Entertainment Corp., 174 F.3d 1036, 1062 (9th Cir. 1999).

90. *See id.* at 1062.

91. *See id.* at 1064-65. West Coast was not prohibited from using "MovieBuff" to describe Brookfield's product, as this would be a fair use. *See id.* at 1066. Use of the descriptive term "Movie Buff" was also permitted, as it is regularly used in the English language to describe a movie fan. *See id.* The court noted that a space between the terms "movie" and "buff" made all the difference between the generally descriptive term ("Movie Buff") and the term that is Brookfield's mark ("MovieBuff"). *See id.*

II. DISCUSSION

Traditionally, trademark law has protected against consumer confusion by barring the use of visibly infringing marks.[92] This presents a problem when courts adapt trademark law to protect trademarks in metatags because these trademarks are not visible to the user. The Ninth Circuit attempted to avoid this problem by applying the theory of initial interest confusion to metatag use, but that application is not appropriate.

A. Initial Interest Confusion is Not Appropriately Applied Because Internet Consumers Have Unique Expectations

Previous interpretations of initial interest confusion have relied upon the standard expectations of consumers in the physical world. Internet consumers expect to receive information differently from a search engine than typical consumers expect to receive from traditional advertising, and Internet users seek that information in different ways. The *Brookfield* court analogized unauthorized trademark use in metatags to posting a sign containing another's trademark in front of one's store.[93] It introduced a hypothetical situation in which West Coast's competitor, Blockbuster, put up a highway billboard reading, "West Coast Video: 2 miles ahead at exit 7," when West Coast is really located at exit 8 but Blockbuster is at exit 7.[94] The court posited that customers looking for West Coast's store will pull off at exit 7.[95] Unable to find West Coast but seeing the Blockbuster store, they might simply rent at Blockbuster instead.[96] Consumers would not be confused in the sense that they know the source of the goods and do not assume any relationship, but Blockbuster is nonetheless misappropriating West Coast's goodwill.[97]

The court's analogy over-emphasizes the costs involved in getting off at the wrong "cyber-exit" compared with a real highway exit. It takes just a few mouse clicks and a couple of seconds to "go back" on the Internet. A search engine returns a multitude of possibly relevant websites and a

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92. *See* Coca-Cola Bottling Co. v. Coca-Cola Co., 269 F. 796, 806 (D. Del. 1920) ("[A] trademark is merely one of the *visible* mediums by which the good will is identified, bought and sold, and known to the public.") (emphasis added). *But see* 1 MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 7:105 (4th ed. 1999) (discussing the relatively recent trademark registrations for marks consisting of a fragrance applied to a good, commonly known as fragrance marks).

93. *See* Brookfield Communications, Inc. v. West Coast Entertainment Corp., 174 F.3d 1036, 1064 (9th Cir. 1999).

94. *See id.*

95. *See id.*

96. *See id.*

97. *See id.*

user can get to any site listed merely by clicking on a hypertext link. Therefore, a more accurate highway analogy would be: Blockbuster and West Coast are located off the same highway exit and a third party interested in encouraging consumers to rent videos erects a billboard listing video stores at that exit. Blockbuster reminds the third party that it rents videos just like West Coast does, and the third party puts the names of both stores on the billboard. A video tape consumer driving by the billboard will see both West Coast and Blockbuster listed and will be able to access either one with ease. If the consumer originally looked at the sign expecting to locate West Coast, the presence of Blockbuster's name on the sign will not frustrate that purpose and the consumer is free to patronize West Coast. If the consumer looked at the sign expecting to locate a video store *like* West Coast, or even just any video store, then she is presented with information that satisfies her request as well.

Search engine users may enter a search request using a trademark in the hopes of finding sites representing products similar to the product represented by the mark in addition to the site belonging to the owner of the mark.[98] In that event, prohibiting the use of trademarks in metatags frustrates a source of information retrieval anticipated and utilized by Internet consumers. In this respect, prohibiting metatag use of trademarks does nothing to further consumer protection against source confusion while frustrating consumer choice. Further, the use of alternate marks in metatags serves the valuable function of promoting competition. It provides the consumer choice, much like a supermarket, where consumers often seek categories by using famous marks instead of generic terms.

B. The Case for Self-Regulation of Search Engines

Unauthorized use of trademarks in metatags may seem wrong, but it should not be actionable under the Lanham Act. A better solution exists—allowing market forces to pressure search engines to change searching and ranking algorithms. Market theory suggests that search engine providers would be wise to exclude metatags from being included in ranking algo-

98. *See* Stephen W. Feingold, *Trademarks: Means to Avoid Confusion, or Property Rights. Two Pending Cases Outline Dilemma*, 222 N.Y.L.J. 17 (1999). Feingold uses the phrase "concept searching" to describe use of a specific trademark to search out information about a product's general category of goods, including competing products. "[O]ne highly ethical and respected advertising executive specializing in the Internet . . . believes that someone entering HONDA in a search engine is just as likely looking for information about Japanese cars as for information specifically about Honda." *Id.* Note that concept searching is different than genericide in that the consumer does not use the term Honda to describe all Japanese cars, but instead uses the term as a starting point for gathering related information.

rithms in order to provide the most relevant hits to the consumer.[99] Search engine providers desire a maximal user base. Therefore, they should return relevant and helpful results to attract that user base. If consumers do not want to get results that include competing websites, search engine providers will accommodate that consumer preference by changing the technology used. Many examples of such self-regulation already exist in the metatag context.

In fact, the most commonly used search engines have altered indexing schemes so as to not rely upon metatags and therefore not to encourage improper use of metatags.[100] Of the big eight search engine providers[101]—Yahoo!, Excite, WebCrawler (owned by Excite), InfoSeek, Lycos, HotBot (owned by Lycos), and AltaVista—only InfoSeek and Lycos (and therefore HotBot) allow metatags to boost ranking. Other providers switched in response to coders embedding multiple instances of keywords. In an effort to maintain their value, search engine providers fight manipulative metatagging regularly. In addition to refining their ranking algorithms, search engine providers continually attempt to improve their software in other ways to provide more accurate results. Steps range from ignoring metatags altogether to sanctioning pages that use manipulative metatags, including removing them from the index.[102]

Excite Search has the largest index among the top searching websites.[103] The Excite spider[104] does not index keyword metatags because the "information is not always reliable. It may or may not accurately reflect the content of the site."[105] Excite explains the decision not to rank based on metatags by stating, "[w]e believe our decision protects our users from unreliable information and ensures that Web publishers, if they choose, can have an active role in the representation of their content and services

99. *See* Craig K. Weaver, *Signposts to Oblivion? Meta-tags Signal the Judiciary to Stop Commercial Internet Regulation and Yield to the Electronic Marketplace*, 22 SEATTLE U. L. REV. 667, 683 (1998).

100. *See* SearchEngineWatch.com, *Search Engine Features for Webmasters*, (visited Jan. 31, 2000) ⟨http://searchenginewatch.com/webmasters/features.html⟩.

101. *See* Scott Clark and David Fiedler, *Priming the Search Engines*, WebDeveloper.com (visited Oct. 7, 1999) ⟨http://www.webdeveloper.com/manage_search_engine_tips_part.html⟩. Ninety-five percent of Web surfers use just these eight engines.

102. *See* O'Rourke, *supra* note 10 at 305-306 (1997).

103. *See* Excite.com, *Press Release—Excite Search Announces 250 Million Indexed Web Pages the Largest Among Top Ranking Portals*, (visited Jan. 31, 2000) ⟨http://corp.excite.com/News/pr_000202_01.html⟩.

104. *See supra* (I.A.2) for a definition of search engine spiders.

105. Excite.com, *Excite Info—Understand Meta Tags*, (visited Nov. 6, 1999) ⟨www.excite.com/Info/listing8.html⟩.

to the online consumer."[106] This pledge illustrates the fact that search engines, in order to remain competitive, must take into account the interests of both users and publishers. AltaVista indexes all description and keyword metatags, but metatags play only a small part in determining site ranking in search results.[107] HotBot (owned by Lycos) is one of the few search engines that still uses metatags to rank a site's relevancy when returned as a search result.[108] Even though HotBot still employs ranking by metatag content, it is the policy of HotBot to manually downgrade a site's ranking when improper use is detected.[109] Yahoo!, which is responsible for almost half of all Internet traffic generated by search engines,[110] does not employ spiders to catalog information and thus does not use metatag information to index or rank sites.[111]

Given the commercial interests at stake, proliferation of Internet-based legislation before Congress,[112] and increasing judicial intervention,[113] it is

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106. *Id.*

107. *See* AltaVista.com, *AltaVista—Help—FAQ*, (visited Nov. 11, 1999) ⟨http://doc.altavista.com/help/search/faq.shtml⟩. ("AltaVista uses a ranking algorithm to determine the order in which matching documents are returned on the results page. Each document gets a grade based on how many of the search terms it contains, where the words are located in the document, and how close they are to each other. Intentionally and unnecessarily repeating a word on a Web page is known as spamming and has a negative effect on a site's ranking. AltaVista uses special software to detect spamming and the offending site is prevented from appearing in the index.").

108. *See* Sofer.com, *Search Engines: Submission Tips, Help and Use,* (visited Feb. 2, 2000) ⟨ http://www.sofer.com/research/engines.html#HotBot⟩.

109. *See* HotBot.com, *HotBot—Help—Add URL & Webmaster's FAQ*, (visited Nov. 11, 1999) ⟨http://hotbot.lycos.com/help/addurl/#2⟩ ("We're aware that some people create pages to maliciously 'spoof' search engines. Spoofing a search engine makes search engines return pages that are irrelevant to the search, or pages that rank higher than their content warrants. Common spoofing techniques include the repetition of words, the inserting of meta tags unrelated to the document's content, or the use of words that cannot be read due to their small size or color. If HotBot detects search-engine spoofing, it will significantly downgrade a page's ranking.").

110. *See* Internet.com, *Yahoo Generates Most Search Traffic*, (visited Feb. 2, 2000) ⟨http://cyberatlas.internet.com/big_picture/traffic_patterns/article/0,1323,5931_152101,00.html⟩.

111. *See* Yahoo.com, *Yahoo! Frequently Asked Questions*, (visited Nov. 11, 1999) ⟨http://docs.yahoo.com/info/faq/faq.html#gather⟩ ("Most sites in Yahoo! are suggested by users. Sites are placed in categories by Yahoo! Surfers, who visit and evaluate all suggestions and decide where they best belong. This is done to ensure that Yahoo! is organized in the best possible way, making the directory easy to use, intuitive, helpful, and fair to everyone.").

112. *See, e.g.*, H.R. 2326, 105th Cong. (1997) (Children's Online Privacy Protection Act of 1998); H.R. 2441, 104th Cong. (1995) (Copyright Protection Act of 1995).

naive to advocate a regulation-free Internet. But the regulation, while inevitable, does not have to be judicial—self-regulation by the Internet community is plausible, possible, and preferable to judicial solutions given both the speed at which potentially infringing technology changes and the notable lack of speed at which an overloaded federal judiciary is able to hear and decide cases.

III. CONCLUSION

Brookfield establishes a cause of action under trademark doctrine for the unauthorized use of another's trademark in one's website metatags, at least in the Ninth Circuit. The result may be an influx of complaints asserting trademark infringement into the courts, tying up judicial resources and increasing business and litigation expenses. A remedy for the perceived wrong would be better pursued through the market system, by increasing pressure on search engine creators to innovate new searching and ranking algorithms in order to bypass the use of metatags in generating search results altogether.

113. *See, e.g.*, Reno v. ACLU, 521 U.S. 844 (1997); Religious Tech. Ctr. V. Netcom On-Line Comm'n Serv., 907 F.Supp. 1361 (N.D. Cal. 1995).

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ANTITRUST

IN RE INTEL CORP.

By Jeff Loew

The rise of the information industry in our economy has brought with it corresponding changes in the way corporations compete with one another.[1] In the computer technology industry, for example, a corporation's customers are frequently its competitors as well.[2] As networks, and computer networks in particular, fundamentally redefine the relationships among all members of society, including those in business,[3] legal regulations must also adapt to keep pace.[4]

Intel Corporation ("Intel"), the world's largest manufacturer of the general-purpose microprocessors[5] that power personal computers around the world, is at the center of one such "virtual network."[6] Its prominent status has made the company the subject of an investigation by the Federal Trade Commission ("FTC"). On June 8, 1998, the FTC filed suit against Intel, charging the company with violating section 5 of the Federal Trade Commission Act.[7] The FTC alleged conduct constituting unlawful monopolization, unlawful attempts to monopolize, and unfair competition.[8]

The FTC settled its antitrust case against Intel on March 8, 1999.[9] The settlement order, ("Intel decree") limits Intel's ability to withhold certain types of intellectual property ("IP") from its customers for reasons relating

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1. *See generally* CARL SHAPIRO & HAL R. VARIAN, INFORMATION RULES: A STRATEGIC GUIDE TO THE NETWORK ECONOMY (1999).

2. *See id.* at 228. Shapiro and Varian refer to this phenomenon as "coopetition."

3. *See* MANUEL CASTELLS, THE RISE OF THE NETWORK SOCIETY (1996).

4. *See* SHAPIRO & VARIAN, *supra* note 1, at 297-318.

5. These processors, also called "chips," serve the essential functions within a computer system of processing system data and controlling other devices integral to the system. Federal Trade Commission Complaint, In the Matter of Intel Corporation, (Docket No. 9288) (June 8, 1998) para. 2, 4, *available at* ⟨http://www.ftc.gov/os/1998/9806/intelfin.cmp.htm.⟩ [hereinafter Complaint].

6. *See* SHAPIRO AND VARIAN, *supra* note 1, at 183.

7. 15 U.S.C. § 45 (1994).

8. *See* Complaint para. 42.

9. *See* FTC, *FTC Accepts Settlement of Charges Against Intel* (Mar. 17, 1999) *available at* ⟨http://www.ftc.gov/opa/1999/9903/intelcom.htm⟩; *see also* Declan McCullagh, *FTC, Intel Bury the Hatchet*, WIRED NEWS (Mar. 17, 1999) ⟨http://www.wired.com/news/politics/0,1283,18533,00.html⟩.

to an IP dispute with that customer.[10] The order also prohibits Intel from refusing to sell (or threatening to refuse to sell) general-purpose microprocessors to a customer based on an IP dispute with that customer.[11] The Intel decree allows for certain exceptions whereby Intel may lawfully engage in these acts.[12] By agreeing to the settlement order Intel did not admit to possessing monopoly power.

This Note will explore in detail the scope and significance of the Intel decree, and will provide a brief overview of the circumstances leading up to the settlement. It will focus in particular on the manner in which the Decree limits Intel's ability to exercise its IP rights, and to choose whether or not to do business with its customers. The Note concludes by examining the degree to which the pre-trial settlement of this dispute has failed to resolve a number of areas of antitrust and IP law that will continue to present challenges to the legal system.

I. BACKGROUND

A. Intel's Dominant Role in the Information Technology Industry

When IBM decided to base its PC line of personal computers on an Intel microprocessor, it initiated a decades-long process by which Intel processors, contained within the computers of IBM and its competitors, captured a dominant share of the market for general-purpose microprocessors.[13] A network of computer and peripheral device manufacturers, as well as software producers, particularly Microsoft, all subsequently developed their products to utilize or complement the Intel microprocessor. End users sought to purchase systems that were compatible with those of other users to more easily exchange information with one another.[14] Due to a number of factors, including IBM's decision and the phenomenon of

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10. *See* Federal Trade Commission Agreement Containing Consent Order, In the Matter of Intel Corporation, (Docket No. 9288) para. II.A.1. (Mar. 8, 1999), *available at* ⟨http://www.ftc.gov/os/1999/9903/d09288intelagreement.htm⟩ [hereinafter Consent Decree].

11. *See id.* para. II.A.2.

12. *See id.* para. II.B.

13. *See* SHAPIRO & VARIAN, *supra* note 1, at 125. Intel further enhanced its market power by means of the customer loyalty and brand identification it had established over that time. *See id.* at 272. By 1997, Intel microprocessors commanded eighty percent of the market for general-purpose microprocessors. *See* Complaint at para. 6.

14. *See* Mark A. Lemley, *Antitrust and the Internet Standardization Problem*, 28 CONN. L. REV. 1041, 1052-53 (1996).

"network effects,"[15] the Intel microprocessor became a de facto standard in the computer industry.[16]

B. The FTC's Complaint

The FTC's complaint against Intel, filed on June 8, 1998, charged that the company held a monopoly in general-purpose microprocessors, and that its conduct toward three of its customers for microprocessors, Digital Equipment Corporation,[17] Intergraph Corporation,[18] and Compaq Computer Corporation,[19] represented an unlawful use of its resulting market power to maintain its monopoly.[20]

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15. Network externalities, also called network effects, are common in technology industries, and occur when "the utility that a user derives from consumption of a good increases with the number of other agents consuming the good." Michael L. Katz & Carl Shapiro, *Network Externalities, Competition, and Compatibility*, 75 AM. ECON. REV. 424, 424 (1985).

16. *See* SHAPIRO & VARIAN, *supra* note 1, at 234.

17. Digital is a Massachusetts corporation with 1997 revenues of $13.7 billion. *See* Complaint para. 16. Digital was a significant customer of Intel, and sales by Digital of Intel-based computers represented a substantial portion of its revenues, accounting for $2 billion in 1997. *See id.* Digital was also, however, a competitor of Intel. Its microprocessors, sold under the name "Alpha chip," were widely considered at the time to be "the highest performing general purpose microprocessors available," and were the only microprocessors that competed with Intel's architecture in running Microsoft Corporation's highly popular Windows NT operating system. *Id.* para. 16-17; *see also* SHAPIRO & VARIAN, *supra* note 1, at 286-87.

18. *See id.* para. 24. Intergraph is an Alabama-based corporation that develops and sells computer hardware and software. Its primary focus is on developing high-end workstations intended for computer-aided design, computer-aided manufacturing, and other computer graphics. *See id.* In late 1992, Intergraph Corporation began to shift its focus from workstations based on its own Clipper technology to systems based on Intel's Pentium microprocessor, becoming one of the first manufacturers to develop a family of workstations based on Intel's architecture. *See id.* By 1996 all of its workstations were based on Intel microprocessors. *See id.* para. 25.

19. *See id.* para. 33; Compaq is a Texas-based producer of computer systems, the majority of which incorporate Intel microprocessors. *See id.* At the time of the Complaint's filing, Compaq was the largest manufacturer of personal computers in the world. *See id.* Compaq was Intel's largest customer for microprocessor products, purchasing more than $2 billion worth of Intel microprocessors in 1997. *See id.*

20. FTC, *Intel Abuses its Monopoly Power in Violation of Federal Law* (visited Oct. 30, 1999), *available at* ⟨http://www.ftc.gov/opa/1998/9806/intelc.htm⟩; *see also* Will Rodger, *Legal Eagles Say FTC Action Will Set Precedents*, ZDNET TECH NEWS NOW (June 8, 1998) ⟨http://www.zdnet.com/zdnn/stories/news/0,4586,2110802,00.html⟩.

1. Intel's conduct toward its customers

a) Digital Equipment Corporation

Digital sued Intel for patent infringement on May 12, 1997, alleging that Intel's microprocessors infringed Digital's microprocessor patents.[21] Intel responded by denying Digital timely access to the advance technical information ("ATI")[22] needed by Digital to continue to develop new Intel-based computer systems.[23] Intel further demanded return of microprocessor prototypes and refused to provide additional prototypes, and allegedly acted to create public uncertainty about Digital's ability to bring to market new Intel-based computer system products.[24]

b) Intergraph Corporation

In 1996, a number of Intel customers requested that the company indemnify them with regard to patent infringement claims they had received from Intergraph; in response to those claims, Intel demanded that Intergraph grant Intel a royalty-free license to Intergraph's Clipper technology, as a condition for continuing to receive ATI necessary for Intergraph to develop Intel-based workstations.[25] When Intergraph refused, Intel withheld its ATI, delaying Intergraph's development of a graphics workstation,[26] and allegedly acted to create uncertainty in the computer industry as to whether Intergraph was capable of bringing new Intel-based products to market in a timely manner.[27]

Intergraph sued Intel for patent infringement, antitrust violations and various state law claims, and the court granted an injunction requiring Intel to continue to provide ATI to Intergraph. The Federal Circuit overturned this holding on appeal, ruling that a defendant in a patent infringement suit cannot be forced to continue to supply sensitive information to

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21. *See* Complaint para. 18.

22. Advance technical information consists of information Intel provides to customers regarding new Intel products prior to their commercial release, to enable those customers to develop their own, compatible products. *See id.* para. 12.

23. *See id.* para. 19.

24. *See id.*

25. *See* Intergraph Corp. v. Intel Corp. 3 F. Supp. 2d 1255, 1266-67 (N.D. Ala. 1998), *vacated* 195 F.3d 1346, 1367 (Fed. Cir., 1999); *see also* Complaint para. 26; *see also* Intergraph Corp., *Intergraph v. Intel—Public Information: Chronology Highlights/Summary* (visited Jan. 31, 2000), ⟨http://www.intergraph.com/intel/breakdwn.asp⟩.

26. *See* Complaint para. 27.

27. *See id.*

the plaintiff in the case.[28] Even when a party has market power, the court held, it may still protect its own IP rights when it is being sued.[29]

c) Compaq Computer Corporation

In 1994, Compaq sued Packard Bell, another PC manufacturer, for using technology that infringed Compaq's patents in its computer systems. Intel had supplied the allegedly infringing components, and the company intervened on Packard Bell's behalf.[30] In response to Compaq's suit, Intel cut off ATI necessary for Compaq to produce computers based on the latest Intel chips.[31]

2. *Alleged anticompetitive effect of Intel's conduct*[32]

In all three instances, the complaint alleged, Intel's conduct "was not reasonably necessary to serve any legitimate, pro-competitive purpose."[33] Further, this conduct had a "significant adverse impact" on its customers' ability to develop Intel-based computer systems and "would have posed an even more significant long-term effect" had Digital and Compaq not agreed to license their microprocessor technology to Intel,[34] and had a

28. *See* Intergraph Corp. v. Intel Corp., 195 F.3d 1346, 1358 (Fed. Cir. 1999).

29. *See id.*

30. *See* Complaint para. 34.

31. *See id.* para. 35.

32. The FTC alleged, first of all, that Intel possessed monopoly power in the relevant market, that for general-purpose microprocessors. *See id.* para. 6. This monopoly status was reflected in Intel's own market studies, which showed that it was responsible for eighty percent of the total dollar sales of general-purpose microprocessors. *See id.* The Complaint further alleged that barriers to entry in the relevant market are extremely high, based on the high costs in time and money of developing a competing processor (four years and $250 million), the cost of building and equipping a semiconductor fabrication facility to produce the chips ($1.6 billion), and the great difficulty a new entrant would have in establishing product reputation and in ensuring compatibility with a computer operating system and an adequate selection of desirable application software. *See id.* para. 8-10. The FTC argued that Intel's coercive methods of obtaining the patents of its customers, who are also its competitors, by means of withholding technical information necessary for their businesses, served the anti-competitive purpose of "effectively undermin[ing] the patent rights of such firms and reduc[ing] their incentives to develop new technologies relating to microprocessors." *Id.* para. 14.

33. *See id.* para. 20, 30, 36.

34. *See id.* para. 21, 37; The resolution of the IP dispute between Digital and Intel itself created antitrust concerns for the FTC. As part of the agreement between the two corporations, Intel agreed to purchase Digital's Alpha fabrication plant, with the understanding that Intel would thereinafter produce Alpha microprocessors solely for Digital. Following the issuance of a complaint by the FTC, Digital agreed in a settlement to license its Alpha technology to other Commission-approved licensees, as a precondition to the sale of its Alpha fabrication plant to Intel. *See* FTC, *Agreement Containing Consent*

United States District Court not enjoined Intel in April 1998 from further engaging in such conduct toward Intergraph.[35] Intel's conduct, the Complaint concluded, "constitutes unlawful monopolization, unlawful attempts to monopolize, and unfair methods of competition, all in violation of section 5 of the Federal Trade Commission Act."[36]

Intel denied the key allegations in its response to the complaint, arguing that it acted reasonably under the law to protect its IP rights, and that its actions furthermore did not harm competition in the relevant market.[37]

II. THE INTEL DECREE: SUBSTANTIVE PROVISIONS

The Decree orders that for a period of ten years, Intel shall not withhold or threaten to withhold ATI from a microprocessor customer when an IP dispute arises between them, unless there is some other legitimate business reason, unrelated to the dispute, for withholding the information.[38] It also prevents Intel from basing its supply decisions for general-purpose microprocessors upon such a dispute.[39] The agreement only applies where the customer is receiving such information at the time the dispute arises.[40]

These restrictions will also apply only where a customer, asserting that Intel has infringed its IP rights, agrees in writing not to seek an injunction against the manufacture and sale of Intel microprocessors that incorporate the same IP at issue.[41] Aside from the specific restrictions stated above, the Decree states that it "does not otherwise limit Intel's IP rights, nor its ability to enforce those rights."[42]

The Intel decree explicitly preserves Intel's right to seek legal remedies with regard to IP disputes, provided that such remedies do not affect

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Order, In the Matter of Digital Equipment Corporation, a corporation, File No. 981-0040 (visited Oct. 30, 1999), *available at* ⟨http://www.ftc.gov/os/1998/9804/9810040.agr.htm⟩.

35. *See* Consent Decree para. 31.

36. *Id.* para. 41.

37. A judge or jury defines the relevant market at trial, but this decision is often a subject of contention among the parties. *See* Intel Corporation's Answer to Complaint, In the Matter of Intel Corporation, (Docket No. 9288) (July 13, 1998), *available at* ⟨http://www.ftc.gov/os/adjpro/d9288/index.htm.⟩.

38. *See* Consent Decree para. II.A.

39. *See id.*; Such an injunction was obtained by Intergraph in its suit against Intel, although the injunction was overturned on appeal. *See* Intergraph Corp. v. Intel Corp., 3 F. Supp. 2d 1255, 1291-93 (N.D. Ala. 1998), *rev'd*, 195 F.3d 1346, 1352. (Fed. Cir. 1999).

40. *See* Consent Decree para. II.A.

41. *See id.*

42. *Id.*

its obligation to continue to supply technical information.[43] It also allows Intel to withhold or make supply decisions regarding ATI based on business considerations unrelated to the IP dispute, such as a customer's breach of an agreement regarding the disclosure or use of the information.[44]

The Decree does not require Intel to provide information or processors to a customer to facilitate the development of a type of system that the customer has neither developed nor demonstrated plans to develop within the preceding year.[45] Nor does it prevent Intel from requiring customers to use microprocessor information only for the development of systems incorporating that processor.[46] The Decree also does not require Intel to disclose technical information or to supply processors when such material is not normally made available to its customers.[47]

III. ANALYSIS

A. Effect of the Decree on Intel's IP Rights

The FTC's action against Intel occurred in the context of an increasing interaction between the fields of antitrust and IP law.[48] As IP has become essential in the information economy, antitrust counterclaims have also gained importance, because antitrust is one of the few effective weapons against an infringement claim. It is usually used defensively as a means to invalidate a plaintiff's claim to the IP right at issue. A defendant against an infringement claim may allege, for example, that the plaintiff has used its patent to unlawfully acquire or maintain its monopoly, and that the patent is therefore invalid under the doctrine of misuse.[49]

While it is not uncommon for an alleged infringer to file a counterclaim alleging that a patent has somehow been unlawfully obtained or misused, thus stripping the patentee of its antitrust exemption,[50] it is less

43. *See id.* para. II.B.1.

44. *See id.* para. II.B.2, II.B.3.

45. *See id.* para. II.B.4. For example, Intel may prohibit a customer from using its ATI in the development of a rival microprocessor.

46. *See id.* para. II. B.5.

47. *See id.* para. II.B.6.

48. *See* Herbert Hovenkamp, *Introduction. Symposium: Intellectual Property Rights and Federal Antitrust Policy*, 24 J. CORP. L. 477, 477 (1999).

49. *See* Walker Process Equip., Inc. v. Food Mach. & Chem. Corp., 382 U.S. 172, 173-74 (1965).

50. *See id.* at 177 (proof that a patentee has knowingly and willfully misrepresented facts to the Patent Office in order to obtain the patent is sufficient to strip patentee of its exemption from the antitrust laws). *But see* Brunswick Corp. v. Riegel Textile Corp. 752

common for the plaintiff in an infringement suit to make such a claim, as was the case in the *Intergraph* suit. Intergraph filed suit against Intel, charging the company with anticompetitive behavior and patent infringement, later amending its complaint to include a federal antitrust claim.[51] This antitrust claim was unusual in that it was not brought as a counterclaim by an alleged infringer, which is usually the case where antitrust activity is alleged in a patent infringement suit.[52] Instead the party initiating the suit, Intergraph, made the claim.

The FTC's Complaint, and the subsequent Intel decree, controversially seeks to limit Intel's ability to freely exercise its right, granted by IP laws, to exclude access to its IP. These limitations are in apparent contradiction with some legislation and recent case law.[53] While antitrust law seeks to maintain markets that are open and competitive, the Patent Act in contrast confers upon an inventor the "right to exclude others from making, using, offering for sale, or selling" the patented invention or process.[54] This exclusion applies even if another person should invent the device or process independently. In cases where the property protected by the patent constitutes a market under antitrust analysis, such a barrier may allow an individual firm or inventor to dominate the market for an invention for the term of its patent.[55]

Conflicts between the two bodies of law have become even more pressing as proprietary information has become a core asset of many businesses.[56] Congress has dealt with the issue through legislation,[57] and the

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F.2d 261, 265 (7th Cir. 1984), *cert. denied*, 472 U.S. 1018 (1985) (for a fraudulently-acquired patent to violate Section 2 of the Sherman Act, the fraud must be material in the sense that the patent would not have been issued but for the misconduct).

51. *See* Intergraph Corp. v. Intel Corp., 3 F. Supp. 2d 1255, 1258 (N.D. Ala. 1998); *see also* Intergraph Corp., *Intergraph v. Intel—Public Information*, *supra* note 25.

52. *See e.g.*, *Walker Process Equipment*, 382 U.S. at 173-74.

53. *See* Data Gen. Corp. v. Grumman Sys. Support Corp., 36 F.3d 1147, 1186 (1st Cir. 1994) ("[T]he exercise of patent rights is a 'legitimate means' by which a firm may maintain its monopoly power."); *see also In re* Indep. Serv. Orgs. Antitrust Litig., 89 F. Supp. 1131, 1142-43 (D. Kan. 1997) (holding that a copyright holder may refuse to sell or license its copyrighted material); Patent Misuse Reform Act of 1988, 35 U.S.C. § 271(d).

54. *See* Patent Act, 35 U.S.C. § 154 (1994).

55. *See* Patent Misuse Reform Act of 1988, 35 U.S.C. § 271(d) (1994). Such exclusionary power has taken on added force since the Courts have begun to allow busines-related inventions to be patented, thus allowing corporations, where their innovation comprises a market, to monopolize that market for a particular method of doing business. *See* State Street Bank & Trust Co. v. Signature Fin. Group, Inc., 149 F. 3d 1368, 1377 (Fed. Cir. 1998).

56. *See* SHAPIRO & VARIAN, *supra* note 1, at 297-98.

FTC and the Antitrust Division of the Department of Justice have jointly issued a set of "Antitrust Guidelines for the Licensing of Intellectual Property" ("Antitrust Guidelines").[58] Nevertheless, conflicts and uncertainties persist, as the Intel situation demonstrates.

Congress amended the patent laws with the 1988 Patent Misuse Reform Act, which provides that "no patent owner otherwise entitled to relief for infringement . . . of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his refusal to license or use any rights to the patent."[59] The language of the statute seems to explicitly relieve patent holders from the burden of defending their IP rights against antitrust claims based on their refusal to deal; their right to exclude others appears to be unconditional.[60] Yet at the heart of the FTC's Complaint, and the subsequent Decree, are actions by a patent holder to exercise its exclusionary right.

In order to find an antitrust violation, a court would have to examine whether, as the FTC alleged, Intel used its patents to acquire or maintain power beyond that granted by the IP rights themselves.[61] While a patent may be a formal license to exclude competitors from a market (albeit a narrow one), that patent right may still be found to have been exercised anticompetitively.[62] With a few notable exceptions,[63] though, the courts have allowed patent holders to exercise their rights without limitation.[64] Such a holding would have benefited Intel, who argued that their refusal to distribute ATI to their customers/competitors was within the scope of their IP rights, and not an antitrust violation.[65]

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57. *See generally* 35 U.S.C. § 271(d) (1994).

58. U.S. DEPARTMENT OF JUSTICE & THE FEDERAL TRADE COMMISSION, "ANTITRUST GUIDELINES FOR THE LICENSING OF INTELLECTUAL PROPERTY," (April 6, 1995), *available at* ⟨ http://www.usdoj.gov/atr/public/guidelines/ipguide.htm⟩ [hereinafter Antitrust Guidelines].

59. 35 U.S.C. § 271(d) (1994).

60. *See id.*

61. *See* Complaint para.11.

62. *See* Beal Corp. Liquidating Trust v. Valleylab, Inc., 927 F. Supp. 1350, 1361 (D. Colo. 1996) ("[T]he exercise of a patent privilege does not immunize concerted and contractual behavior that threatens competition.").

63. *See* Eastman Kodak Co. v. Image Technical Servs., Inc., 504 U.S. 451, 479 (1992).

64. *See* Data Gen. Corp. v. Grumman Sys. Support Corp., 36 F.3d 1147 (1st Cir. 1994); *In re* Indep. Serv. Orgs. Antitrust Litig., 989 F. Supp. 1131, 1134 (D. Kan. 1997).

65. *See* Intel Corp.'s Answer to Complaint, In the Matter of Intel Corp., (Docket No. 9288) (July 13, 1998), *available at* ⟨http://www.ftc.gov/os/adjpro/d9288/index.htm⟩.

In *Data General Corp. v. Grumman Systems Support Corp.*,[66] for example, the First Circuit held that Data General ("DG"), a computer manufacturer, did not illegally maintain its monopoly in the "aftermarket" for servicing DG computers by unilaterally refusing to license its copyrighted diagnostic program to competitors in that market.[67] This was true even if, as the defendant Grumman alleged, DG's withdrawal of its licensing program was intended to diminish or eliminate competition in that market.[68] Grumman's counterclaim that DG had used its copyrights to violate sections 1 and 2 of the Sherman Antitrust Act was insufficiently supported by the evidence; DG's refusal was, the court held, within the bounds of its copyright.[69]

The *Data General* court reached the same conclusion with regard to the patents at issue in the case. It ruled that section 271(d) of the Patent Misuse Reform Act of 1988 "clearly prevents an infringer from using a patent misuse defense when the patent owner has unilaterally refused a license, and may even herald the prohibition of all antitrust claims and counterclaims premised on a refusal to license a patent."[70]

The Supreme Court, however, has ruled that there are limits to a patent holder's exercise of its IP rights. In *Eastman Kodak Co. v. Image Technical Services, Inc.*,[71] the Court reviewed a suit by independent service organizations ("ISOs"), third-party servicers of Kodak photocopiers. Kodak had, for a time, been supporting these businesses, providing supplies and technical information to them.[72] But Kodak subsequently changed its policy, and stopped distributing the supplies and information. The ISOs argued that the exclusionary power of Kodak's large portfolio of photocopier patents effectively prevented third parties from servicing the machines.[73] The service companies sued Kodak for antitrust violations.

Kodak's defense was that its refusal to provide supplies and technical information was a legitimate exercise of its IP rights. The Supreme Court, however, denied summary judgment for Kodak, ruling that it was possible to make an antitrust claim even where all the patents in question are

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66. 36 F.3d 1147 (1st Cir. 1994).

67. *See id.* at 1182, 1187-89.

68. *See id.*

69. *See id.* at 1170

70. *Id.* at 1187 (citing Richard Calkins, *Patent Law: The Impact of the 1988 Patent Misuse Reform Act and Noerr-Pennington Doctrine on Misuse Defenses and Antitrust Counterclaims*, 38 DRAKE L. REV. 192-97 (1988-89)).

71. 504 U.S. 451 (1992).

72. *See id.* at 454.

73. *See id.*

valid.[74] The Court reasoned that the exclusionary exercise of Kodak's IP rights could simply be a pretext for monopolizing the market. Absent any other legitimate business reason, such conduct would be an antitrust violation.[75]

The Ninth Circuit ruled on remand that Kodak's exercise of its patents was simply a means for Kodak to acquire a monopoly in violation of section 2 of the Sherman Act.[76] While *Data General* had held that a rebuttable presumption existed that the exercise of one's legitimate IP rights could not be grounds for an antitrust action, the Ninth Circuit found that this presumption was rebutted by the ISOs. The decisive factor was not Kodak's exercise of its rights, but its motivation and intent in doing so.[77]

But the court in *In re Independent Service Organizations Antitrust Litigation*[78] explicitly rejected the *Image Technical Services* reasoning.[79] The District Court held that a manufacturer could deny access to its patented products (in this case Xerox withheld spare parts to third-party servicers of its photocopying equipment), regardless of whether a monopoly is created by its patents, and without regard to the effect of this withholding on any relevant economic market (including secondary markets).[80]

Thus, the FTC's action against Intel does not appear to be supported by the holdings of recent case law. Intel's exercise of its IP rights, even if they occurred in the context of a monopoly position, as the FTC contended,[81] were still not likely to be found to be an antitrust violation. While some courts have recently held that the exercise of one's IP rights by refusing a license, even in furtherance of dominating a market, does not

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74. *See id.* at 482-86.

75. *See id.* at 483-84.

76. Eastman Kodak Co. v. Image Technical Servs., Inc., 125 F.3d 1195, 1211 (9th Cir. 1997).

77. *See id.* at 1211-12.

78. 989 F. Supp. 1131 (D. Kan. 1997).

79. *See id.* at 1135 ("The Ninth Circuit in *Kodak* . . . maintain[s] that this statutory provision [The Patent Reform Act of 1988] only bars a misuse defense to an infringement claim but does not preclude antitrust claims premised on a unilateral refusal to license a patented work. Such an interpretation is contrary to the statutory language and legislative history of the amendment.") (citations omitted).

80. "[P]roof of intent to monopolize cannot transform a patent holder's unilateral refusal to deal into unlawful exclusionary conduct. The Supreme Court has held that a patent holder's subjective motivation for excluding others from use on an invention is irrelevant." *Id.* at 1140 (citing Continental Paper Bag Co. v. E. Paper Bag Co., 210 U.S. 405, 429 (1908)).

81. *See* Complaint para. 6.

provide grounds for a charge of anticompetitive activity,[82] the Supreme Court has apparently placed limits on this exception with its ruling in *Image Technical Services.*

B. Effect of the Decree on Intel's Business Relations with its Customers/Competitors

In the computer technology industry, a corporation's customers are frequently also its competitors. For example, Digital and Intergraph were each (at one time) simultaneously both competitors of Intel, producing their own rival microprocessors, and its customers, purchasing Intel chips for use in Pentium-based systems.[83] Another example of such collaboration among competitors involved Intel's agreement to purchase Digital's Alpha chip fabrication facility and to produce Alpha chips for Digital at a lower cost.[84] In this case the FTC found such a joint venture to be potentially harmful to competition, and objected to the agreement, leading to a compromise where companies other than Intel would also be licensed to manufacture the Alpha chip.[85]

Antitrust law is generally applied with the presumption that interactions between a supplier and its customers are outside its purview, but such laws are invoked when a company takes actions that eliminate opportunities for competitors.[86] For example, in *Official Airline Guides, Inc. v. FTC*,[87] the Second Circuit held that a publisher of airline schedules, with a monopoly share of the market for airline schedules nationwide, was not in violation of antitrust laws when it gave commuter airlines less prominent display in its guides than the large major carriers. As a publisher, Official Airline Guides, Inc. was not a competitor of the airlines, who were, rather, its customers.[88]

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82. *See, e.g.,* Data Gen. Corp. v. Grumman Sys. Support Corp., 36 F.3d 1147, 1182 (1st Cir. 1994); *In re* Independent Serv. Orgs. Antitrust Litig., 989 F. Supp. 1131, 1134 (D. Kan. 1997).

83. *See* Complaint para. 17, 23.

84. *See* Intel Corp.'s Answer to Complaint, *supra* note 36.

85. *See id.*

86. *See* Rodger, *supra* note 20. While vertical restraints are subject to scrutiny under the antitrust laws, they are less likely to be found inherently anticompetitive. Such restraints typically occur either where a seller attempts to control the resale of a product, or where a seller seeks to limit a buyer's ability to purchase from the seller's competitors. *See* E. THOMAS SULLIVAN & JEFFREY L. HARRISON, UNDERSTANDING ANTITRUST AND ITS ECONOMIC IMPLICATIONS 149 (2d ed. 1994) The Robinson-Patman Act deals primarily with anticompetitive price discrimination by a seller among buyers, although certain types of nonprice discrimination are also subject to antitrust scrutiny. *See id.* at 306, 315.

87. 630 F.2d 920 (2d Cir. 1980).

88. *See id.* at 924-27

There have been relatively few cases where a unilateral refusal to deal provided a basis for a successful section 2 claim.[89] However, a monopolist's unilateral refusal to deal with its competitors, where that refusal harms competition, may constitute prima facie evidence of exclusionary conduct for the purposes of section 2.[90]

In the Intel situation, the core IP right to exclude appears to run up against the antitrust restrictions on refusal to deal.[91] Whether one set of laws should take precedence may depend upon the facts of each individual case.

The Intel situation shares some characteristics with *Aspen Highland Skiing Corp. v. Aspen Skiing Corp.*[92] There the Supreme Court held that an operator of ski resorts with lift access to virtually all the slopes in a region could not discontinue a cooperative lift arrangement with a smaller operator. Because Aspen Highland Skiing could show no legitimate reason for its actions, apart from putting its only rival out of business, its conduct was found to violate antitrust law.[93] As in *Aspen Skiing*, Intel was threatening to withdraw business from its own customers, allegedly for the sole purpose of eliminating them as competitors.[94]

But *Aspen* was a controversial holding, and some lower courts[95] have favored the view of antitrust law found in *Berkey Photo vs. Eastman Kodak Co.*[96] In *Berkey Photo* the Second Circuit held that Kodak, a monopolist in photo finishing as well as film manufacturing, had no obligation to disclose to its rivals advance data that would help them develop Kodak film, even though Kodak clearly controlled the market.[97]

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89. *See* United States v. Griffith, 334 U.S. 100, 107 (1948) (holding that theater owners who obtained exclusive rights in films in towns without competing theaters could not use their monopoly power to gain competitive advantage in towns with competition); Otter Tail Power Co. v. United States, 410 U.S. 366, 366 (1973) (holding unlawful under the 'essential facilities' doctrine a monopoly power company's refusal to supply power to municipalities that wanted to distribute power themselves rather than rely upon that company's distribution services).

90. *See* Eastman Kodak Co. v. Image Technical Servs., Inc., 504 U.S. 451, 483 n.32 (1992) (citing Aspen Skiing v. Aspen Highlands Skiing Corp., 472 U.S. 585 (1985)).

91. David McGowan, *Networks and Intention in Antitrust and Intellectual Property*, 24 J. CORP. L. 485, 485-88 (1999).

92. 472 U.S. 585 (1985).

93. *See id.* at 586.

94. *See* Complaint para. 12, 19, 29, 35.

95. *See, e.g.,* Data Gen. Corp. v. Grumman Sys. Support Corp., 36 F.3d 1147, 1189 (1st Cir. 1994); *In re* Independent Serv. Orgs. Antitrust Litig., 989 F. Supp. 1131, 1142-43 (D. Kan. 1997).

96. 603 F.2d 263, 276 (2d Cir. 1979)

97. *See id.* at 290-91; *see also* Rodger, *supra* note 20.

Evidence that a monopolist's refusal to deal has an anticompetitive effect may be rebutted where the monopolist establishes a legitimate business justification for its conduct.[98] Pursuit of efficiency may be a legitimate competitive reason for an otherwise exclusionary refusal to deal, while the desire to eliminate competition would not be.[99] A valid business justification requires proof that the conduct provides benefits to the competitive process.[100] In its Answer to the FTC Complaint Intel contended, among other defenses, that it "had legitimate business justifications for all of its conduct at issue in this matter."[101]

C. Reasons Why Intel May Have Settled

Intel's exercise of its IP rights appears to have been within the scope of its patents. Further, recent case law seems to limit the use of antitrust counterclaims to defeat otherwise legitimate infringement claims. So why, then, did Intel settle the case? The reasons may be primarily extralegal, and based on the corporation's experience in the industry.

Intel's deliberate efforts to create brand awareness in its chips had once before been threatened by a public relations crisis.[102] In late 1994, shortly after Intel had released its Pentium chip, and at a time when its "Intel Inside" advertising campaign was prominently etching the brand of the chip maker into the minds of consumers,[103] a mathematician discovered a flaw in the chip that led it to perform certain complex calculations incorrectly.[104] When the flaw became public, Intel at first refused to replace the chips except in the computers of high-end users, who could demonstrate a need for the sophisticated calculations the flaw might disrupt.[105] However, consumers, newly aware of the company and now of the "defective" product they had purchased, demanded replacement of chips for all users.[106] Intel eventually relented, replacing the flawed microproc-

98. See Eastman Kodak Co. v. Image Technical Servs., Inc., 504 U.S. 451, 483 (1992) (monopolist may rebut an inference of exclusionary conduct by establishing "legitimate competitive reasons for the refusal").

99. *See* Aspen Skiing Co. v. Aspen Highlands Skiing Corp., 472 U.S. 585, 608-09 (1985).

100. *See id.*

101. *See* Intel Corp.'s Answer to Complaint, *supra* note 37, at 11.

102. *See* David Einstein, *Intel Takes $475 Million Charge for Flawed Chip,* S.F. CHRON. (Jan. 18, 1995) at D3.

103. *See* Lisa Dicarlo, *"Intel Inside" Shackles PC Makers,* ZDNET TECH NEWS (Apr. 6, 1999) ⟨http://www.zdnet.com/zdnn/stories/news/0,4586,2236842,00.html⟩.

104. *See* Einstein, *supra* note 101, at D3.

105. *See id.*

106. *See id.*

essors at a cost of hundreds of millions of dollars.[107] The end result was what one journalist called "one of the most expensive public relations fiascoes in memory."[108]

Intel also had the Antitrust Division's ongoing case against Microsoft as evidence of a company suffering public relations fallout from an antitrust case.[109] At the time the FTC issued its complaint against Intel, the Antitrust Division of the Department of Justice was waging its own antitrust litigation against Microsoft, the dominant supplier of operating systems that run on Intel microprocessors.[110] The press scrutiny of Microsoft and the trial, in particular the videotaped testimony of its CEO, Bill Gates, led to a poor public perception of the company.[111] Intel may have sought to avoid such a fate for itself by agreeing to a settlement and avoiding a trial.

While Intel likely would have prevailed at trial, it still may have suffered some public relations fallout, at a time when a competitor was able to ship more low-end processors than Intel for use in PCs priced below $1,000.[112] While the settlement does make demands on the company that may not have been required by a court, these demands may have been preferable to the effects of a public and acrimonious lawsuit. Even more potentially damaging would be a finding that Intel possesses a monopoly in the market for general-purpose microprocessors; such a finding would open Intel to lawsuits by competitors, who would not need to prove Intel's monopoly status.[113]

D. Should Antitrust Concerns Ever Trump IP Rights?

The Department of Justice and FTC released a set of IP Guidelines to assist IP-owners in ensuring that the exercise of their rights remains within

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107. *See id.*; *see also* Kenneth Labich, *Sometimes The Sky is Falling: Bad Things Can Happen to Good Companies, Warns Intel Chief Executive Andrew Grove*, FORTUNE, Oct. 14, 1996, at 216.

108. Einstein, *supra* note 101, at D3.

109. *See Department of Justice Sues Microsoft For Antitrust*, BUSINESSWEEK ONLINE/COURTTV ONLINE (visited January 18, 2000) /http://www.courttv.com/trials/microsoft/legaldocs/doj_suit.html〉.

110. *See id.*

111. *See* Dawn Kawamoto, *Gates Deposition Called Evasive*, CNET NEWS.COM (Aug. 28, 1998) 〈http://news.cnet.com/news/0-1005-200-332711.html〉.

112. The competitor, Advanced Micro Devices (AMD), had captured 54 percent of the sub-$1,000 PC market. *See* Benny Evangelista, *Industry Hails AMD Profits as Good Sign*, S.F. CHRON., Oct. 7, 1998, at B1.

113. *See Suit in S.F. to Take Aim at Microsoft: Class action to be filed today—wave of litigation expected*, S.F. CHRON., Nov. 22, 1999, at A1.

the bounds of antitrust law.[114] According to the Guidelines, restraints brought about through one firm's market power over IP that is essential to an industry should not be found per se unlawful so long as the arrangement can be expected to contribute to "an efficiency-enhancing integration of economic activity," and is not one that has been specifically accorded per se treatment. The general question under the rule of reason is whether the arrangement will have anticompetitive effects, and, if so, whether those effects will be outweighed by the procompetitive benefits that result.[115]

The FTC and DOJ may find harm to competition where a horizontal licensing arrangement, common between technology firms, poses a risk of retarding the innovation and development of improved products—such as microprocessors. The potential for competitive harm is also measured with reference to a firm's concentration in, and the barriers of entry into, the relevant markets.[116]

The Guidelines state that the FTC and DOJ are conscious of the role standards play in industry, and the technology industry in particular. They further state that use of common restraints among licensees, or "cross-licensing," may be procompetitive in an industry, contributing to efficient exploitation of the licensed property.[117] However, the Guidelines also note potential anticompetitive effects. For example, while settlements involving cross-licensing may be an efficient alternative to litigation, such settlements among horizontal competitors may diminish competition among would-be competitors in the relevant market. Absent offsetting efficiencies, such settlements may be unlawful.[118]

David McGowan argues that, although antitrust should almost never condemn use of exclusion rights, one exception may exist in cases where patent-holders engage in "coercive reciprocity."[119] This is where the holder of IP right uses that right to impose anticompetitive mutual dealing obligations on another firm.[120] The Intel case may have involved such conduct, as the company allegedly demanded from its customers IP necessary for their development of competing products.[121] However, the standard by which an arrangement will be held to be anti-competitive seems to

114. *See* Antitrust Guidelines, *supra* note 57.
115. *See id.* §§ 3.4, 4.2.
116. *See id.* § 4.1.1 (citing the FTC 1992 Horizontal Merger Guidelines, §§ 1.5, 3).
117. *See id.* § 3.4.
118. *See id.* § 5.5.
119. *See* McGowan, *supra* note 90, at 487-88, 496-97.
120. *See id.* at 496-97.
121. *See* Intergraph Corp. v. Intel Corp., 3 F. Supp. 2d 1255, 1279 (N.D. Ala. 1998).

be a high one. Further, efforts to enforce against such arrangements may chill legitimate IP claims.[122]

IV. CONCLUSION

Given the current state of the law, it appears that conduct by Intel alleged to be unlawful did not go beyond the legitimate exercise of its IP rights. But some limit is needed where an exercise of those rights can be ruled anticompetitive. If a patent holder is engaging in other anticompetitive conduct, then a party's IP rights will not offer protection from liability. But whether antitrust concerns can ever remove core IP rights solely because their exercise causes excessive harm to competition, and under what circumstances, remains an unsettled question.[123]

While the FTC settled its case against Intel regarding its withholding of technical information, it is possible that the agency may still take further action, if other anticompetitive conduct is found. According to the Wall Street Journal, the FTC may still be investigating whether Intel used its dominance in the chip market to increase its share in secondary markers, whether the company harms competition in its maintenance of proprietary industry standards, and whether it "punishes PC makers that don't use Intel chips."[124]

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122. *See* McGowan, *supra* note 90, at 497.

123. *See id.* at 491.

124. *See* Wired News Report, *Intel Still in the Hot Seat*, WIRED NEWS (Mar. 10, 1999) ⟨http://www.wired.com/news/news/business/story/18372.html⟩.

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CONSTITUTIONAL LAW

U.S. WEST, INC. V. FCC

By Julie Tuan

The recent merger between WorldCom and MCI represents one of the largest mergers in telecommunications history.[1] The marriage of the two telecommunications giants undoubtedly engendered antitrust concerns; yet very likely, it also raised serious privacy concerns. In the last decade, dramatic technological innovations have prompted a heightened awareness and concern for information privacy. Advances in technology have made it easier and cheaper to amass, process, and use personal information. The booming mass-marketing industry gives entrepreneurs the incentive to collect and sell information.[2] And, in the age of convergence[3] and mega-mergers, it is quite possible that information generated from seemingly different sources may end up in the hands of a single corporate giant.

In such an environment, the debate over privacy has reached a fevered pitch as policymakers, public interest advocates, and industry leaders clash over the importance of personal privacy and the government's role in protecting it. The recent controversy over telecommunications carriers' use of customer proprietary network information ("CPNI")—information about subscribers' use of the phone system, including whom they call, when they call, and the features of their current phone service—is an example of such a debate. In *U.S. West, Inc. v. FCC*,[4] U.S. West challenged a CPNI Order from the Federal Communication Commission ("FCC"), which set forth restrictions regarding carriers' use of CPNI for marketing purposes. In a creative decision, the Tenth Circuit vacated the FCC's rules on the grounds that the CPNI regulations impermissibly restrict telephone

1. Worldcom closed its $40 billion acquisition of MCI on September 14, 1998. *See, e.g., FCC Approves WorldCom-MCI Merger*, TECHWEB NEWS (visited Dec. 13, 1999) ⟨http://www.techweb.com/news/story/reuters/REU19980914S0004⟩.

2. *See, e.g.*, Joel R. Reidenberg, *Privacy in the Information Economy: A Fortress or Frontier for Individual Rights?*, 44 FED. COMM. L.J. 195, 198 (1992) ("Vast quantities of personal information containing greater detail than ever before about an individual's financial status, health status, activities and personal associations are now readily available through commercial information services and list brokers.").

3. Convergence is the notion that technology is increasingly overlapping, e.g., a hand held "mobile phone" can have computer, television, and Internet capabilities in addition to telephone capabilities. *See, e.g.*, Victoria Ramundo, *The Convergence Of Telecommunications Technology And Providers:The Evolving State Role In Telecommunications Regulation*, 6 ALB. L.J. SCI. & TECH. 35, 54 (1996).

4. 182 F.3d 1224 (10th Cir. 1999).

companies' commercial speech rights, and thus violate the First Amendment.

This Note will first outline the regulatory history of the FCC's CPNI Order. Next, it will summarize the Tenth Circuit's decision in *U.S. West v. FCC*. The Note will then discuss how the Tenth Circuit erred in subjecting the CPNI Order to First Amendment scrutiny. Finally, the Note will discuss privacy issues and how the Tenth Circuit's decision negatively impacts the protection of information privacy in the United States.

I. BACKGROUND

A. Regulatory History

Prior to the enactment of the Telecommunications Act of 1996[5] ("1996 Act"), the FCC had already placed restrictions on certain telecommunications carriers' use or disclosure of CPNI.[6] Arising from the *Computer II*[7] and *Computer III*[8] proceedings, these regulations restricted AT&T, Bell Operating Companies, and GTE Corporation from using CPNI to market enhanced services and customer premises equipment.[9] The main purposes behind these regulations were to prevent large carriers from gaining a competitive advantage in the unregulated services markets through the use of CPNI, as well as to protect customer expectations of confidentiality regarding individually identifiable information.[10]

Section 222 of the 1996 Act broadened restrictions on the use of CPNI applicable to all telecommunications carriers. Entitled "Privacy of Customer Information," section 222 requires all carriers to obtain customer

5. Telecommunications Act of 1996, Pub. L. No. 104-104, 110 Stat. 56 (codified as amended in scattered sections of 47 U.S.C.).

6. CPNI includes any information about the customer which is made available to the carrier solely by virtue of the carrier-customer relationship (e.g., information that relates to the quantity, technical configuration, type, destination, and amount of use of a telephone service subscribed to by a customer). *See* 47 U.S.C. § 222(f).

7. In the Matter of Amendment of Section 64.702 of the Commission's Rules and Regulations (Second Computer Inquiry), 77 F.C.C. 2d 384 (1980) [hereinafter Computer II].

8. In the Matter of Amendment of Section 64.702 of the Commission's Rules and Regulations (Third Computer Inquiry), 104 F.C.C. 2d 958 (1986).

9. *See* Implementation of the Telecommunications Act of 1996: Telecommunications Carriers' Use of Customer Proprietary Network Information and Other Customer Information, 61 Fed. Reg. 26,483, 26,485 (F.C.C. 1996) [hereinafter NPRM].

10. *See* Second Report and Order and Further Notice of Proposed Rulemaking, In the Matter of Implementation of Telecommunications Act of 1996: Telecommunications Carriers' Use of Customer Proprietary Information and Other Customer Information, 13 F.C.C.R. 8061, ¶ 7 (Feb. 19, 1998) [hereinafter CPNI Order].

approval prior to using, disclosing, or allowing access to individually identifiable CPNI.[11] Yet the statute is unclear as to which uses of CPNI are restricted, and how carriers are to obtain customer approval.

Following the statute's enactment, members of the telecommunications industry contacted the FCC requesting clarification on the scope and substance of their obligations under section 222.[12] In response to these requests, the FCC issued a Notice of Proposed Rulemaking ("NPRM"),[13] setting forth tentative regulations and inviting public comment on its conclusions, particularly with respect to the customer approval requirement.[14] Accordingly, members of the telecommunications industry suggested three methods for obtaining the customer approval required by section 222. The first was the most restrictive interpretation, requiring carriers to obtain customer approval in writing.[15] The second method was an "opt-in" approach, requiring carriers initially to give customers explicit notice of their CPNI rights prior to any solicitation of approval, and then to obtain express written, oral, or electronic approval for CPNI uses.[16] The third method was the least restrictive, in which approval would be inferred from the customer-carrier relationship unless the customer "opts out" from the proposed use by specifically requesting that the use of her CPNI be restricted.[17]

The FCC's final CPNI Order[18] ("CPNI Order") determined both the meaning and scope of section 222 and the appropriate method for securing customer approval. As suggested in the NPRM, the FCC interpreted section 222 through a "total service approach,"[19] whereby the FCC divided the term "telecommunications service" into three categories: (1) local, (2) interexchange (encompassing most long-distance toll service), and (3)

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11. 47 U.S.C. § 222(c)(1) states: "Except as required by law or with the approval of the customer, a telecommunications carrier that receives or obtains customer proprietary network information by virtue of its provision of a telecommunications service shall only use, disclose, or permit access to individually identifiable [CPNI] in its provision of (A) the telecommunications service from which such information is derived, or (B) services necessary to, or used in, the provision of such telecommunications service, including the publishing of directories."

12. *See* U.S. West, Inc. v. FCC, 182 F.3d 1224, 1229 (10th Cir. 1999).

13. NPRM, *supra* note 9.

14. *See U.S. West*, 182 F.3d, at 1229.

15. *See* CPNI Order, *supra* note 10, ¶12.

16. *See id.*

17. *See id.*

18. *See* CPNI Order, *supra* note 10. A summary of the CPNI Order appears in the Federal Register. *See* Telecommunications Carriers' Use of Customer Proprietary Information and Other Customer Information, 63 Fed. Reg. 20,326 (1998).

19. *See* CPNI Order, *supra* note 10, ¶ 27.

commercial mobile radio service (including mobile or cellular service).[20] The regulations in the CPNI Order allowed carriers to use, disclose, or share CPNI for marketing purposes, but carriers could only use CPNI to market products within the category of service to which their customers had already subscribed.[21] Where customers had not subscribed to a particular service, the regulations prohibited carriers from using CPNI for marketing purposes unless they obtained prior customer approval.[22] For example, a telephone company could not use CPNI generated from local telephone service to market long-distance service to customers who did not already subscribe to that service, unless the customers first granted permission to use her CPNI. With respect to the method of approval, the FCC adopted the "opt in" approach: carriers were required to first obtain express written, oral, or electronic approval from customers before they could use CPNI.[23]

B. U.S. West, Inc. v. FCC

U.S. West filed a challenge to the FCC's chosen approval process in the Tenth Circuit.[24] It challenged on two grounds. First, U.S. West claimed that the "opt-in" approach violated its First Amendment rights by restricting its ability to engage in commercial speech with its customers.[25] Second, U.S. West argued that the CPNI regulations constituted a Fifth Amendment taking because CPNI represents property that belongs to the carriers, and the FCC's regulations greatly diminish the property's value.[26]

The Tenth Circuit's analysis focused exclusively on whether the CPNI regulations violate the First Amendment.[27] After finding that the restrictions on carriers' use of CPNI were tantamount to restrictions on speech,

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20. *See* NPRM, *supra* note 9, at 26,487.

21. *See* CPNI Order, *supra* note 10, ¶¶ 4, 35.

22. *See id.* ¶ 66.

23. *See id.* ¶ 4.

24. United States Courts of Appeals have exclusive statutory jurisdiction to review the FCC's final orders. *See* 28 U.S.C. § 2342(1) (1994).

25. *See* U.S. West, Inc. v. FCC, 182 F.3d 1224, 1230 (10th Cir. 1999).

26. *See id.*

27. Most likely, the Tenth Circuit summarily dismissed the Fifth Amendment challenge because most of the Bell Operating Companies have (unsuccessfully) raised this argument in 1996 Act-related litigation. *See, e.g.*, Texas Office of Pub. Util. Counsel v. FCC, 183 F.3d 393 (5th Cir. 1999) (challenging the 1996 Act's universal service requirements as impermissible under the Fifth Amendment); *see also* Iowa Util. Bd. v. FCC, 120 F.3d 753, 818 (8th Cir. 1997) (challenging on Fifth Amendment grounds the FCC's decision to require local exchange carriers to provide competition with unbundled access to operational support systems), *aff'd in part and rev'd in part*, 525 U.S. 366 (1999).

the court held that under the commercial speech test set forth in *Central Hudson Gas & Electric Corp. v. Public Service Commission of New York*,[28] the FCC's interest in promulgating the regulations failed to justify the restrictions made on speech. As such, because the "FCC failed to adequately consider the constitutional implications of its CPNI regulations,"[29] the court vacated the CPNI Order and the regulations adopted therein.

The Tenth Circuit first determined whether the CPNI regulations pass the threshold test for First Amendment scrutiny—application to speech. The court rejected the FCC's argument that the customer approval regulations only prevent carriers from using CPNI to target customers, and do not prevent carriers from communicating with their customers or limit the content of their communication.[30] Citing the seminal case *Virginia State Board of Pharmacy v. Virginia Citizens Consumer Council, Inc.*,[31] the court explained that effective speech has two components—a speaker and an audience—and that a restriction on either of these components is a restriction on speech. Because the CPNI Order restricts U.S. West's ability to speak to a targeted audience, the FCC's regulations effectively restrict speech.[32]

The court then examined the nature of the speech at issue. The court determined that because the purpose of the speech is to solicit customers to purchase more or different telecommunications services, the carriers' speech does "no more than propose a commercial transaction."[33] Thus, under settled law, the speech fit "soundly within the definition of commercial speech."[34]

Although generally afforded less protection than non-commercial speech, commercial speech is nevertheless protected under the First Amendment. The test for commercial speech is spelled out in *Central Hudson*. Under this test, the government may restrict speech only if the following criteria are met: (1) the commercial speech concerns lawful activity and is not misleading; (2) the government has a substantial state interest in regulating the speech; (3) the regulation directly and materially advances that interest; and (4) the regulation is no more extensive than necessary to serve the interest.[35] Since the government did not dispute that

28. 447 U.S. 557 (1980).
29. *U.S West*, 182 F.3d at 1240.
30. *See id.* at 1231-32.
31. 425 U.S. 748 (1976)
32. *See U.S. West*, 182 F.3d at 1232.
33. *Id.* (quoting *Virginia State Bd.*, 425 U.S. at 760.).
34. *Id.* at 1233.
35. *See Central Hudson*, 447 U.S. at 566.

commercial speech based on CPNI was truthful and not misleading, the court focused on the last three prongs of the *Central Hudson* test. Ultimately, the court effectively concluded that the FCC failed to satisfy each of the remaining elements.

The FCC argued that the CPNI regulations advanced two substantial state interests: protecting customer privacy and promoting competition. The Tenth Circuit, however, refused to recognize competition as a substantial interest, concluding that Congress' primary purpose in enacting section 222 was "concern for customer privacy, not the broader purpose of increasing competition."[36] The court then stated that although protection of privacy may constitute a substantial state interest, it only suffices if the government specifically articulates and justifies its interest.[37] The court reasoned that because the FCC failed to provide empirical evidence showing that dissemination of CPNI would inflict specific and significant harm on the customers, the FCC failed to adequately justify its interest.[38] The court concluded, however, "notwithstanding our reservations, *we assume for the sake of this appeal* that the government has asserted a substantial state interest in protecting people from the disclosure of sensitive and potentially embarrassing personal information."[39]

The Tenth Circuit next determined that the FCC failed to show that its regulations directly and materially advanced the state interest. Again, the court found that because the FCC failed to present any evidence showing that a carrier's use of CPNI causes harm to privacy, the agency failed to prove that its regulations would directly and materially alleviate the harm caused.[40] Since the court found the FCC's argument to be based only on speculation that harm would result, it concluded that the CPNI Order failed to satisfy the third prong of *Central Hudson*.[41]

Lastly, the Tenth Circuit determined that even if the preceding prongs of *Central Hudson* had been satisfied, the regulations regarding customer approval were not narrowly tailored to meet the FCC's purported objective. The court explained that restrictions on speech are narrowly tailored only if they signify a "careful calculation of the costs and benefits associated with the burden on speech imposed by its prohibition."[42] The court

36. *U.S. West*, 182 F.3d at 1237.
37. *See id.* at 1235.
38. *See id.*
39. *Id.* at 1235-36 (emphasis added).
40. *See id.* at 1237.
41. *See id.* at 1237-38.
42. *Id.* at 1238 (quoting City of Cincinnati v. Discovery Network, Inc., 507 U.S. 410, 417 (1993)).

found that the FCC's choice of the "opt-in" approach to customer approval indicated a lack of diligence in considering the costs and benefits imposed by the CPNI regulations, because in the court's view, the "opt-out" strategy was an "obvious and substantially less restrictive alternative."[43] The court concluded that the FCC's failure to adopt the "opt-out" approach indicated a failure to narrowly tailor the CPNI regulations to meet the government's concerns.[44]

Judge Briscoe offered a well-reasoned dissent to the Tenth Circuit's ruling. First, he argued that the FCC's choice of the "opt-in" method of customer approval was reasonable in light of Congress's intent to permit customers to make informed decisions regarding use of their CPNI;[45] as such, the court should have granted the FCC *Chevron* deference.[46] Next, Judge Briscoe attacked the majority's constitutional analysis, maintaining that "[t]he CPNI Order does not . . . directly [or indirectly] impact a carrier's expressive activity . . . in such a manner as to warrant First Amendment scrutiny."[47] Yet for the sake of argument, he assumed that the CPNI Order did restrict speech in a way that would invoke constitutional scrutiny,[48] and explained that the CPNI Order nevertheless passes the *Central Hudson* commercial speech test.[49] Thus, Judge Briscoe concluded that U.S. West's First Amendment challenge on the CPNI Order was not "serious enough to warrant abandoning the traditional deference [courts] grant agency interpretations under *Chevron*."[50]

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43. *Id.* at 1238.

44. *See id.* at 1238-39.

45. *See id.* at 1241 (Briscoe, J., dissenting).

46. *See id.* at 1242. In *Chevron, U.S.A. Inc. v. Natural Resources Defense Council Inc.*, 467 U.S. 837 (1984), the Supreme Court established a two step analysis for courts to employ when reviewing an administrative agency's decisions. Courts must first ask whether the statute speaks directly to the issue at hand. *See id.* at 842-43. If Congress has spoken to the precise issue, courts must give effect to Congress's express intent. *See id.* However, where a federal statute is silent or ambiguous, the reviewing court must determine whether the agency's interpretation is reasonable. *See id.* at 843. If it is reasonable, the court must defer to the agency's interpretation, even if the interpretation is not the most reasonable construction, or one that the court itself would have selected if it were to make the determination in the first instance—the court "may not substitute its own construction of a statutory provision." *Id.*

47. *Id.* at 1244.

48. *See id.*

49. *See id.* at 1244-48.

50. *See id.* at 1243.

II. DISCUSSION

The Tenth Circuit's analysis is fundamentally flawed for four reasons. First, the court misinterpreted the scope of U.S. West's challenge: what U.S. West really contested were the restrictions mandated by Congress in § 222, and not the FCC's interpretation of those restrictions. Second, the court erred by concluding that the CPNI Order restricted speech. Third, even assuming the CPNI Order did restrict speech, the court erred by concluding that the CPNI Order failed the *Central Hudson* commercial speech test. Finally, the Tenth Circuit failed to recognize the importance and validity of protecting information privacy.

A. U.S. West Challenged Congress's Restrictions, Not the FCC's

As Judge Briscoe argued in his dissenting opinion, U.S. West's First Amendment challenge was more appropriately directed at requirements mandated by Congress, rather than at those adopted by the FCC.[51] U.S. West asserted that the CPNI Order violated the First Amendment because it required carriers to secure prior affirmative approval from customers before carriers could use CPNI to speak with their customers on an individualized basis about services beyond the categories of telecommunications services to which they currently subscribe.[52] Yet the restrictions alleged to violate the First Amendment are outlined in section 222 itself. Section 222(c)(1) states:

> Except . . . with the approval of the customer, a telecommunications carrier . . . shall only use, disclose, or permit access to individually identifiable [CPNI] . . . in its provision of (A) the telecommunications service from which such information is derived, or (B) services necessary to, or used in, the provision of such telecommunications service, including the publishing of directories.[53]

Since U.S. West did not challenge the constitutionality of section 222, the Tenth Circuit should not have equated U.S. West's dispute with the validity of the CPNI Order with a challenge on section 222 itself.

Instead, the Tenth Circuit should have given *Chevron* deference to the FCC's interpretation of section 222.[54] The Tenth Circuit correctly concluded that as for the means by which carriers are to obtain customer approval, Congress's intent was unclear, since section 222 does not explic-

51. *See id.* at 1243
52. *See id.*
53. 47 U.S.C. § 222 (c)(1) (1999).
54. *See supra* note 46.

itly indicate the methods to be used.[55] However, the court failed to consider the arguments for why the FCC's interpretation of the statute was reasonable.

The FCC's interpretation was reasonable in light of the 1996 Act's overall purpose to promote competition. By enacting the 1996 Act, Congress intended to "provide for a pro-competitive, de-regulatory national policy framework designed to accelerate rapidly . . . services to all Americans by opening all telecommunications markets to competition, and for other purposes."[56] Since CPNI is of great value to telecommunications carriers in marketing new products, those carriers which have access to CPNI have a great competitive advantage over those who do not.[57] Local exchange carriers, by virtue of their historical monopolies, as well as large conglomerate carriers such as MCI and GTE possess vast amounts of CPNI, and can market new services to their existing customers far more efficiently than new entrants.[58] Indeed, the FCC's pre-1996 CPNI restrictions[59] were aimed at preventing precisely this problem as carriers with large quantities of CPNI began competing in new markets.[60] The "opt-in" approach reduces anti-competitive behavior because it limits the instances in which carriers can win over customers for new services on the basis of their existing relationships, as opposed to their service quality or prices.[61]

The FCC's interpretation of the customer approval requirement is also reasonable in light of the privacy concerns addressed in section 222. Congress's intent to safeguard customers' privacy in personal information is apparent from the titles of section 222 and subsection (c)(1): "Privacy of Customer Information " and "Confidentiality of CPNI." As Judge Briscoe argued, the statute makes it clear that Congress "intended for customers to make an informed decision as to whether they would allow their individu-

55. *See* U.S. West, Inc. v. FCC, 182 F.3d 1224, 1230 (10th Cir. 1999).

56. S. REP. NO. 104-23, at 1 (1995).

57. *See* Brief for the Competition Policy Institute at 2, *U.S. West* (No. 98-9518).

58. *See id.*

59. *See supra* notes 7-8 and accompanying text.

60. *See* Brief for the Competition Policy Institute at 2, *U.S. West* (No. 98-9518). However, it should be noted that these prior CPNI restrictions applied only to the use of CPNI in marketing "enhanced services" and "customer premise equipment," not other major markets such as long distance and cellular services. Under these pre-1996 regulations, AT&T, GTE, and Bell Operating Companies were allowed to use CPNI to market services as long as they notified customers of their right to restrict CPNI use, and as long as customers did not "opt-out" by affirmatively exercising that right. *See* NPRM, *supra* note 9, at 26,485. Nevertheless, the FCC's choice of the "opt-in" approach in interpreting § 222 is consistent not only with the pro-competitive design of the 1996 Act but also with the privacy concerns addressed by § 222, as discussed in the main text.

61. *See* CPNI Order, *supra* note 10, ¶ 66.

ally identifiable CPNI to be used."[62] The FCC's adoption of the "opt-in" approach best serves this goal because it ensures that customers are able to make informed decisions regarding use of their CPNI. By contrast, the "opt-out" approach, where customer consent is implied, does not achieve this purpose because there would be no assurance that any implied consent would be truly informed. Given that many customers may not read their CPNI notices, their failure to respond to a notice should not constitute an informed approval of its contents. Thus, the FCC's adoption of the "opt-in" mechanism of express approval is reasonable because it ensures that customers are truly able to control use of their CPNI. Given that its interpretation of section 222 was reasonable, the Tenth Circuit should have shown *Chevron* deference to the FCC.

B. The FCC's Customer Approval Requirement Does Not Implicate the First Amendment

Although the Tenth Circuit concluded that the FCC "failed to adequately consider the constitutional implications of its CPNI regulations,"[63] an examination of First Amendment jurisprudence shows that the CPNI Order does not implicate constitutional protection. While the landmark case *Virginia State Board of Pharmacy v. Virginia Citizens Consumer Council*[64] extended First Amendment protection to commercial speech,[65] subsequent decisions have established that commercial speech is generally afforded less protection than non-commercial speech.[66] A threshold test for First Amendment scrutiny is whether a regulation imposes a blanket ban on commercial speech, be it speech that is directed at the general pub-

62. U.S. West, Inc. v. FCC, 182 F.3d at 1241 (Briscoe, J., dissenting). Judge Briscoe explained that because Congress did not specifically define "approval," its ordinary and natural meaning should be adopted. Because "approval" implies knowledge and exercise of discretion after knowledge, Judge Briscoe reasoned that Congress intended to protect the privacy of CPNI by allowing customers to make informed decisions regarding use of their CPNI. *See id.* (citing United States v. Roberts, 88 F.3d 872, 877 (10th Cir. 1996)).

63. *Id.* at 1240.

64. 425 U.S. 748 (1976).

65. *See id.* at 770. In *Virginia State Board*, the Supreme Court concluded that speech which does no more than propose a commercial transaction is also worthy of constitutional protection. *Id.* The Court justified its decision on the grounds that commercial speech has value and consumers have an interest in the free flow of commercial information. *See id.* at 764-65.

66. *See* LAURENCE H. TRIBE, AMERICAN CONSTITUTIONAL LAW § 12-15, at 896 (2d ed. 1988). Note, however, that recent cases such as *44 Liquormart, Inc. v. Rhode Island*, 517 U.S. 484 (1996), suggest that protection for commercial speech is now very close to the high levels of protection traditionally afforded to non-commercial expression. *See* 2 RODNEY A. SMOLLA & MELVILLE B. NIMMER, FREEDOM OF SPEECH § 20:1 (1999). For a history of the commercial speech doctrine, see *id.* § 20.

lic, or targeted toward a specific audience.[67] The Tenth Circuit failed to establish that the CPNI Order passes this preliminary test.

The CPNI Order does not impose a blanket ban on commercial speech. By restricting telecommunications carriers' use of CPNI, the Order merely restricts the source of the information carriers can use when deciding whom to solicit. For example, under the Order, carriers would still be able to use customer lists for marketing purposes, and may advertise to customers at large. As such, the Order does not extinguish a carrier's right to engage in commercial speech, nor a customer's right to receive speech. Even telecommunications carriers themselves concede this point, as evidenced by their own explanations regarding the relationship between CPNI use and commercial speech. In a notice to customers entitled "Your Customer Proprietary Network Information Rights,"[68] Southwestern Bell Mobile Systems ("SMBS/Cellular One") advises the following:

> Please note that restricting your customer information will not . . . eliminate all SMBS/Cellular One marketing communications with you:
>
> 1. You would still receive marketing contacts from us that are not based on your customer-specific CPNI.
>
> 2. SMBS/Cellular One is permitted to use your customer-specific CPNI to market telephone services we offer that are not available to you from another source.
>
> 3. Even if your CPNI is restricted, we may still use it to market those telephone services or features that may be available to you from a source other than SMBS/Cellular One if you contact us and inquire about them.[69]

To the extent that the FCC's CPNI Order *does* prohibit telecommunications carriers from communicating with their customers, such a restriction is nevertheless permissible because it is consistent with existing law.

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67. *See, e.g.*, Shapero v. Kentucky Bar Ass'n, 486 U.S. 466, 479 (1988) (holding that the state may not categorically prohibit lawyers from soliciting legal business by sending truthful letters to potential clients known to face a particular legal problem); Bolger v. Youngs Drugs Prod. Corp., 463 U.S. 60, 74 (1983) (holding that a federal statute prohibiting the mailing of unsolicited advertisements for contraceptives is an unconstitutional restriction of commercial speech); Central Hudson Gas & Elec. Corp. v. Public Serv. Comm'n, 447 U.S. 557, 572 (1980) (holding that a regulation completely banning an electric utility from advertising to promote use of electricity is unconstitutional); *Virginia State Bd.*, 425 U.S. at 749-50, 773 (holding that a state statute completely suppressing the advertisement of prescription drug prices is unconstitutional).

68. Southwestern Bell Mobile Systems, *Your Customer Proprietary Network Information Rights* (visited Nov. 7, 1999) ⟨http://buffalo.cellone.com/cpni.html⟩.

69. *Id.*

For example, the Telephone Consumer Protection Act of 1991 ("TCPA")[70] prohibits companies from soliciting individuals for commercial purposes through the use of any automated telephone dialing system or artificially prerecorded voice.[71] Existing laws also give individuals the right to control whether they would like to receive commercial speech. For example, the FCC has promulgated "Do Not Call" Rules in which individuals can request not to receive live telephone solicitations.[72] Individuals may directly inform companies that they do not wish to receive telephone solicitations, or they can contact the Telephone Preference Service of the Direct Marketing Association, an organization that commercially publishes lists of customers who do not wish to receive solicitation calls,[73] to request that their names be placed on those lists. Should commercial entities violate these "Do Not Call" Rules, the FCC's regulations provide that individuals may sue in state courts for damages if their state permits such actions.[74] States may also help initiate actions in federal courts against any person or entity that engages in a pattern or practice in violation of the TCPA or the FCC's rules.[75] As the FCC's CPNI Order gives customers the right to control whether telecommunications carriers may use CPNI, which in turn allows them to decide whether they wish to receive targeted commercial solicitations, it is therefore consistent with existing law.

C. The CPNI Order Nonetheless Passes the *Central Hudson* Commercial Speech Test.

Even assuming that the FCC's restrictions on CPNI use are constitutionally equivalent to a ban on speech itself, the CPNI Order nevertheless passes the *Central Hudson* commercial speech test.[76] Both of the FCC's

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70. 47 U.S.C. § 227 (1995).

71. *See id.*

72. Solicitors are required to maintain records of "do not call requests," must keep the record of requests for ten years from the time of the request, and may not make further telephone solicitations to that particular individual. *See* Federal Communications Comm'n, *Consumer News: What You Can Do About Unsolicited Telephone Calls and Faxes* (visited Jan. 20, 2000) ⟨http://www.fcc.gov/ccb/consumer_news/unsolici.html⟩.

73. *See id.*

74. *See id.*

75. *See id.* Such seemingly blatant restrictions on commercial entities' freedom of speech right do not violate the First Amendment because commercial speech is subject to restrictions on content. Therefore, to the extent that the FCC's CPNI Order restricts commercial speech, one could argue that the restrictions also reflect constitutionally permissible limits on speech content.

76. As stated above, under *Central Hudson*, the government may restrict lawful, non-misleading commercial speech if the government proves: (1) there is a substantial state interest in regulating the speech; (2) the regulation directly and materially advances

asserted state interests—protection of privacy and promotion of competition[77]—rise to the level of substantial state interests. The Supreme Court has squarely held that the government has a substantial interest in protecting privacy.[78] With respect to competition, in *Turner Broadcasting System v. FCC*,[79] the Supreme Court determined that promoting competition among cable systems is not only a permissible governmental justification, but an "important and substantial federal interest."[80] Similarly, in *SBC Communications v. FCC*,[81] the Fifth Circuit held that "the competition-enhancing interests" addressed by the 1996 Act "are manifestly sufficient to meet the first hurdle" of the commercial speech test.[82]

The CPNI Order directly and materially advances the dual goals of protecting privacy and competition. The FCC's choice of the "opt-in" approach best serves the protection of privacy because it enables customers to make informed decisions regarding the use and disclosure of their information. By contrast, the "opt-out" approach, which the court impliedly considers to be the constitutionally required solution, would be less effective in serving the privacy interest because customers may be unaware of the privacy protections afforded by section 222, and may not understand that they must take affirmative steps to restrict access to sensitive information.[83] The CPNI Order also helps diminish anti-competitive barriers in the telecommunications market because by restricting use of CPNI, the Order reduces the possibility that an incumbent carrier will use CPNI to target existing customers and convert them into customers for new products or services, at marketing costs far lower than for new entrants without CPNI.

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that interest; and (3) the regulation is no more extensive than necessary to serve the interest. *See* Central Hudson Gas & Elec. Corp. v. Public Serv. Comm'n of New York, 447 U.S. 557, 566 (1980).

77. The Tenth Circuit erred in summarily rejecting the promotion of competition as an asserted state interest. When evaluating a regulation under *Central Hudson*, a reviewing court does not have the authority to assess the integrity of an asserted state interest, and cannot at the outset discard a stated interest. *See* Edenfield v. Fane, 507 U.S. 761, 768 (1993) ("[U]nlike rational basis review, the *Central Hudson* standard does not permit us to supplant the precise interests put forward by the State with other suppositions. Neither will we turn away if it appears that the stated interests are not the actual interests served by the restriction.") (citation omitted).

78. *See id.* at 769 ("[P]rotection of potential clients' privacy is a substantial state interest).

79. 512 U.S. 622 (1994).

80. *Id.* at 647.

81. 154 F.3d 226 (5th Cir. 1998).

82. *Id.* at 247.

83. *See* CPNI Order, *supra* note 10, ¶ 91.

Lastly, the CPNI Order is narrowly tailored to serve the interests of protecting privacy and competition. The Tenth Circuit concluded that because the "opt-out" approach was an "obvious and less restrictive alternative,"[84] the FCC failed to narrowly tailor its CPNI regulations. Yet the Supreme Court has emphasized that the chosen regulations do not have to represent the single best disposition, but one whose scope is in proportion to the interest served,[85] and that there must be a "fit" between the regulation's means and ends, a fit that is not necessarily perfect, but reasonable.[86] Of the three suggested methods for obtaining customer approval, the FCC adopted the most reasonable choice: neither the most restrictive method (requiring explicit written approval), nor the most lenient approach (allowing carriers to infer approval unless instructed otherwise). Although the opt-out approach might be less restrictive, the existence of an "obvious and less-restrictive"[87] alternative is not dispositive to a determination of the reasonableness of the FCC's restrictions.[88]

III. PRIVACY RIGHTS IN PERSONALLY IDENTIFIABLE INFORMATION

The Tenth Circuit missed the point. The FCC's CPNI Order does not impermissibly hamper commercial speech rights, but rather creates strong privacy protections that maximize customers' control over use and disclosure of their personal information. In subjecting the CPNI Order to First Amendment scrutiny, the court not only discounted the merits of protecting information privacy, but struck down the government's affirmative attempt to safeguard individuals' privacy interests.

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84. U.S. West, Inc. v. FCC, 182 F.3d 1224, 1238 (10th Cir. 1999).

85. *See* Board of Trustees of State Univ. of N.Y. v. Fox, 492 U.S. 469, 480 (1989).

86. *See id.*

87. *U.S. West*, 182 F.3d at 1238.

88. While the Supreme Court has observed that the existence of "*numerous* and obvious less-burdensome alternatives to the restriction on commercial speech . . . is certainly a relevant consideration in determining whether the 'fit' between ends and means is reasonable," *Florida Bar v. Went for It*, 515 U.S. 618, 632 (1995) (quoting City of Cincinnati v. Discovery Network, Inc., 507 U.S. 410, 417 n.13 (1993)) (emphasis added), the Court has not explicitly held that the existence of alternatives is dispositive. Moreover, in cases where the existence of alternatives was a significant factor, the restrictions at issue involved blanket restrictions on commercial speech, in which all alternatives were clearly less-burdensome. *See, e.g.*, Edenfield v. Fane, 507 U.S. 761, 763 (1993) (holding that a state statute banning certified public accountants from making telephone solicitations to potential customers is inconsistent with the First Amendment); City of Cinncinnati v. Discovery Network, Inc., 507 U.S. 410, 412 (1993) (holding that a city ordinance prohibiting the distribution of commercial handbills on public property violates the First Amendment).

The greatest flaw in the Tenth Circuit's decision is that it failed to accept the protection of privacy in personally identifiable information[89] as a substantial state interest in the *Central Hudson* calculus. In essence, the Tenth Circuit refused to recognize privacy rights in such information because:

> Although we may feel uncomfortable knowing that our personal information is circulating in the world . . . [a] general level of discomfort from knowing that people can readily access information about us does not necessarily rise to the level of a substantial state interest under *Central Hudson* for it is not based on an identified harm.[90]

Such a statement, however, seems somewhat antiquated in light of the present age of technological innovation and convergence. The present society is an "information society," where vast quantities of personal information can be easily gathered, stored, processed, and disseminated by the government and private entities.[91] Whereas in previous years, an intrusion into one's home or seclusion constituted an invasion of privacy,[92] today, many consider the uncovering of one's most frequently dialed phone numbers, the discovery of which products one buys, or the tracking of one's clickstream on the Internet,[93] to be just as much an invasion of privacy.[94]

Although formal studies and the popular media indicate that the American public is increasingly concerned with the privacy of its personal information,[95] "information privacy" has nevertheless received minimal

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89. In the context of this Note, personally identifiable information is data that can be linked to a particular individual, rather than data that is accumulated or processed in the aggregate.

90. U.S. West, Inc. v. FCC, 182 F.3d at 1224, 1235 (10th Cir. 1999).

91. *See* Fred H. Cate, *Business Law Symposium: Entering a New Era In Telecommunications Law: Privacy in Telecommunications,* 33 WAKE FOREST L. REV. 1, 3 (1998); Reidenberg, *supra* note 2, at 198;

92. *See* William Prosser, *The Right of Privacy*, 48 CALIF. L. REV. 383, 389 (1960); RESTATEMENT (SECOND) OF TORTS, § 652B (1997).

93. The Federal Trade Commission defines a "clickstream" as a user's path through the Internet, which can be tracked, stored, reused, and aggregated. *See* Federal Trade Commission, *Online Privacy: General Practices and Concerns* (Dec. 1996) ⟨http://www.ftc.gov/reports/privacy/privacy3.htm⟩.

94. *See* Jonathan P. Cody, Comment, *Protecting Privacy Over the Internet: Has the Time Come to Abandon Self-Regulation?*, 48 CATH. U. L. REV., 1183, 1185-86 n.12 (1999).

95. In 1996, Equifax, a leading credit bureau, and Alan Westin, a privacy scholar, conducted a study on privacy in the technological age. The study found that 89% of those

legal protection.[96] This lapse in protection is partly due to the fact that privacy law itself is ill defined,[97] and the fact that because the U.S. Constitution does not specifically guarantee the right to privacy,[98] the value of privacy interests is often limited when weighed against more explicit constitutional rights.[99]

Defining and justifying protection for personal information is especially problematic because it is difficult to incorporate it into "traditional" privacy law, which centers on harm to the individual. Under the common law, individuals may bring tort actions for invasion of their privacy only if another has intruded upon their seclusion, publicly disclosed embarrassing

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polled in the United States expressed that they were either very concerned or somewhat concerned about privacy. *See* Alan Westin, *"Whatever Works": The American Public's Attitudes Toward Regulation and Self-Regulation on Consumer Privacy Issues,* in U.S. DEP'T OF COMMERCE, PRIVACY AND SELF-REGULATION IN THE INFORMATION AGE ch.1, § F (1997) (visited Jan. 20, 2000) ⟨http://www.ntia.doc.gov/reports/privacy/selfreg1.htm#1F⟩. Surveys of Internet users indicate that cyberspace—the web of consumer electronics, computers, and communications networks interconnecting the world—will exacerbate the anxiety over privacy. *See* Jerry Kang, *Information Privacy in Cyberspace Transactions*, 50 STAN. L. REV. 1193, 1197 (1998).

96. *See* Cate, *supra* note 91, at 31. However, it should be noted that to varied extents federal and state legislatures have extended privacy rights with respect to the collection, use and distribution of personally identifiable information. Yet protection is limited only to specific categories of information user, context, and type of information. Existing laws most often prohibit certain disclosures, rather than collection, use, or storage of personal information. Moreover, relevant laws do not completely protect privacy interests because they have carved out exceptions for uses of personal information in commercial or marketing contexts. *See, e.g.*, Privacy Act of 1974, 5 U.S.C. § 552(b) (1998) (prohibiting the federal government from using federal agency records containing personal information that is not relevant to accomplish that agency's purpose); Video Privacy Protection Act of 1988, 18 U.S.C. §§ 2710-11 (1994) (regulating the disclosure of consumers' videotape rental information); The Cable Communications Policy Act of 1984, 47 U.S.C. § 551 (1994) (governing cable television companies' collection and use of personal information from their subscribers); CAL. CIV. CODE § 1799.3 (West Supp. 1991) (video rental privacy); CAL. PENAL CODE § 637.5 (West 1988) (cable communications privacy).

97. Fred Cate describes privacy protection in the United States as "complex and decentralized . . . a cacophony of constitutional rights, narrow sectoral statutes, state legislation, federal regulations, and common law torts." Cate, *supra* note 91, at 3-4. The laws and regulations governing the use of personal information are limited to a specific industry or agency, which often results in "uneven and inconsistent privacy protection." *Id.* at 4.

98. The Supreme Court, however, has interpreted the First, Third, Fourth, Fifth, Ninth, Tenth, and Fourteenth Amendments to provide an individual with some privacy protection from government activities. *See* FRED H. CATE, PRIVACY IN THE INFORMATION AGE 52 (1997). For a history of the development of the right to privacy, see Cody, *supra* note 94, at 1192-97.

99. *See* Cate, *supra* note 91, at 18.

facts about them, placed them in a false light, or appropriated their name or likeness.[100] Those reluctant to extend privacy rights to personal information are likely to respond in a manner similar to the Tenth Circuit: extending privacy rights to personally identifiable information is undeserved because there is no identifiable harm comparable to the harm sustained in other tort scenarios. Indeed, credit card agencies, phone carriers, and other entities, which collect, store, and use personal information do not view privacy issues as being problematic until specific abuses occur.[101]

With respect to telecommunications carriers' unauthorized use of CPNI, however, at least two harms can be identified. First, individuals are harmed when an unauthorized party uncovers private, sensitive information about them. As the FCC explained, much CPNI consists of highly sensitive information. From CPNI, one can obtain information such as the destination of an individual's calls, the numbers subscribers call and from which they receive calls, as well as when and how frequently subscribers make their calls.[102] While such information may be benign on its face, this data can be processed and translated into subscriber profiles which may contain information about the identities and whereabouts of subscribers' friends and relatives, which businesses subscribers patronize, when subscribers are likely to be home and awake, product and service preferences, and subscribers' medical, business, client, sales, organizational, and political telephone contacts.[103] As the FCC indicated, the ability to construct such profiles means that CPNI "may be equally or more sensitive than medical and financial records."[104]

Second, individuals are harmed when telecommunications carriers use CPNI for purposes outside the relationship which generated the CPNI. While this is a subtle point, it is significant given that personal data now has commercial significance. As there are several profitable industries in the business of collecting and using individuals' personal information, information disclosed and collected for one purpose may easily have an associated use in an entirely different and undesirable context.[105] The specific harm to individuals then is the appropriation of private information, and is best understood when analyzed under a contract analysis.

Commentators have described the unauthorized use of personal information as being analogous to unjust enrichment in a contractual situa-

100. *See* Prosser, *supra* note 92, at 389.
101. *See* Reidenberg, *supra* note 2, at 206.
102. *See* CPNI Order, *supra* note 10, ¶ 94.
103. *See id.* ¶ 61.
104. *See id.* ¶ 94.
105. *See* Reidenberg, *supra* note 2, at 206.

tion.[106] Such analyses presuppose that customers expect that their personal information will be used only in the context of the transactions that generate the information.[107] Thus, when companies sell collected information to third parties, or when they otherwise use it to their own advantage in areas unrelated to the relationship that generated the information, they unjustly derive benefits at the expense of their customers.[108] However, such an argument actually substitutes a property right for a right of privacy; for inherent in the reasoning is that a name and address are property in which the individual has an exclusive right.[109] Thus, when a customer voluntarily discloses information, and the merchant then uses it for "un-contracted" purposes, the merchant appropriates another's property. However, the merchant does not invade a privacy right per se, because arguably, there is no invasion of privacy if a customer voluntarily discloses information.[110]

An argument that more persuasively supports the notion that individuals have privacy rights in personal information works in situations where customers do not voluntarily disclose personal information.[111] Thus, when an entity collects and reveals personal information that was not intentionally disclosed, a privacy right is invaded. Such an analysis is appropriate in the CPNI use context, because CPNI is incidental to the customer-carrier relationship: by subscribing to phone service, customers do not voluntarily choose to disclose the numbers which they call, or when they most frequently use the phone. Moreover, in many localities, customers do not have a choice between local carriers; in these cases, customers must reveal personal information if they wish to have phone service. Therefore, when carriers use or disclose CPNI, customers' privacy interests are invaded; the harm is even greater when the use or disclosure is made outside of the relationship which generated the information.

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106. *See* Craig Martin, Comment, *Mailing Lists, Mailboxes, and the Invasion of Privacy: Finding a Contractual Solution to a Transnational Problem,* 35 HOUS. L. REV. 801, 826-30 (1998).

107. *See id.* at 827-28.

108. *See id.* at 826-28.

109. *See id.* For a discussion on extending property rights to personal information, see generally Kang, *supra* note 95; Robert S. Murphy, *Property Rights in Personal Information: An Economic Defense of Privacy,* 84 GEO. L. J. 2381 (1996); *see also,* Pamela Samuelson, *A New King of Privacy? Regulating Uses of Personal Data in the Global Information Economy,* 87 CALIF. L. REV. 751, 769-73 (1999) (book review).

110. *Dwyer v. American Express Co.,* 273 Ill. App. 3d 742, 746 (1995), affirms this theory by upholding the proposition that when information is voluntarily given to an information collector, no right exists that would prevent disclosure of that information. *See* Martin, *supra* note 106, at 830.

111. *See* Martin, *supra* note 106, at 830.

The pertinent question, then, is whether and to what extent carriers can use CPNI outside of the customer-carrier context. For if carriers cannot and do not disclose information to third parties, then it follows that no harm to privacy may result from "un-contracted" disclosure. Indeed, this concern seems to have been at the heart of the Tenth Circuit's analysis:

> While protecting against disclosure of sensitive and potentially embarrassing personal information may be important in the abstract, we have no indication of how it may occur in reality with respect to CPNI. . . . The government presents no evidence regarding how and to whom carriers would disclose CPNI. By its own admission, the government [has stated] "[W]e agree . . . that sharing of CPNI within one integrated firm does not raise significant privacy concerns because customers would not be concerned with having their CPNI disclosed within a firm in order to receive increased competitive offerings." Yet the government has not explained how or why a carrier would disclose CPNI to outside parties. . . . This leaves us unsure exactly who would potentially receive the sensitive information.[112]

While section 222 makes it clear that carriers may not sell customer information to other companies,[113] arguably, it leaves ambiguous the extent to which carriers may share information internally.[114] Given that large corporate mergers are becoming increasingly common, and that telecommunications carriers today now provide much more than traditional telephone service,[115] even information that is shared internally is likely to violate privacy interests. For when a company provides information about a customer's use of the phone system to its credit card or financial services division, it uses the information for "non-contracted" purposes. As telecommunications carriers diversify themselves, there will no longer be a meaningful difference between "selling" information to third parties and "sharing" information with affiliates. Both the Tenth Circuit and even the

112. U.S. West, Inc. v. FCC, 182 F.3d 1224, 1237-38 (10th Cir. 1999).

113. Section 222 states that telecommunications carriers "shall only use, disclose, or permit access to individually identifiable [CPNI] in its provision of (A) the telecommunications service from which such information is derived, or (B) services necessary to, or used in, the provision of such telecommunications service, including the publishing of directories." 47 U.S.C. § 222 (c)(1) (1999).

114. The term "used in," as stated in section 222 (c)(1)(B), could be interpreted broadly.

115. For example, AT&T now has stakes in DSL, the cable television industry, the credit card business, and recently has even begun to offer "Student Advantage Cards," which give college students discounts at participating retailers.

FCC seemed to have overlooked the fact that use and disclosure of CPNI within the same firm can threaten customers' privacy interests.

IV. CONCLUSION

Given that businesses have commercial incentives to use personal information, that advances in technology have made it easier and cheaper to amass, process, and use the information, and that the changing corporate environment allows large quantities of personal data to rest in the hands of single business entities, safeguards to protect the privacy of personal information are warranted. By issuing the CPNI Order, the FCC attempted to create strong privacy protections that maximized customers' control over the use and disclosure of their personal information. Yet the Tenth Circuit's decision in *U.S. West v. FCC* undermined the government's objectives. In a misguided First Amendment analysis of the CPNI Order, the court struck a blow to affirmative efforts to protect consumers' privacy interests. If left unchallenged, the Tenth Circuit's decision will surely have a negative impact on privacy considerations in other industries. For, as the telecommunications industry is one of the most highly regulated sectors in the United States, if the government's efforts to protect privacy interests are invalidated in this sector, then they are also very likely to be invalidated in others.

FLORIDA PREPAID POSTSECONDARY EDUCATION EXPENSE BOARD V. COLLEGE SAVINGS BANK & COLLEGE SAVINGS BANK V. FLORIDA PREPAID POSTSECONDARY EDUCATION EXPENSE BOARD

By Jennifer L. Polse

In 1988 Marion Chew sued the State of California for infringing her patented method of testing automobile emissions.[1] The district court dismissed Chew's suit at the threshold, holding that the Eleventh Amendment barred it from hearing a patent infringement action against a state.[2] On appeal, the Federal Circuit held that the Patent Act[3] did not abrogate the states' Eleventh Amendment immunity because it did not contain a clear statement of Congress' intention to abrogate[4] as required by the Supreme Court's holding in *Atascadero State Hospital v. Scanlon*.[5] In response to *Chew*, Congress passed a series of acts, the Remedy Acts, clarifying its intention to abrogate state sovereign immunity from suits involving intellectual property rights.[6]

Following passage of the Remedy Acts, lower courts split over the validity of Congress's attempts to abrogate state sovereign immunity.[7] In

1. *See* Chew v. California, 893 F.2d 331, 332-33 (Fed. Cir. 1990).
2. *See id.*
3. 35 U.S.C. § 271 et. seq.
4. *See Chew*, 893 F.2d at 334 .
5. 473 U.S. 234 (1985). Atascadero held that to abrogate Eleventh Amendment immunity, Congress must "mak[e] its intention unmistakably clear in the language of the statute." *Id.* at 242.
6. The Patent Remedy Act amended the Patent Act so that "[a]ny State, and any such instrumentality, officer, or employee, shall be subject to the provisions of this title in the same manner and to the same extent as any nongovernmental entity." 35 U.S.C. § 271(h) (1992). Section 296(a) further states that a state "shall not be immune, under the eleventh amendment . . . or under any other doctrine of sovereign immunity, from suit in Federal court by any person . . . for infringement of a patent. . . ." *Id.* at § 296(a). The Trademark Clarification Remedy Act (TCRA), amended the Lanham Act by specifying that the states "shall not be immune, under the eleventh amendment of the Constitution of the United States or under any other doctrine of sovereign immunity, from suit in Federal court by any person . . . for any violation under this chapter." 15 U.S.C. § 1122 (b) (1992). The Copyright Remedy Act similarly stated Congress' intent to render states amenable to suit for copyright infringement. *See* 17 U.S.C. § 511 (1990).
7. *Compare* Chavez v. Arte Publico Press, 157 F.3d 282, 291 (5th Cir. 1998) (holding Copyright Remedy Act unconstitutional) *with* Genentech, Inc. v. Eli Lilly and Co.,

Florida Prepaid Postsecondary Education Expense Board v. College Savings Bank[8] and *College Savings Bank v. Florida Prepaid Postsecondary Education Expense Board*,[9] the Supreme Court confronted the Patent and Trademark Remedy Acts head-on, and held them to be unconstitutional attempts to abrogate state sovereign immunity.

In many respects the two opinions flow naturally from *Seminole Tribe v. Florida*,[10] which held that Congress may not abrogate state sovereign immunity when legislating pursuant to its Article I power to regulate commerce.[11] The logic of *Seminole Tribe* applies to all of Congress's Article I powers,[12] including those of the Patent Clause.[13] However, *Florida Prepaid* and *College Savings Bank* find the Court once again wielding its Eleventh Amendment jurisprudence in the service of state's rights by constricting congressional flexibility in an area previously subject to strict federal oversight.

To reach its holdings, the Court overruled the constructive waiver doctrine of *Parden v. Terminal Railway*[14] and narrowed Congress's ability to legislate under section 5 of the Fourteenth Amendment. The decisions weaken the integrity of the intellectual property system, allow states to deprive patentees of their property without due process of law, and ignore the functional reality of state involvement in the intellectual property system.

I. BACKGROUND

A. Sovereign Immunity under the Eleventh Amendment

The Court's decisions in *Florida Prepaid* and *College Savings Bank* hinge on Congress's ability to render Florida amenable to suit for violations of the Lanham Act and the Patent Act. Unless Congress validly abrogates state sovereign immunity, the Eleventh Amendment bars federal courts from hearing suits for damages against a state, such as CSB's Lan-

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998 F.2d 931, 943 (Fed. Cir. 1993) (holding Patent Remedy Act validly abrogated sovereign immunity).

8. 119 S. Ct. 2199 (1999).
9. 119 S. Ct. 2219 (1999).
10. 517 U.S. 44 (1996).
11. *See id.* at 72.
12. *See id.* at 73.
13. U.S. CONST. art. I, § 8, cl. 8 (giving Congress the power "[t]o promote the Progress of Science . . . by securing for limited Times to . . . Inventors the exclusive Right to their . . . Discoveries. . . .").
14. 377 U.S. 184 (1964).

Lanham Act and Patent Act cases against the State of Florida. Thus, whether or not the Court has jurisdiction to hear these cases turns on whether the Patent and Trademark Remedy Acts validly abrogate Florida's Eleventh Amendment immunity from suit in federal court.

The Eleventh Amendment[15] repudiated the Supreme Court's decision in *Chisholm v. Georgia*,[16] which held that a South Carolina citizen could sue Georgia in federal court to collect a debt.[17] The Court's decision created a "shock of surprise throughout the country" that led to the proposal of the Amendment at the next congressional session.[18] The Eleventh Amendment "reflects 'the fundamental principle of sovereign immunity [that] limits the grant of judicial authority in Art. III. . . .'"[19] The Amendment limits federal courts' subject matter jurisdiction by denying jurisdiction over suits by a citizen against a state.

Although the plain text of the Amendment appears to reach only suits brought against a state by a citizen of another state, judicial interpretation has extended its jurisdictional bar much further.[20] *Hans v. Louisiana*[21] involved a suit by Hans, a Louisiana resident, to collect on bonds issued by the defunct Reconstruction-era Louisiana government.[22] Hans pressed his breach of contract suit under the Contract Clause,[23] and the State claimed sovereign immunity under the Eleventh Amendment as a defense.[24] The Court first declared that previous decisions had established that the Eleventh Amendment's immunity extended to suits brought under the Court's federal question jurisdiction.[25] Next, considering Hans's claim that as a

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15. U.S. CONST. amend. XI. The Amendment provides that "[t]he 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."

16. 2 U.S. 419 (1793).

17. *See id.* at 479.

18. Hans v. Louisiana, 134 U.S. 1, 11 (1890).

19. Seminole Tribe v. Florida, 517 U.S. 44, 64 (1996) (quoting Pennhurst State School & Hosp. v. Halderman, 465 U.S. 89, 97-98 (1984)).

20. *See Hans*, 134 U.S. at 20-21 (holding that the Eleventh Amendment bars suits against a state brought by its own citizens).

21. *Id.*

22. *See id.* at 2-3.

23. U.S. CONST., art. I, § 10 (providing in relevant part that "[n]o State shall . . . pass any . . . Law impairing the Obligation of Contracts. . . .").

24. *See Hans*, 134 U.S. at 3.

25. *See id.* at 10. In fact, the cases cited by the Court did not clearly establish the Amendment's applicability to federal question cases. *See* Daniel J. Meltzer, *The Seminole Decision and State Sovereign Immunity*, 1996 SUP. CT. REV. 1, 8-9 (1996). Several commentators have rejected an interpretation of the Amendment that limits the federal

citizen of Louisiana, he was not barred from bringing suit against Louisiana by the plain text of the Amendment, the Court found that it would be "startling and unexpected" if the Amendment allowed states to be sued in federal courts by their own citizens, while it barred similar suits by nonresidents.[26] The Court endorsed a broad view of state sovereign immunity, holding that the Constitution did not authorize suits against unconsenting states by residents or nonresidents.[27]

Despite the Eleventh Amendment's broad grant of sovereign immunity, federal courts may still hear federal question cases seeking damages against unconsenting states if Congress validly abrogated sovereign immunity from suit under the federal statute giving rise to the plaintiff's cause of action.[28] To abrogate sovereign immunity, Congress must unequivocally state its intent to abrogate, and it must act pursuant to a valid exercise of power.[29] Federal courts may also hear cases against states if the states waive their sovereign immunity expressly or by their conduct in litigation.[30]

B. Gaining Jurisdiction through Abrogation of State Sovereign Immunity

Although Congress need not explicitly mention the Eleventh Amendment when stating its intent to abrogate, it must make "its intention unmistakably clear in the language of the statute."[31] The Court requires such a

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courts' federal question jurisdiction. *See id.* at 10-11 (describing criticisms of the Court's holding in *Hans*). Adherents of the diversity theory, for example, argue that the Amendment was drafted to prevent suits against unconsenting states from being heard under the federal court's state-citizen diversity jurisdiction, but it was not intended to restrict the right to sue a state under federal law. *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).

26. *See Hans*, 134 U.S. at 10-11.

27. *See id.* at 15-16 (finding that "[t]he truth is that the cognizance of suits and actions unknown to the law, and forbidden by the law, was not contemplated by the constitution when establishing the judicial power of the United States" and that "[t]he suability of a state, without its consent, was a thing unknown to the law").

28. *See* Fitzpatrick v. Bitzer, 427 U.S. 445, 456 (1976) (holding that Congress may abrogate state sovereign immunity when legislating pursuant to section 5 of the Fourteenth Amendment).

29. *See* Seminole Tribe v. Florida, 527 U.S. 44, 56 (1996).

30. *See* College Sav. Bank v. Florida Prepaid Postsecondary Educ. Expense Bd., 119 S. Ct. 2219, 2223 (1999); *see generally* Note, *Reconceptualizing the Role of Constructive Waiver After Seminole*, 112 Harv. L. Rev. 1759, 1767-775 (1999) (discussing methods by which states may waive sovereign immunity from suit in federal courts).

31. Atascadero State Hosp. v. Scanlon, 473 U.S. 234, 242 (1985).

statement because abrogation works a fundamental disruption of the balance of power between states and the federal government; such a disruption should not be undertaken unless Congress specifically decides that it is necessary to its legislative scheme.[32] In addition, finding abrogation of sovereign immunity results in an expansion of the Court's Article III jurisdiction.[33] In order to refrain from unduly expanding its own power, the Court must "rely only on the clearest indications in holding that Congress has enhanced [the Court's] power."[34]

In addition to providing a clear statement of intent, Congress must also act pursuant to a valid exercise of power to abrogate sovereign immunity. In *Seminole Tribe*, the Court found that while Congress may abrogate when legislating pursuant to section 5 of the Fourteenth Amendment,[35] Article I gives Congress no power to render a state amenable to suit in federal court.[36] *Seminole Tribe* explicitly overruled *Pennsylvania v. Union Gas Co.*,[37] which held that the Commerce Clause[38] granted Congress the power to abrogate state sovereign immunity.[39] The *Union Gas* plurality reasoned that by ratifying the Constitution the States necessarily ceded to the federal government that portion of their sovereignty necessary to the regulation of interstate commerce.[40] *Seminole Tribe* repudiated that theory, holding that while States may have ceded such sovereignty originally, the Eleventh Amendment restored their sovereign immunity.[41] Only those amendments ratified after the Eleventh Amendment could abrogate portions of the sovereign immunity embodied in the Eleventh Amendment.[42]

In dissent in *Seminole Tribe*, Justice Stevens argued that the Court's decision would withhold a federal forum for a broad range of cases—"from those sounding in copyright and patent law, to those concerning bankruptcy, environmental law, and the regulation of our vast national economy."[43] Subsequent case law has proven Justice Stevens prophetic.[44]

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32. *See id.* at 242-43.
33. *See id.* at 243.
34. *Id.*
35. *See Seminole Tribe*, 517 U.S. at 71 n.15 (noting that "under the Fourteenth Amendment . . . Congress' authority to abrogate is undisputed.").
36. *See id.* at 66.
37. 491 U.S. 1 (1989) (plurality opinion) (overruled by *Seminole Tribe*, 517 U.S. at 66).
38. U.S. CONST. art. I, § 8, cl. 3.
39. *See Union Gas*, 491 U.S. at 23.
40. *See id.* at 16-17.
41. *See Seminole Tribe*, 517 U.S. at 65-66.
42. *See id.*
43. *Id.* at 77 (Stevens, J., dissenting).

After *Seminole Tribe*, Congress may abrogate Eleventh Amendment immunity only when it legislates to enforce the Fourteenth Amendment[45] as established by *Fitzpatrick v. Bitzer*.[46] Section 5 of the Fourteenth Amendment gives Congress the power to "enforce, by appropriate legislation, the provisions of this article."[47] Whether Congress can abrogate sovereign immunity in any given case thus turns on the Court's definition of "appropriate legislation."

The Court recently reformulated the test for whether a law may be upheld as appropriate remedial legislation to enforce the Fourteenth Amendment. In *City of Boerne v. Flores*,[48] the Court confronted a congressional attempt to alter the substantive test for whether a facially neutral state law that creates incidental burdens on religion violates the Free Exercise Clause.[49] Congress passed the Religious Freedom Restoration Act ("RFRA") pursuant to its enforcement powers under section 5 of the Fourteenth Amendment. Examining whether Congress had exceeded its powers in enacting the RFRA, the Court noted that "appropriate legislation" passed under section 5 must "deter[] or remed[y] constitutional violations. . . ."[50] However, section 5 gives Congress no power to legislate a substantive change in constitutional rights such as that contemplated by the RFRA.[51] To ensure Congress does not overstep its section 5 powers, the Court held that appropriate legislation must be tailored to provide "a congruence and proportionality between the injury to be prevented or remedied and the means adopted to that end."[52] The RFRA was not appropriate legislation because it aimed not to remedy existing constitutional violations,[53] but to create new substantive rights under the Free Exercise Clause.[54]

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44. *See* Florida Prepaid Postsecondary Educ. Expense Bd. v. College Sav. Bank, 119 S. Ct. 2199 (1999) (patent); College Sav. Bank v. Florida Prepaid Postsecondary Educ. Expense Bd., 199 S. Ct. 2219, 2224 (1999) (false advertising prong of the Lanham Act); Sacred Heart Hosp. v. Pennsylvania, 133 F.3d 237, 243-44 (3d Cir. 1998) (bankruptcy); Chavez v. Arte Publico Press, 157 F.3d 282 (5th Cir. 1998), (copyright), *reh'g granted*, 178 F.3d 281 (5th Cir. 1998).

45. *See* Meltzer, *supra* note 25, at 21.

46. 427 U.S. 445 (1976).

47. U.S. CONST. amend. XIV, §5.

48. 52 U.S. 507 (1997).

49. *See id.* at 515-16.

50. *Id.* at 518.

51. *See id.* at 519.

52. *City of Boerne*, 521 U.S. at 520.

53. To demonstrate Congress's true justification for the RFRA, the Court combed the legislative record for examples of modern state laws that violated rights guaranteed by the Free Exercise Clause. *See id.* at 530-31. The Court only found examples not en-

C. Obtaining Jurisdiction through Waiver of Sovereign Immunity

In addition to abrogation under the Fourteenth Amendment, federal courts obtain jurisdiction over a state if the state waives its Eleventh Amendment immunity.[55] A state may waive its sovereign immunity by enacting a statute or a constitutional provision that states explicitly its unequivocal intent to abrogate its Eleventh Amendment immunity from suit in federal court.[56] Additionally, states can waive sovereign immunity by participation in a federal program conditioned upon waiver.[57] In addition to express waiver, a state may waive its immunity by affirmatively invoking the federal court's jurisdiction.[58]

Prior to *College Savings Bank*, federal courts could imply a constructive waiver of sovereign immunity by finding that a state engaged in an activity that subjected it to suit under federal law. In *Parden v. Terminal Railway*,[59] the Court held that Alabama constructively waived its immunity by operating a railroad that it knew would be subject to federal regulation under the Federal Employer's Liability Act ("FELA").[60] Examining FELA, the Court found that it would be anomalous for Congress to allow state-operated railroads to run free of FELA, because to do so would exclude a single class of railway workers—those employed on state-run railroads—from its protection.[61] The Court refused to find that "Congress intended so pointless and frustrating a result."[62] Although Alabama claimed that Congress could not subject states to suit under FELA in light of the Eleventh Amendment, the Court rejected this argument, finding that "the States surrendered a portion of their sovereignty when they granted Congress the power to regulate commerce."[63]

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acted out of hostility to the burdened religions, and such examples did not violate the Constitution. *See id.* at 531. This observation led the Court to conclude that "Congress' concern was with the incidental burdens imposed." *Id.* at 531.

54. *See id.* at 532.

55. *See* Atascadero State Hosp. v. Scanlon, 473 U.S. 234, 238 (1985).

56. *See id.* at 238 n.1.

57. *See id.* An unequivocal statement of intent to abrogate is required for waiver in this situation as well.

58. *See* Clark v. Barnard, 108 U.S. 436, 47-48 (1883) (immunity waived by filing claim in federal court); *see also Reconceptualizing The Role of Constructive Waiver*, *supra* note 30, at 1770-72.

59. 377 U.S. 184 (1964), *overruled by College Savings Bank*, 119 S. Ct. at 2228.

60. 45 U.S.C. § 51 (1908). *See Parden*, 377 U.S. at 196.

61. *See Parden*, 377 U.S. at 189-90.

62. *Id.* at 190.

63. *Id.* at 191.

It is important to note that the Court's holding in *Parden* rested not on a finding of abrogation, but on a finding of waiver. The Court held that Congress had conditioned participation in interstate railroad activity on amenability to FELA suits.[64] Therefore, by running a railroad regulated by FELA, Alabama must have intended to waive its immunity to suit.[65] Later cases clarified that Congress could only effect a *Parden* waiver by expressly stating an intent to condition participation in a regulated activity on waiver of Eleventh Amendment immunity.[66]

Some viewed the Court's decision in *Seminole Tribe* as overruling the *Parden* doctrine by implication.[67] Under *Seminole Tribe*, Congress may not abrogate sovereign immunity when legislating pursuant to Article I.[68] Following this logic, an attempt to enact a waiver pursuant to Article I powers must be void.[69] Until the Court's decision in *College Savings Bank*, however, the *Parden* doctrine remained good law.[70]

II. THE CASES: COLLEGE SAVINGS BANK V. FLORIDA PREPAID & FLORIDA PREPAID V. COLLEGE SAVINGS BANK

A. Facts and Procedural History

College Savings Bank ("CSB") develops and sells CollegeSure CDs.[71] CSB designed and patented an administration program for their CDs that ensures a return adequate to pay future college expenses despite those expenses being unknown at the time of purchase.[72] Florida Prepaid Postsecondary Education Expense Board ("Florida Prepaid"), an arm of the State

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64. *See id.* at 192.

65. *See id.*

66. *See* Employees v. Department of Pub. Health and Welfare, 411 U.S. 279 (1973); *see also* Welch v. Texas Dep't of Highways and Pub. Transp., 483 U.S. 468, 478 (1987) (overruling *Parden* to the extent that it "is inconsistent with the requirement that an abrogation of Eleventh Amendment immunity be expressed in unmistakably clear language. . . .").

67. *See, e.g.*, College Sav. Bank v. Florida Prepaid Postsecondary Educ. Expense Bd., 948 F. Supp. 400, 418-20 (D.N.J. 1996), *aff'd by* 131 F.3d 353 (3d Cir. 1997) & 148 F.3d 1343 (Fed. Cir. 1998), *aff'd in part by* 119 S. Ct. 2219 (1999), *and rev'd in part by* 119 S. Ct. 2199 (1999).

68. *See* Seminole Tribe v. Florida, 517 U.S. 44, 66 (1996).

69. *See College Savings Bank*, 948 F. Supp. at 419.

70. *See College Savings Bank*, 119 S. Ct. at 2228 (overruling *Parden*); *see also Reconceptualizing the Role of Constructive Waiver*, *supra* note 30, at 1769 (arguing that the *Parden* doctrine remained viable following *Seminole Tribe*).

71. *See College Savings Bank*, 948 F. Supp. at 401.

72. *See id.*

of Florida, also administers a program designed to provide Florida residents with adequate funds to pay uncertain future college expenses.[73]

CSB sued Florida Prepaid in federal court, claiming infringement of its patent under the Patent Act.[74] Later, CSB brought a second suit against Florida Prepaid under the false advertising prong of the Lanham Act, claiming that Florida Prepaid failed to disclose CSB's patent infringement action in its annual report.[75]

Following the Supreme Court's decision in *Seminole Tribe*,[76] Florida Prepaid moved to dismiss both of CSB's actions under the Eleventh Amendment.[77] The district court rejected CSB's argument that Florida Prepaid had waived its immunity under the *Parden* doctrine, holding that providing educational funds is a core government function to which the constructive waiver doctrine does not apply.[78]

Examining CSB's patent infringement claim, the district court held that the Patent Remedy Act[79] validly abrogated Florida's sovereign immunity.[80] The district court agreed with Florida Prepaid that after *Seminole Tribe,* Congress could not use its Article I powers to abrogate Florida's Eleventh Amendment immunity.[81] Because the Patent Remedy Act protects patent owners from deprivation of their property rights without due process of law, however, the court found it to be a valid exercise of Congress' enforcement powers under section 5 of the Fourteenth Amendment.[82]

Turning to CSB's Lanham Act claim, the district court noted that CSB claimed that Florida Prepaid violated the false advertising prong of the Act.[83] The court held that a right to be free from false advertising does not constitute a property right within the meaning of the Fourteenth Amendment.[84] Thus, the Trademark Remedy Clarification Act ("TRCA")[85] did not validly abrogate Florida's Eleventh Amendment immunity.[86]

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73. 35 U.S.C. § 271. *See College Savings Bank*, 948 F. Supp. at 401-2.

74. *See College Savings Bank*, 948 F. Supp. at 402.

75. *See id.*

76. *Seminole Tribe v. Florida*, 517 U.S. 44 (1996) held that Congress could not abrogate state sovereign immunity pursuant to its Article I powers.

77. *See College Savings Bank*, 948 F. Supp. at 406.

78. *See College Savings Bank*, 948 F. Supp. at 418. Alternatively, the district court held that *Seminole Tribe* implicitly overruled *Parden. See id.* at 419.

79. 35 U.S.C. §§ 271(h), 296(a) (1992).

80. *See College Savings Bank*, 948 F. Supp. at 425-26.

81. *See id.* at 421.

82. *See id.* at 426.

83. *See id.*

84. *See id.* at 426-37.

Florida Prepaid appealed the district court's denial of its motion to dismiss the Patent Act claim, and CSB appealed the dismissal of its Lanham Act claim. The Federal Circuit heard Florida Prepaid's Patent Act appeal,[87] and the Third Circuit reviewed CSB's Lanham Act appeal.[88] Both courts of appeals agreed with the district court that after *Seminole Tribe* Congress can abrogate states' sovereign immunity only when it legislates pursuant to its enforcement power under the Fourteenth Amendment.

The Federal Circuit affirmed the denial of Florida Prepaid's motion to dismiss, because it found the Patent Remedy Act to be a valid exercise of Congress' Fourteenth Amendment powers. The court held that the Patent Remedy Act clearly manifested Congress's intent to abrogate the Eleventh Amendment.[89] Additionally, the court found that preventing states from infringing patents without compensating the owner protected the patentee's property rights from deprivation without due process of law.[90] Thus, the Patent Remedy Act constituted a permissible congressional objective under the Fourteenth Amendment.[91] Finally, the court held that the Patent Remedy Act was "appropriate" legislation within the meaning of the Fourteenth Amendment, because it places only a slight burden on states relative to the grave harm to patentees who would otherwise be unable to enforce their patent rights against infringing states.[92]

The Third Circuit affirmed the dismissal of the Lanham Act claim, agreeing with the district court that Florida Prepaid performed a core government function and thus could not constructively waive its sovereign immunity under *Parden*.[93] The court also agreed with the district court that the right to be free from false advertising does not constitute a property right protected by the Fourteenth Amendment.[94] Therefore, the TRCA was not a valid exercise of Congress' Fourteenth Amendment powers and did

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85. 15 U.S.C. § 1122 (b) (1992). Congress passed the TRCA to abrogate states' Eleventh Amendment immunity from suit under the Lanham Act. *See* College Sav. Bank v. Florida Prepaid Postsecondary Educ. Expense Bd., 131 F.3d 353, 357 (3d Cir. 1997).

86. *See College Savings Bank*, 948 F. Supp. at 426.

87. College Sav. Bank v. Florida Prepaid , 148 F.3d 1343, 1346 (Fed. Cir. 1998).

88. *College Savings Bank*, 131 F.3d at 353 (3d Cir.).

89. *See College Savings Bank*, 148 F.3d at 1347 (Fed. Cir.).

90. *See id.* at 1352.

91. *See id.*

92. *See id.* at 1355.

93. *See College Savings Bank*, 131 F.3d at 364 (3d Cir.). Unlike the district court, the court of appeals declined to speculate whether *Seminole Tribe* implicitly overruled *Parden*. *See id.* at 365.

94. *See id.* at 361.

not abrogate Florida's immunity from suit for false advertising under the Lanham Act.[95]

B. The Supreme Court's Decisions

1. Lanham Act claim—College Savings Bank v. Florida Prepaid

The Supreme Court first noted that the Eleventh Amendment bars CSB's suit unless (1) the TRCA validly abrogated Florida's sovereign immunity under the Fourteenth Amendment; or (2) Florida Prepaid waived immunity.[96] Addressing the abrogation issue, the Court reaffirmed its holding in *Seminole Tribe* that Congress can abrogate the Eleventh Amendment only when it acts to enforce the Fourteenth Amendment.[97] To be a valid exercise of Fourteenth Amendment power, the TRCA must remedy state deprivations of property without due process of law.[98]

The Court rejected CSB's argument that the right to be free from false advertising and the right to be secure in one's own business interests constitute property rights that Congress can protect from unconstitutional state deprivation under the Fourteenth Amendment.[99] Crucial to the Court's reasoning is the fact that the proposed property rights do not give CSB a right to exclude others, a right the Court considered "the hallmark of a protected property interest."[100] Finding no protectable property interest, the Court held that the Fourteenth Amendment gives Congress no power to enact the TRCA.[101]

The Court also rejected CSB's argument that Florida Prepaid waived its immunity under the *Parden* doctrine by engaging in activity regulated by the Lanham Act. Reviewing the doctrine of constructive waiver first espoused in *Parden*, the Court noted that subsequent case law had severely limited *Parden's* holding,[102] and that the *Parden* doctrine cannot be reconciled with other cases holding that a state's waiver must be unequivocal.[103] Finding that "the constructive-waiver experiment of Parden was ill conceived," the Court held that "[w]hatever may remain of . . . Parden is ex-

95. *See id.*
96. *See* College Sav. Bank v. Florida Prepaid Postsecondary Educ. Expense Bd., 119 S. Ct. 2219, 2223 (1999).
97. *See id.* at 2224.
98. *See id.*
99. *See id.* at 2224-25.
100. *Id.* at 2224.
101. *See id.* at 2225.
102. *See id.* at 2226-28.
103. *See id.* at 2228.

pressly overruled."[104] The Court found that waiver of sovereign immunity requires an express statement by the state.[105] Because Florida made no such statement, Florida Prepaid could claim sovereign immunity from CSB's Lanham Act suit.[106]

2. *Patent Act claim—Florida Prepaid v. College Savings Bank*

Reversing the Federal Circuit, the Supreme Court held that Florida Prepaid cannot be sued in federal court for patent infringement.[107] The Court first noted that the Patent Remedy Act cannot be enacted under the Patent Clause, because Article I powers cannot be used to abrogate state sovereign immunity after *Seminole Tribe*.[108] Rejecting arguments that the Patent Remedy Act was necessary to ensure uniformity of the patent system, the Court noted that while uniformity of patent rights was a proper Article I concern, Article I does not give Congress the power to abrogate sovereign immunity.[109]

The Court also rapidly disposed of CSB's claim that by engaging in regulated activity, Florida Prepaid waived its immunity under *Parden*, noting that its companion decision in *College Savings Bank* squarely overrules *Parden* and eliminates the concept of constructive waiver from Eleventh Amendment jurisprudence.[110] The Court then turned to whether the Patent Remedy Act could be sustained under the Fourteenth Amendment.

The Patent Remedy Act's abrogation of state sovereign immunity can be sustained only if it constitutes a valid exercise of Congress' power to enforce the Fourteenth Amendment.[111] The text of section 5 of the Fourteenth Amendment mandates that legislation enacted pursuant to its enforcement powers be "appropriate." The Court explained that after *City of Boerne*, to enact appropriate legislation, Congress "must identify conduct transgressing the Fourteenth Amendment's substantive provisions, and must tailor its legislative scheme to remedying or preventing such conduct."[112]

Applying this standard to the Patent Remedy Act, the Court found that it could not be upheld as appropriate remedial legislation under the Four-

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104. *Id.*
105. *See id.* at 2229.
106. *See id.* at 2233.
107. *See* Florida Prepaid Postsecondary Educ. Expense Bd. v. College Sav. Bank, 119 S. Ct. 2199, 2202 (1999).
108. *See id.* at 2205.
109. *See id.* at 2211.
110. *See id.* at 2204-05.
111. *See id.* at 2205.
112. *Id.* at 2207.

teenth Amendment.[113] The Court conceded that patents could be considered property, the deprivation of which without due process may constitute a violation of the Fourteenth Amendment.[114] The Court held, however, that Congress failed to identify a pattern of state patent infringement sufficiently egregious to justify the Patent Remedy Act as remedial legislation.[115] In its legislative findings, Congress identified only a few cases of state infringement, particularly *Chew v. California*.[116] Because Congress failed to sufficiently identify a pattern of state abuse, the Court found the Patent Remedy Act's provisions too out of proportion to the threatened harm of infringement to constitute remedial legislation.[117]

The Court also noted that deprivation of property only violates the Fourteenth Amendment if the state takes the property without due process of law. Congress neglected to examine the adequacy of available state law remedies, such as actions in tort or for restitution, that would provide the necessary due process.[118] Given what it perceived to be the paucity of Congress's findings, the Court concluded that Congress could not have intended the Act to remedy past constitutional violations. The Court therefore found that, like the Religious Freedom Restoration Act struck down in *City of Boerne*, the Patent Remedy Act constituted an unconstitutional attempt to create substantive new rights.[119] Because the Patent Remedy Act was not a valid exercise of Congress' Fourteenth Amendment powers and did not, therefore, effectively abrogate Florida Prepaid's sovereign immunity, the Court dismissed CSB's suit for lack of subject matter jurisdiction.[120]

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113. *See id.* at 2210-11.

114. *See id.* at 2210.

115. *See id.* at 2207-8.

116. 893 F.2d 331 (Fed. Cir. 1990). *See Florida Prepaid*, 119 S. Ct. at 2214 (Stevens, J., dissenting).

117. *See Florida Prepaid*, 119 S. Ct. at 2210.

118. *See id.*

119. *See id.* at 2211 (noting that "[t]he statute's apparent and more basic aims were to provide a uniform remedy for patent infringement and to place States on the same footing as private parties under that regime.").

120. *See id.* at 2210-11.

III. ANALYSIS

A. *Florida Prepaid* Creates a Loophole in Federal Intellectual Property Law

In *Florida Prepaid*, the Court held that patentees cannot enforce their property rights against states in federal court.[121] Because the law vests exclusive jurisdiction in the federal courts to remedy violations of the federal patent law,[122] the Court's holding deprives patentees of federal protection.[123] To justify its holding, the Court noted that Congress failed to examine the availability of state law remedies for patent infringement,[124] effectively throwing patentees back upon state law to enforce their rights. In so doing, the Court undermined one of the principal goals of the intellectual property system: national uniformity.

Article I grants Congress authority over patents and copyrights.[125] Before ratification of the Constitution, individual states had the power to issue patents.[126] This patchwork system led to conflicting rights in the same invention created by patents issued by separate states.[127] Such conflicts prompted the inclusion in the Constitution of the Patent and Copyright Clauses, which allowed Congress to create a national system for regulating patent rights.[128]

To further the goal of national uniformity, Congress has repeatedly exercised its authority to constrict which courts may hear patent cases. Congress long ago acted to prevent state courts from hearing claims arising

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121. *See id.* at 2202. Litigants not seeking damages are not completely shut out from federal court, however. Under *Ex Parte Young*, 209 U.S. 123 (1908), the Eleventh Amendment does not bar suits for prospective injunctive relief against state officials. Such a route remains open even after *Florida Prepaid* and *College Savings Bank*. *See* College Sav. Bank v. Florida Prepaid Postsecondary Educ. Expense Bd., 119 S.Ct. 2219, 2239-40 (Breyer, J., dissenting).

122. *See* 28 U.S.C. § 1338(a) (providing in relevant part that "[t]he district courts shall have original jurisdiction of any civil action arising under any Act of Congress relating to patents. . . . Such jurisdiction shall be exclusive of the courts of the states in patent, plant variety protection and copyright cases.").

123. In so holding, the Court may give a green light to state deprivation of constitutionally-protected property rights without affording due process of law, thus allowing state violation of the Fourteenth Amendment. *See* discussion *infra*.

124. *See Florida Prepaid*, 119 S.Ct. at 2209.

125. *See* U.S. CONST. art. I, § 8, cl. 8.

126. *See* ROBERT P. MERGES ET AL., INTELLECTUAL PROPERTY IN THE NEW TECHNOLOGICAL AGE 125 (2d ed. 1997).

127. *See id.*

128. *See id.* at 125-26.

under the Patent Act.[129] In 1982, reacting in part to divisiveness among the circuits on patent law and the resulting widespread forum shopping, Congress vested exclusive jurisdiction over patent appeals in the Court of Appeals for the Federal Circuit.[130] In addition, the Court has often struck down state laws that impermissibly intrude into the federally-preempted realm of patent law,[131] thus preventing state courts from interfering with the uniformity of the federal regulatory scheme.

By throwing open the door to state-law enforcement of patent rights, the *Florida Prepaid* Court creates a substantial new threat to the uniformity of the federal patent system. Instead of litigating in a federal court, subject to review by the Federal Circuit and the Supreme Court, patentees seeking redress for damages will be forced to assert Taking Clause claims[132] or to press uncertain state law claims such as misappropriation and unfair competition.[133] States will likely differ in their approaches to tort and unfair competition law; therefore, the protection afforded a patentee under such laws will vary from state to state. Thus, the problems of inconsistent remedies and forum shopping that led to the creation of the Federal Circuit could resurface as a result of the Court's decision.[134]

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129. *See* 28 U.S.C. § 1338(a); *see also Florida Prepaid*, 119 S. Ct. at 2211 n.1 (Stevens, J., dissenting) (noting dispute over whether jurisdiction became exclusive in the federal courts in 1800 or 1836).

130. *See* Federal Courts Improvement Act of 1982, 28 U.S.C. § 1295 (1982); *see also Florida Prepaid*, 119 S. Ct. at 2212-13 & n.3 (Stevens, J., dissenting).

131. *See* Bonito Boats, Inc. v. Thunder Craft Boats, Inc., 489 U.S. 141, 167-68 (1989) (holding that Florida law protecting unpatented boat-hull designs impermissibly entered an area of regulation reserved to Congress and noting that "the patent statute's careful balance between public right and private monopoly to promote certain creative activity is 'a scheme of federal regulation . . . so pervasive as to make reasonable the inference that Congress left no room for the States to supplement it.'" (quoting Rice v. Sante Fe Elevator Corp., 331 U.S. 218, 230 (1947)); Sears, Roebuck & Co. v. Stieffel Co., 376 U.S. 225, 232-33 (1964) (holding that state unfair competition law cannot protect against copying an invention which was unprotectable under federal patent law).

132. *See* John T. Cross, *Intellectual Property and the Eleventh Amendment After Seminole Tribe*, 47 DEPAUL L. REV. 519, 542-59 (discussing whether state infringement of federal patent and copyright law constitutes a taking).

133. But note that the Court's previous decisions discussed in note 131, *supra*, prohibit such state law remedies if they intrude into substantive areas of patent law. Because such laws would be used to replace a patent infringement action against a state, they are most likely preempted by federal law as described in *Bonito Boats*.

134. *See* Florida Prepaid Postsecondary Educ. Expense Bd. v. College Sav. Bank, 119 S. Ct. 2199, 2212-13 (1999) (Stevens, J., dissenting) (noting that "[t]he reasons that motivated the creation of the Federal Circuit would be undermined by any exception that allowed patent infringement claims to be brought in state court.").

The Court's holding also threatens the policies underlying federal intellectual property law, which Congress and the federal courts have carefully shaped to provide incentives for innovation while limiting the potential damage from monopoly power. To the extent that state-created rights must be used by patentees to protect themselves from state infringement, they will alter "the patent statute's careful balance between public right and private monopoly to promote certain creative activity."[135] Indeed, such laws may create the patchwork of conflicting state remedies which initially motivated adoption of the Patent and Copyright Clauses. By dismissing such considerations as merely "a factor which belongs to the Article I patent-power calculus" and noting "that Article [I] does not give Congress the power to enact [the Patent Remedy Act] after Seminole Tribe,"[136] the Court leaves Congress powerless to enact legislation both necessary and proper to fulfil the constitutionally-mandated goals of the patent system.

B. The Court Improperly Focuses on the Adequacy of the Congressional Record to Invalidate the Patent Remedy Act

The Court held that neither the TRCA nor the Patent Remedy Act can be sustained as legislation appropriate to enforce the Fourteenth Amendment. In the case of the TRCA, the Court found no protectable property interest in being free from false advertising.[137] The Court admitted that patents create property rights which, in theory, can be protected from unconstitutional state deprivation.[138] However, the Court avoided the question of whether Florida Prepaid's willful infringement could constitute a deprivation of CSB's property rights, instead focussing on whether Congress made adequate factual findings on the frequency of state infringement and the availability of state remedies.[139] Because Congress failed to provide adequate findings, the Court struck down the Patent Remedy Act on its face.[140] In so doing, it ignored the facts of the case before it, which presented a potentially constitutional application of the Patent Remedy Act.

To reach this holding, the Court purported to follow the requirement that legislation enacted to enforce the Fourteenth Amendment be remedial

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135. *Bonito Boats*, 489 U.S. at 141.

136. *Florida Prepaid*, 119 S. Ct. at 2209, 2211.

137. *See* College Sav. Bank v. Florida Prepaid Postsecondary Educ. Expense Bd., 119 S. Ct. 2219, 2224-25 (1999).

138. *See Florida Prepaid*, 119 S. Ct. at 2208.

139. *See id.* at 2207-08.

140. *See id.* at 2210.

rather than substantive in nature.[141] Appropriate legislation must remedy a constitutional violation without creating new substantive constitutional rights.[142] In *City of Boerne*, the Court reformulated the test for remedial legislation, holding that "[t]here must be a congruence and proportionality between the injury to be prevented or remedied and the means adopted to that end."[143] In *City of Boerne*, the Court struck down the RFRA because it attempted to change the substantive test used to determine whether a state action violated the Free Exercise Clause.[144] Because it worked a substantive change in constitutional rights, the RFRA could not be appropriate remedial legislation passed to enforce the Fourteenth Amendment.

The *Florida Prepaid* Court cites *City of Boerne* for the proposition that Congress must provide lengthy findings to support its adoption of remedial legislation.[145] However, although the Court in *City of Boerne* did examine the adequacy of Congress's findings, it did so merely to illustrate that Congress intended the RFRA to alter the nature of protection afforded by the Free Exercise Clause.[146] In fact, the *City of Boerne* Court expressly stated that "lack of support in the legislative record . . . is not the RFRA's most serious shortcoming," and noted that deference to Congress "is based not on the state of the legislative record Congress compiles but 'on due regard for the decision of the body constitutionally appointed to decide.'"[147] The flaw in the RFRA lay in Congress's attempt to override the Court's determination of an appropriate test for a Free Exercise violation, and respect for its own precedents led the Court to invalidate Congress's attempt to "control cases and controversies . . . beyond congressional authority."[148]

None of the problems present in *City of Boerne* are implicated by the Patent Remedy Act or the facts of *Florida Prepaid*.[149] The Remedy Act

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141. *See id.* at 2211.

142. *See id.* at 2206.

143. 521 U.S. 507, 520 (1997).

144. *See id.* at 532. Congress enacted the RFRA to reverse the Court's holding in *Employment Division, Department. of Human Resources v. Smith*, 494 U.S. 872 (1990), which altered the test for whether a state law that places incidental burdens on religion violates the Free Exercise Clause. *See* City of Boerne v. Flores, 521 U.S. 507, 512-13 (1997).

145. *See Florida Prepaid*, 119 S. Ct. at 2210.

146. *See City of Boerne*, 521 U.S. at 532.

147. *Id.* at 531 (quoting Oregon v. Mitchell, 400 U.S. 112, 207 (1970)).

148. *Id.* at 536.

149. The majority declared that the statute sweeps too broadly because it could subject a state to suit for negligent infringement, and only intentional deprivations of property violate the Fourteenth Amendment. *See Florida Prepaid*, 119 S. Ct. at 2209-10. However, the Court could construe the Remedy Acts to reach only situations involving

does not alter the substantive rights of patentees. It merely eliminates the defense of sovereign immunity from the states' arsenal. The lack of findings on the frequency of state infringement should not be dispositive; rather, the Court should follow the test set out in *City of Boerne* and examine whether there is congruence between the remedy provided and the targeted unconstitutional state action. And, as Justice Stevens noted in dissent, if states rarely infringe patent rights, then the Act will rarely be used to subject them to suit in federal court.[150] Thus, the Remedy Act is particularly well-tailored to address the harm Congress identified.

C. The Court's Holding Gives an Unjust Advantage to States Acting as Private Actors in the Market

In *College Savings Bank*, the Court held that Congress cannot condition a state's participation in commercial activities on its consent to abide by—and be sued in federal court for violations of—valid federal regulations governing such activities.[151] To reach its holding, the Court expressly overruled the constructive waiver doctrine of *Parden*.[152] The Court rejected arguments that a state behaving as a market participant should be subject to the same federal regulations as its private competitors, noting that states cannot be treated as equal to private actors because "[t]he constitutional role of the States sets them apart from other . . . defendants."[153] Though the Court's position has merit when a state acts in a traditional sovereign capacity, its rationale falters when a state's behavior and actions are indistinguishable from those of its private competitors. The sovereign immunity doctrine developed in an era in which states did not compete

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intentional infringement, thus avoiding striking the statute down on its face. In *Florida Prepaid*, CSB alleged that Florida Prepaid intentionally infringed its patent, and therefore the case does not raise the question of whether the Remedy Act can constitutionally be applied to negligent infringement. *See id.* at 2213 (Stevens, J., dissenting).

150. *See id.* at 2218 (Stevens, J., dissenting).

151. *See* College Sav. Bank v. Florida Prepaid Postsecondary Educ. Expense Bd., 119 S. Ct. 2219, 2228 (1999).

152. *See id.* The Court's decision to overrule *Parden* may have been unnecessary since it could have reached the same result by finding, as did the Third Circuit, that Florida's provision of educational funds is a core governmental function falling outside the scope of the *Parden* doctrine. *See* Employees of the Dep't of Pub. Health & Welfare v. Department of Pub. Health & Welfare, 411 U.S. 279 (1973) (holding that constructive waiver doctrine cannot apply when a state engages in core governmental functions); College Sav. Bank v. Florida Prepaid Postsecondary Educ. Expense Bd., 131 F.3d 353, 364 (3d Cir. 1997) (concluding that Florida Prepaid's activities were an important government activity falling outside the reach of the *Parden* doctrine).

153. *College Savings Bank*, 119 S. Ct. at 2231 (quoting Welch v. Texas Dept. of Highways and Public Transp., 483 U.S. 468, 477 (1987)).

alongside private actors in the marketplace,[154] and should be inapplicable to modern states behaving as market participants.

When states conduct traditional business, they cease to behave as sovereigns and instead act in a fashion indistinguishable from private participants in the market. As Justice Stevens noted in dissent in *College Savings Bank*, the doctrine of sovereign immunity developed at a time when sovereigns did not "play the kind of role in the commercial marketplace that they do today."[155] While state sovereign immunity is crucial to protecting the constitutional role of the states in our federal system, states today engage in a variety of commercial activities that fall outside of their traditional role.[156] When applied to states involved in commercial activities, the doctrine of sovereign immunity ceases to serve the goals of federalism and merely shields a commercial actor from liability for violations of federal law. In such contexts, sovereign immunity creates unstoppable holes in federal regulatory schemes and gives an unfair competitive edge to states that enter federally-regulated private markets.

In a similar situation, the Court has recognized the advisability of treating states behaving like market participants as private actors in the same market. The Court created a market participant exception from its generally applicable Commerce Clause jurisprudence, which releases from the strictures of the dormant Commerce Clause state discrimination resulting from a state's entrance into the marketplace. In *Hughes v. Alexandria Scrap*,[157] for example, a Virginia-based scrap collector challenged a Maryland law providing a bounty for scrapped cars processed within Maryland.[158] Although Maryland's law discriminated on its face against out-of-state processors, the Court nonetheless found it constitutional.[159] The Court noted that its cases invalidating state laws on dormant Commerce Clause grounds found that the states had "interfered with the natural functioning of the interstate market either through prohibition or through burdensome regulation."[160] In contrast, Maryland merely entered into the

154. *See generally* Seminole Tribe v. Florida, 517 U.S. 44, 95-99 (1996) (Stevens, J., dissenting) (describing the evolution of sovereign immunity in the Middle Ages and its inapplicability to republican forms of government).

155. *College Savings Bank*, 119 S. Ct. at 2234 (Stevens, J. , dissenting).

156. For example, states now actively accumulate intellectual property, and vigorously defend their intellectual property rights against private infringement. *See* Rebecca S. Eisenberg, *Public Research and Private Development: Patents and Technology Transfer in Government-Sponsered Research*, 82 VA. L. REV. 1663, 1708-09 (1996).

157. 426 U.S. 794 (1976).

158. *See id.* at 801-02.

159. *See id.* at 814.

160. *Id.* at 806.

market for scrap metal, which increased market demand for scrap processed in-state.[161] The Court emphasized that Maryland's participation influenced market forces, but did not control them through improper regulation because "[n]othing in the purposes animating the Commerce Clause prohibits a State . . . from participating in the market and exercising the right to favor its own citizens over others."[162]

Just as the market participant exception lifts dormant Commerce Clause restrictions when they cease to serve the purpose underlying the Commerce Clause, the *Parden* doctrine removed the shield of sovereign immunity from states when they ceased behaving as sovereigns and entered into federally-regulated markets.[163] The *Parden* doctrine prevented gaps in federal regulation by allowing Congress to condition state entry into federally-regulated markets on waiver of Eleventh Amendment immunity for liability resulting from state violations of federal regulations of the market.[164] The Court in *Parden* recognized the importance of preserving state sovereign immunity from suit in federal court for activities outside the federal government's regulatory sphere.[165] It also realized, however, that states were increasingly entering the sphere of activities regulated by Congress,[166] and that such regulation often took the form of authorizing suits by private citizens to enforce a federally-created right.[167] Immunizing states from such suits would substantially hamper Congress's ability to regulate activity falling within its constitutional sphere.[168] Moreover, it would be unfair to deny individuals their federally-created rights simply because the entity violating their rights happened to be a state.[169] The Court reasoned that "when a State leaves the sphere that is exclusively its own and enters into activities subject to congressional regulation, it

161. *See id.* at 809-10.

162. *Id.* at 810.

163. *See* College Sav. Bank v. Florida Prepaid Postsecondary Educ. Expense Bd., 119 S.Ct. 2219, 2237 (Stevens, J., dissenting).

164. *See* Parden v. Terminal Ry., 377 U.S. 184, 192 (1964).

165. *See id.* Later cases further limited Parden to situations in which the state acts outside its core governmental functions. *See* Employees of Dep't of Public Health and Welfare v. Department of Pub. Health and Welfare, 411 U. S. 279, 284 (1973) (limiting *Parden* to "the area where private persons and corporations normally ran the enterprise").

166. *See Parden*, 377 U.S. at 197.

167. *See id.* at 197-98.

168. *See id.* at 198.

169. *See id.* at 197 (finding that "[I]t would surprise our citizens, we think, to learn that petitioners, who in terms of the language and purposes of the FELA are on precisely the same footing as other railroad workers, must be denied the benefit of the Act simply because the railroad for which they work happens to be owned and operated by a State rather than a private corporation.").

subjects itself to that regulation as fully as if it were a private person or corporation."[170] The Court's holding thus protected individual's rights from the threat of unaccountable state action. Before *College Savings Bank*, the *Parden* doctrine was a viable method for holding a state accountable if it sheds its sovereign nature and willingly enters a federally-regulated market.

IV. CONCLUSION

Florida Prepaid and *College Savings Bank* extend the shield of sovereign immunity to states sued for violations of federal patent and trademark law. The Supreme Court found Congress's attempt to abrogate sovereign immunity inappropriate legislation for Fourteenth Amendment purposes, but it did so by improperly relying on inadequacies in Congress's findings rather than by thoroughly examining whether or not the Acts properly prevent state deprivation of protected property. The Court also repudiated the doctrine of constructive waiver and held that the states do not waive their immunity by knowingly entering federally-regulated markets. This holding creates a class of market participants who, unlike their competitors, can operate free of the federal regulatory scheme. By forcing patentees to resort to Takings Clause or state law actions to enforce their federal property rights, the Court's holding opens the door to substantial distortions in the uniformity of the federal intellectual property system, and disrupts the delicate balance struck by Congress between promoting innovation through creation of exclusive rights and stifling competition through monopolization.

170. *Id.* at 196.

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TELECOMMUNICATIONS

AT&T CORP. V. CITY OF PORTLAND

By Christopher K. Ridder

Distinctions between cable and telephone service are blurring because of a phenomenon known as convergence. Convergence is a long sought-after achievement that is beginning to come to fruition: providers of cable, telephone and wireless services can each deliver a range of information services over their pipelines to consumers.[2] In the present market for Internet service, for example, both telephone and cable companies are rolling out high-speed (broadband) Internet access.[3] Yet, even as functional distinctions between broadband services lose their relevance, the regulatory distinctions between pipeline providers persist.

One instance of differential regulatory treatment is the absence of an open access requirement for cable operators analogous to that faced by telecommunications providers. Open access provisions require pipeline providers to open their facilities to third parties providing various telecommunications services, under the justification that in the absence of such provisions consumers will be left with little meaningful choice of Internet Service Providers ("ISPs"). The law currently requires such open access of local telephone service providers,[4] however there is no such provision for cable service providers.

At this stage of development, cable television networks currently provide the sole source of broadband Internet access in many communities.[5] These cable operators generally include only one ISP in the cost of the broadband service. Many local governments are concerned that without open access requirements for cable operators, local ISPs will be driven out of the market because consumers will transition to broadband services via cable as soon as they become available, and will be unwilling to pay for an

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1. *See* Victoria Ramundo, *The Convergence Of Telecommunications Technology And Providers:The Evolving State Role In Telecommunications Regulation*, 6 ALB. L.J. SCI. & TECH. 35, 54 (1996).

2. *See id.*

3. *See id.*

4. *See generally* Telecommunications Act of 1996, 93 Pub. L. No. 104-104, 110 Stat. 56 (codified in scattered sections of 47 U.S.C.).

5. In other markets, cable competes with DSL provided by local telephone companies. Other services, like DirecPC, offer wireless broadband solutions at prohibitive (but decreasing) cost.

alternate ISP service on top of the cable internet service fee.[6] The FCC has generally adopted a posture of restraint in regulating the Internet, and has specifically declined to rule on whether cable television networks are subject to the same unbundling requirements imposed on telephone networks by the 1996 Act.[7] The FCC's rationale is that it wishes to wait until the details of how this technology develops are more settled before it makes any sweeping changes in the cable regulatory regime.

Yet many local communities are not content to wait for the FCC. Unwilling to let a large commercial community of ISPs die on the vine, and seeing an opportunity presented by the application of the city's local cable operator—TeleCommunications, Inc. ("TCI")—for a transfer of control following its merger with AT&T, the city of Portland, Oregon required the local cable television operator to open its facilities to competing information providers as a condition of the transfer.[8] In *AT&T Corp. v. City of Portland,*[9] AT&T challenged the authority of Portland to impose an open access requirement. The court held that, based on the language of the Cable Act,[10] and the historic powers of local governments to regulate cable providers to preserve competition, open access requirements were permissible conditions for transfer.[11] This Note concludes that the court was correct in deciding that localities may impose open access requirements as part of their franchising authority under the Cable Act.

I. FACTUAL BACKGROUND

In June 1998, AT&T and TCI announced a merger agreement in which TCI would become a wholly-owned subsidiary of AT&T.[12] Among other benefits, this merger afforded AT&T the opportunity to offer broadband

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6. *See* openNET Coalition, *What's at Stake* (visited Feb. 6, 2000) ⟨http://opennetcoalition.org/what/⟩.

7. Specifically, the FCC concluded that "the deployment of advanced telecommunications capability . . . appears . . . to be proceeding on a reasonably and timely schedule." Advanced Services Report, 14 F.C.C.R. 2398, ¶ 91 (1999). The FCC therefore found that "at this time," there is no reason to impose open access conditions. *Id.* ¶ *101. See also* Applications for Consent to the Transfer of Control of Licenses and Section 214 Authorizations from TCI to AT&T, 14 F.C.C.R. 3160, ¶¶ 60-91 [hereinafter *TCI Order*] (considering in detail whether to impose an open access restriction on the AT&T/TCI merger, and deciding against it).

8. *See* AT&T Corp. v. City of Portland, 43 F. Supp. 2d 1146, 1150 (D. Ore. 1999).

9. 43 F. Supp. 2d 1146 (D. Ore. 1999).

10. Cable Communications Policy Act of 1984, Pub. L. No. 98-549, 98 Stat. 2779 (1984) (codified as amended at 47 U.S.C. § 521 et seq. (1994)).

11. *See Portland*, 43 F. Supp. 2d, *passim.*

12. *See id.* at 1150.

Internet service through TCI's existing cable television infrastructure, bypassing local phone companies while increasing the speed of Internet access.[13]

Pursuant to TCI's franchise agreements with the City of Portland and Multnomah County, plaintiffs requested approval for a change of control to AT&T. AT&T planned to offer cable Internet access exclusively through its @Home subsidiary, which would require customers seeking alternate ISP services to effectively pay twice—once for access to @Home's cable modem platform, and again for service from another ISP.[14]

In December 1998, the city and county conditioned approval of the license transfer on an open access requirement, which would require the companies to provide access to their cable facilities to unaffiliated ISPs for a reasonable fee.[15] This was in response to public hearings on the effect of the merger on local cable service, which held that @Home had no viable competitors in the market.[16] The local governments reasoned that AT&T's plan constituted an anticompetitive use of an essential facility, because cable is one of few broadband alternatives, and customers would be unlikely to pay twice to use a competing ISP. Further, they found that the advantages of affordable broadband access would undercut the market for competing ISPs, harming the local economy and reducing competition in the Internet service market.[17]

AT&T, TCI and the local franchises rejected the open access condition, which resulted in a denial of their transfer request.[18] They then filed suit seeking a declaratory judgment that the open access restriction was invalid. Plaintiffs argued that the city and county exceeded the limitations that they could lawfully place on approving a change in control, because (a) the federal Cable Act prohibited defendants from requiring open access to their cable facilities; (b) the condition violated the First Amendment and the Contract Clauses of the federal and Oregon Constitutions; (c) the conditions violated the Commerce Clause by burdening interstate commerce; and (d) the open access condition constituted a breach of the franchise agreements.[19] The court found that the city and county had authority

13. *See id.* at 1149-1150.
14. *See id.* at 1150.
15. *See id.*
16. *See id.*
17. *See id.*
18. *See id.*
19. *See id., passim.*

to impose the condition for the purpose of furthering competition in the Internet access market.[20]

II. THE DISTRICT COURT'S DECISION

The United States District Court for the District of Oregon held that local franchising authorities had the power to condition a transfer on AT&T's supplying third parties access to the cable providers' facilities at the same rate it charged @Home. In rendering his decision, United States District Judge Owen Panner claimed he need not look to policy arguments.[21] Rather, he reasoned that these authorities had the power to impose such conditions because there was no federal preemption, the requirement did not implicate the First Amendment or the Commerce Clause, and the requirement did not constitute impermissible common carrier regulation because it was imposed to prevent an antitrust violation.[22] He found perhaps the strongest support for his holding in 47 U.S.C. 533(d), holding that by its plain meaning, this provision expressly permits local franchising authorities to impose open access requirements.[23]

A. Preemption Holdings

The first main question addressed by the court is whether Portland's actions were preempted by the Cable Act, which governs state and federal regulation of cable operators.[24] The Cable Act provides for a franchising system whereby cable companies lease public rights of way from local government entities.[25] Although the cable companies themselves own their cable infrastructure, local governments may exercise a substantial amount of discretion in how these franchises operate. For example, the Cable Act permits franchising authorities to require cable companies to set aside system capacity for public, educational and government access, for leased commercial access, and for certain local broadcast stations.[26] In addition, the Cable Act specifically authorizes local franchising authorities to regulate to preserve competition.[27] However, there are substantial limitations.

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20. *See id.* at 1152.
21. *See id.* at 1151.
22. *See id., passim.*
23. *See id.* at 1152.
24. *See id.* at 1151.
25. *See* 47 U.S.C. § 541 (1994).
26. *See id.* §§ 531(a), 532, 534, 535.
27. *See id.* § 533(d) (providing that the Act shall not be construed to prevent "any State or franchising authority from prohibiting the ownership or control of a cable system . . . in circumstances in which the State or franchising authority determines that the acqui-

Perhaps most significant is that a cable provider may not be regulated as a "common carrier."[28] A common carrier is one that both holds itself out indiscriminately for hire by the public and transmits its customers' content as it was provided.[29] Despite this prohibition, the Cable Act does not specifically prohibit open access requirements as a condition of granting or renewing a company's franchise agreement.[30]

With regard to AT&T's claim that local authority to impose open access was preempted, the court held that section 556 of the Cable Act[31] generally limits the Act's preemptive scope to interfere as little as possible with local authority to regulate cable franchises.[32] Finding that "[c]ourts have long recognized a city's power to promote competition in the local economy,"[33] the district court noted that if Congress wants to preempt a power traditionally held by state or local governments, it must make its intent "unmistakably clear."[34]

The court found such unmistakable clarity in 47 U.S.C. § 533(d)(2). This section explicitly recognizes the power of local franchising authorities to preserve competition in cable services by prohibiting ownership or control of a cable system "in circumstances in which the State or franchising authority determines that the acquisition of such a cable system may eliminate or reduce competition."[35] Noting that courts should defer to the findings of local authorities and the principle that the power to prohibit a change in control includes the power to place conditions on such a change,[36] the court held that this section supported defendants' right to impose an open-access condition.[37]

The court disagreed with the plaintiffs' assertion that the access provision regulated AT&T as a common carrier, which is prohibited by section

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sition of such a cable system may eliminate or reduce competition in the delivery of cable service").

28. *See id.* § 541(c).

29. *See* FCC v. Midwest Video Corp., 440 U.S. 689, 701 (1979).

30. *See* Cable Communications Policy Act of 1984, Pub. L. No. 98-549, 98 Stat. 2779 (1984) (codified as amended at 47 U.S.C. § 521 et seq. (1994)).

31. *See* 47 U.S.C. § 556 (governing when federal cable statutes preempt state and local regulations).

32. *See* AT&T Corp. v. City of Portland, 43 F. Supp. 2d 1146, 1151-52 (D. Ore. 1999).

33. *Id.* at 1152.

34. *See id.*

35. 47 U.S.C. § 533(d)(2) (1994).

36. *See Portland*, 43 F. Supp. 2d at 1152.

37. *See id.* at 1153-54.

541(c).[38] Rather, it distinguished the cable system as an essential facility.[39] The court then held that, because the open access requirement applied only to competing ISPs, it did not impose a duty to hold its facilities out indifferently for public use and thus did not compel cable operators to function as common carriers.[40]

Section 544(e) prohibits franchising authorities from restricting a cable system's use of any particular equipment or technology.[41] Because plaintiffs would need to modify their equipment in order to comply, they argued this provision would be implicated.[42] The court disagreed, stating that the open access regulation did not mandate any particular means for AT&T to implement the provision, nor did it mandate any particular type of technology.[43]

Plaintiffs also claimed that section 544(f)(1), prohibiting requirements regarding the content of cable services, was implicated because the open access requirement would compel them to carry the content of competing ISPs.[44] Yet the court found that AT&T had already agreed to allow subscribers to access such ISPs,[45] albeit at a higher rate.[46] Because it found the open-access provision to be content-neutral, the court held that section 544(f)(1) was not implicated.[47]

With regard to the Cable Act's "must carry" requirements,[48] AT&T argued that open access was sufficiently similar as to be preempted by these provisions.[49] The court disagreed with this argument, because Portland's open access requirement did not concern specific programming, but rather physical access to its facilities.[50] The court again noted AT&T's

38. *See id.* at 1153.
39. *See id.*
40. *See id.*
41. *See* 47 U.S.C. § 544(e) (1994).
42. *See* AT&T Corp. v. City of Portland, 43 F. Supp. 2d 1146, 1153 (D. Ore. 1999).
43. *See id.*
44. *See id.*
45. *See id.*
46. *See id.* at 1150 ("Cable subscribers could access unaffiliated ISPs only through the @Home service at the full retail rate. Few subscribers would pay twice for similar services.").
47. *See id.* at 1153.
48. *See* 47 U.S.C. §§ 531, 532, 534, 535 (1994) (requiring public, educational, government and leased access).
49. *See* AT&T Corp. v. City of Portland, 43 F. Supp. 2d 1146, 1153 (D. Ore. 1999).
50. *See id.* at 1153-54.

prior agreement to provide cable subscribers indirect access to competing ISPs.[51]

B. Constitutional Claims

AT&T argued that a number of constitutional provisions prevented local authorities' imposition of an open access requirement. They contended that the requirement implicated the First Amendment, because transmissions over its lines may be identified with the cable owners, as opposed to the customers themselves, that the restriction constituted an undue burden on interstate commerce, and that the requirement violated the Contract Clause by imposing restrictions not explicitly covered by the franchise agreements.[52] The court rejected all of these arguments.

The court found no free speech violation, because AT&T volunteered to give subscribers access to competing ISPs, and because any speech carried over the network would not likely be identified with the cable owners.[53] Moreover, Judge Panner noted that the open access requirement was a purely economic regulation and did not force plaintiffs to carry any particular speech.[54] Further, plaintiffs submitted no evidence that subscribers would associate AT&T with the speech of unaffiliated ISPs.[55]

Even if the open access requirement did affect plaintiffs' free speech rights, the court held that it would nevertheless pass the Supreme Court's test for reasonableness.[56] In applying the test, the court found that the open access requirement "furthers the substantial governmental interest in preserving competition, the governmental interest is unrelated to the suppression of free speech, and the incidental restriction on free speech is no greater than necessary."[57]

As to the Commerce Clause, the court found that the open access provision affected commerce only in the Portland metropolitan area, and thus did not unduly burden interstate commerce.[58] Although plaintiffs alleged the requirement would impose such a burden by creating additional expense, the court found that plaintiffs had not made a sufficient showing

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51. *See id.* at 1154.
52. *See id.* at 1154-55.
53. *See id.* at 1154.
54. *See id.*
55. *See id.*
56. *See id.* (citing United States v. O'Brien, 391 U.S. 367, 377 (1968)).
57. *Id.* at 1155.
58. *See id.* at 1154.

that such a burden would "outweigh the local benefits of encouraging competition."[59]

The court rejected the Contract Clause claims on the ground that the open access regulation was within the purview of the franchise agreements, and thus did not impair plaintiffs' contractual rights.[60] Citing language in the agreements providing that the City and County could condition a transfer on a company's legal qualifications, the court appeared to accept the argument that the open access provision was related to AT&T's legal obligations because local authorities' power to impose conditions on a transfer included the power to prevent an antitrust violation.[61]

C. Franchise Agreements

Finally, the court looked to the franchise agreements and determined that they did not prevent Portland from imposing open access requirements.[62] These agreements provided that local authorities could regulate franchisees "in the public interest . . . so long as such actions do not materially affect [their] rights."[63] The court found that the agreements would control if a City or County regulation "directly conflicts" with their terms, but that the open access requirement didn't conflict, and that local authorities could take into account the effect of a transfer on competition.[64] Therefore, plaintiffs had no contractual rights to exclude competitors from their cable Internet facilities.[65]

III. ANALYSIS

Although the district court ignored the threshold issue of whether internet over cable is a cable service, an issue which could become more important should the FCC rule on the matter, this Note concludes that the court's assumption was appropriate in light of the stipulations of the parties and the legislative history of the Cable Act.

Whether open access restrictions constitute common carrier regulations, which are prohibited under the Cable Act, is a closer question. Although the District Court's reasoning was flawed, this Note concludes that its holding was proper. Finally, this Note concludes that the open access restriction did not violate the Commerce Clause.

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59. *Id.*
60. *See id.* at 1155.
61. *See id.*
62. *See id.*
63. *Id.* (internal quotations omitted).
64. *See id.*
65. *See id.*

A. Cable Internet Service May Not Qualify as a "Cable Service"

Although both the parties and the court assumed that broadband Internet service constitutes a "cable service" under the Cable Act,[66] the law in this area is not fully settled. In fact, the FCC has declined to rule on this issue despite past controversy.[67] Whether or not it affects the outcome of this case, the proper regulatory classification of cable Internet service could play an important role in future open access determinations by other localities.

Under the 1984 Cable Act, Internet access services were not included in the definition of "cable service" in section 522(6).[68] The 1996 Act included a facially ambiguous addition to this definition, adding the words "or use."[69] The legislative history strongly indicates that Congress intended to cover Internet services in the new definition. The Senate Conference Report[70] explains that the amendment to the definition of cable services is intended "to reflect the evolution of cable to include interactive services such as game channels and information services made available to subscribers by the cable operator, as well as enhanced services."[71] On the

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66. *See generally Portland*, 43 F. Supp. 2d 1146 (reflecting no discussion of this issue).

67. *See In re* Applications for Consent to the Transfer of Control of Licenses and Section 214 Authorizations from Tele-Communications, Inc., Transferors, to AT&T Corp., Transferee, 14 F.C.C.R., ¶ 83 (1999) [hereinafter *TCI Order*].

68. The Cable Act initially defined cable service as "(A) the one-way transmission to subscribers of (i) video programming, or (ii) other programming service, and (B) subscriber interaction, if any, which is required for the selection of such video programming or other programming service." 47 U.S.C. §522(6) (1984). The legislative history of the Cable Act shows that Congress intended to exempt Internet access-type services from the definition. H.R. Rep. No. 98-934, at 42-43 (1984) states that "services providing subscribers with the capacity to engage in transactions or to store . . . manipulate . . . or otherwise process . . . data would not be cable services." The report specifies that the following would not be cable services: "bank-at-home services, electronic mail, one-way and two-way transmission [of] non-video data and information not offered to all subscribers, data processing, video conferencing, and all voice communications." *Id.* at 44; *see also* Barbara Esbin, *Internet Over Cable: Defining the Future in Terms of the Past*, 7 COMMLAW CONSPECTUS 37, 94-97 (1999).

69. Section 522(6) now reads, "(A) the one-way transmission to subscribers of (i) video programming or (ii) other programming service, and (B) subscriber interaction, if any, which is required for the selection *or use* of such video programming or other programming service." 47 U.S.C. § 522(6)(b) (Supp. IV 1998) (emphasis added).

70. S. Conf. Rep. No. 104-230 (1996).

71. *Id.* at § 301. 47 U.S.C. § 153(20) (1994) defines an information service as "the offering of a capability for . . . utilizing, or making available information via telecommunications." The FCC has defined "enhanced services" to include services that "involve subscriber interaction with stored information." 47 C.F.R. §64.702(a).

other hand, "or use" is clearly ambiguous enough that the definition could be construed to exclude the Internet.[72] Some have argued that cable Internet service could instead be considered an "advanced telecommunications capability" under section 706 of the 1996 Telecommunications Act.[73]

Placing cable Internet access outside of the Cable Act's regulatory framework could result in practical benefits, such as a more harmonious regulatory landscape. Because cable Internet access and broadband Internet access offered over local phone lines are essentially the same, classifying both categories under the same structure could lead to a more coherent regulatory framework. Moreover, open access provisions are not expressly permitted within the section 706 framework. Obviously, a determination that Internet access via cable is not a "cable service" would dramatically change the regulatory landscape in this area, as well as the legal foundations of the *Portland* case and others like it. However, given that Congress has strongly indicated that cable Internet access should, at least for now, be considered a "cable service," it seems appropriate to treat cable Internet services as governed by the Cable Act as the parties in *Portland* did.

B. Open Access Provisions Designed to Preserve Competition are Not Preempted

There are two types of preemption—conflict and field. Field preemption occurs where there is an intent by Congress to preempt the field under a comprehensive regulatory scheme.[74] In this case, it is clear that Congress did not intend to preempt the field, because the Cable Act explicitly reserves certain powers to local governments. For example, section 556 expressly reserves to local governments the power to regulate matters of public health, safety and welfare.[75] Perhaps the key provision in resolving the Portland case and other open access issues arising under the Cable Act is Section 533(d). This section expressly provides for local governments to regulate cable services to preserve competition.[76] Because Congress reserved such regulatory power to localities, the field preemption analysis does not apply to the open access requirement.

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72. Note also that "one-way" lends further support to this proposition. For a more complete discussion, see Brief of the FCC as Amicus Curiae at 25-26, AT&T Corp. v. Portland, 43 F. Supp. 2d 1146 (D. Ore. 1999) (No. 99-335609); Esbin, *supra* note 68, at 116-18.

73. *See* Brief of the FCC, *supra* note 72, at 25-26; Esbin, *supra* note 68, at 116-18.

74. *See* Fidelity Fed. Sav. & Loan Ass'n. v. de la Cuesta, 458 U.S. 141, 153 (1982).

75. *See* 47 U.S.C. § 556(a) (1994).

76. *See id.* § 533(d).

Conflict preemption is found where compliance with both the state and federal law is impossible.[77] This concept is explicitly embedded in the Cable Act in Section 556(c), which provides that any state or local provisions inconsistent with the Cable Act shall be deemed preempted.[78] This Note concludes, as did the district court, that open access restrictions are not inconsistent with the Cable Act, and therefore not preempted under a conflict preemption theory.

The preemption analysis "start[s] with the assumption that the historic police powers of the States" are not preempted.[79] In areas where state and local laws in traditional areas of local concern are implicated, the burden of overcoming this assumption is especially heavy.[80] Local regulation of competition has long been reserved to state and local governments. In 1837, for instance, the Supreme Court upheld a city's grant of a bridge franchise to a company competing with a ferry operated by Harvard College, which had the rights to the same right of way under a similar franchise agreement.[81] In so doing, the Court held that the state government had maintained all powers not explicitly granted to the competitors, including the power to preserve competition.[82]

Yet the recent history of cable regulation is perhaps more instructive. The Cable Act in many ways merely codified the way cable had been regulated prior to its passage—through local franchises.[83] The FCC stated that local governments are involved in the process because they are able to bring "a special expertness to such matters."[84] In *City of New York v. FCC*,[85] the Supreme Court noted that, in enacting the Cable Act, Congress had continued to permit local franchising authorities broad authority to regulate non-technical aspects of cable services.[86]

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77. *See* California v. ARC Am. Corp., 490 U.S. 93, 100 (1989).

78. *See* 47 U.S.C. § 556(c) (1994).

79. Rice v. Santa Fe Elevator Corp., 331 U.S. 218, 230 (1947).

80. *See id.*

81. *See* Proprietors of Charles River Bridge v. Proprietors of Warren Bridge, 36 U.S. 420 (1837).

82. *See id.* at 548.

83. *See, e.g.*, H.R. REP. 98-934, at 19, 23 (1984); *see also* TV Pix, Inc. v. Taylor, 304 F. Supp. 459, 460 (D. Nev. 1968), *aff'd per curiam*, 396 U.S. 556 (1970) (noting that state and local governments traditionally exercised their franchise powers to require conditions responsive to community needs).

84. Cable Television Report and Order, 36 F.C.C.2d 143, ¶ 177 (1972) (also recognizing a "deliberately structured dualism" in the cable regulation process between the FCC and local governments).

85. 486 U.S. 57 (1988).

86. *See id.* at 67.

Where Congress attempts to preempt a power traditionally held by local governments, there is a heightened standard of preemption analysis.[87] Under this standard, set forth in *Gregory v. Ashcroft*,[88] "if Congress intends to preempt a power traditionally exercised by a state or local government, 'it must make its intention to do so unmistakably clear in the language of the statute.'"[89]

When an agency (such as the FCC) acts within the scope of its congressionally-delegated authority, its actions preempt state law. In *City of New York v. FCC*,[90] the FCC forbade local authorities to impose more stringent signal quality standards than those set forth in its regulations.[91] In upholding the FCC's ability to preempt state law in this area, the Court held that "a 'narrow focus on Congress' intent to supersede state law [is] misdirected,' for '[a] pre-emptive regulation's force does not depend on express congressional authorization to displace state law.'"[92] Yet this was an area spoken to directly by the Cable Act. In cases where the FCC's authority to regulate at all is in question, the Court has not backed away from the *Gregory* doctrine of unmistakable clarity where traditionally local powers are implicated.

For example, in *City of Dallas v. FCC*,[93] the Fifth Circuit held that, where the FCC attempted to preempt local governments' franchising authority over open video system operators under the 1996 Act, it exceeded its authority under the Act's plain meaning.[94] The court held that the FCC's preemption was at odds with the Act's preservation of state and local authority, and with the *Gregory* principle.[95] In the context of *Portland*, Congress's intent is similarly clear that it intended to interfere as little as possible with local authority to regulate cable franchises. Section 556 of the Cable Act sets forth general preemption guidelines that clearly reserve a number of rights generally to the states, provided they are not inconsistent with the Cable Act.[96]

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87. *See, e.g.*, Gregory v. Ashcroft, 501 U.S. 452, 460 (1991).

88. 501 U.S. 452 (1991).

89. *See* City of Dallas v. FCC, 165 F.3d 341, 347-48 (5th Cir. 1999) (quoting *Gregory* at 460 (citations omitted)).

90. 486 U.S. 57 (1988).

91. *See id.* at 62-63.

92. *Id.* at 64 (quoting Fidelity Fed. Sav. & Loan Assn. v. de la Cuesta, 458 U.S. at 154 (1982)) (alterations in original).

93. 165 F.3d 341 (5th Cir. 1999).

94. *See id.* at 347.

95. *See id.*

96. *See, e.g.*, 47 U.S.C. § 556(a) (1994) (providing that "[n]othing in this subchapter shall be construed to affect any authority of any State, political subdivision, or agency

But not only did Congress intend to interfere as little as possible, it expressly granted local entities the power to impose open access restrictions through Section 533(d). This section provides that, although a franchising authority may not prohibit ownership or control of a cable system because an entity owns other media interests, such a local entity may prohibit ownership "in circumstances in which the state or franchising authority determines that the acquisition of such a cable system may eliminate or reduce competition in the delivery of cable service in such jurisdiction."[97] The power to prohibit a change in control includes the lesser power to impose conditions.[98] In *Portland*, the city and county made the exact determination that appears to be contemplated and authorized under the plain meaning of the Cable Act.[99]

C. The Open Access Requirement Does Not Amount to Common Carrier Regulation.

AT&T also argued that the open access provisions amounted to common carrier regulation, which is prohibited by section 541(c).[100] "A common carrier service in the communications context is one that 'makes a public offering to provide [communications facilities] whereby all members of the public who choose to employ such facilities may communicate or transmit intelligence of their own design and choosing.'"[101] A common

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thereof, or franchising authority, regarding matters of public health, safety, and welfare, to the extent consistent with the express provisions of this subchapter").

97. 47 U.S.C. § 533(d). The legislative history to the 1992 Amendments to the Cable Act, Cable Television Consumer Protection and Competition Act of 1992, Pub. L. No. 102-385, 106 Stat. 1460 (1992) (codified at 47 U.S.C. §§ 521 et seq. (1994)), one of which was section 533(d), indicates that this provision was added specifically to overrule *Cable Alabama Corp. v. City of Huntsville*, 768 F. Supp. 1484, 1496 (N.D. Ala. 1991), a decision holding that only the FCC could deny a cable transfer for competitive reasons. *See* H.R. Rep. 102-628, at 91 (§ 4) (1992). Yet even without this new provision, the holding in *Cable Alabama* was incorrect under the preemption analysis that should properly be applied to the facts of the *Portland* case.

98. *See, e.g.*, Nollan v. California Coastal Comm'n, 483 U.S. 825, 836 (1987) (holding that a state commission's requirement of an easement as a condition for a building permit was not a taking when commission had power to deny permit outright).

99. *See* 47 U.S.C. § 533(d).

100. This provision prohibits "regulation as a common carrier or utility by reason of providing any cable service." 47 U.S.C. § 541(c) (1994). As stated above, this paper assumes that Internet over cable is a "cable service."

101. FCC v. Midwest Video Corp., 440 U.S. 689, 701 (1979) (quoting Industrial Radiolocation Serv., 5 F.C.C.2d 197 (1996)) (alteration in original).

carrier, therefore, must both hold itself out indiscriminately for hire by the public, and transmit its customers' content as it was provided.[102]

This Note concludes that the district court's holding in the *Portland* case as to common carrier regulation was correct. However, its reasoning was in error when it held that the open access restriction did not regulate AT&T as a common carrier because it did not require the company to hold itself out to the general public.[103] In *Midwest Video II*, common carrier regulation was found where the "public" consisted of third-party broadcasters.[104] In *NARUC II*, the D.C. Circuit held that a common carrier need not serve the entire public, but merely the entirety of a small segment.[105]

On the surface, it appears that requiring AT&T to provide interconnection to all ISPs seeking access would thus meet the requirements of common carrier status—the content provided by competing ISPs would not be altered by AT&T, and AT&T would be required to offer interconnection to all competitors willing to foot the bill. In *Midwest Video II,* the Supreme Court invalidated FCC rules requiring a cable company to reserve four channels for use by outside broadcasters, on the ground the regulation imposed common carrier duties.[106] Although the decision was made prior to the enactment of section 541(c), the Court found an implicit prohibition against common carrier regulation, and noted three factors leading it to find that common carrier regulations had been imposed: "Under the rules, cable systems are required to hold out dedicated channels on a first-come, nondiscriminatory basis. Operators are prohibited from determining or influencing the content of access programming. And the rules delimit what operators may charge for access and use of equipment."[107] Yet the regulations at issue, rather than being directed to competition,

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102. *See generally*, Computer and Communications Indus. Ass'n v. FCC, 693 F.2d 198, 210 (D.C. Cir. 1982); AT&T Corp. v. FCC, 572 F.2d 17, 24 (2d Cir. 1978); National Ass'n of Regulatory Util. Comm'rs v. FCC 533 F.2d 601 (D.C. Cir. 1976); Phil Nichols, *Redefining "Common Carrier": The FCC's Attempt At Deregulation By Redefinition*, 1987 DUKE L.J. 501 (1987).

103. *See Portland*, 43 F. Supp. at 1153 ("The open access requirement applies only to competing ISPs, so it does not impose a duty to hold out facilities indifferently for public use. . . .") (internal quotations omitted).

104. *See* FCC v. Midwest Video Corp., 440 U.S. 689, 700-01 (1979).

105. *See National Ass'n of Regulatory Util. Comm'rs*, 533 F.2d at 608; *see also* Straley v. Idaho Nuclear Corp., 500 P.2d 218, 221-22 (D. Idaho 1972) (considering a company providing bus service for its employees a common carrier, even though it didn't serve the general public); Terminal Taxicab v. Kutz, 241 U.S. 252, 254 (1916) (considering a taxicab company a common carrier even though it only served the guests of a particular hotel).

106. *See Midwest Video Corp.*, 440 U.S. at 700-01.

107. *Id.* at 701-02 (citations omitted).

were directed at access to persons wishing to broadcast over Midwest's channels.

It is not at all clear that any regulation that causes one aspect of an entity's business to meet the common carrier test must necessarily constitute "regulation as a common carrier" under the Cable Act. Common carrier-type obligations may be imposed under other legal rationales, such as the antitrust laws. For example, in *Midland Telecasting Co. v. Midessa Television Co., Inc.*,[108] the Fifth Circuit held that "no repugnancy exists between the FCC carriage rules and antitrust principles. If the refusal violated antitrust laws, a finding of liability would not undermine or conflict with the regulatory scheme. Given the FCC's policy to promote UHF broadcasting, the regulatory and antitrust principles are, in fact, complementary."[109] In this case, not only did Portland assert an antitrust rationale for imposing open access, it also exercised the authority specifically granted to it in Section 533(d) to regulate a change of control in order to promote competition. Although the District Court held that AT&T's cable was an "essential facility, this finding does not appear necessary to support the open access provision.[110]

The FCC appears to believe that open access requirements may be properly imposed under an appropriate legal rationale without common carrier problems. In its amicus brief in the *Portland* appeal, the FCC noted that "[a]fter evaluating the competing arguments concerning open access, the Commission decided to approve the . . . merger without imposing an open access condition."[111] The FCC further noted that this reasoning was grounded in reliance on AT&T's representations that customers would still be able to gain access to competing ISPs.[112] This suggests that, if the FCC believed customers would not be able to gain access to competing ISPs, the FCC may have imposed an open access restriction, and that it would have believed such a restriction did not run afoul of Section 541(c), which is binding on the FCC as much as on any local government entity.

One primary purpose of the Cable Act, and of the 1996 Act, is to further competition. Because of the franchising structure provided for in the

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108. 617 F.2d 1141 (5th Cir. 1980).

109. *Id.* at 1148.

110. *See* 47 U.S.C. § 533(d). Whether AT&T's cable is indeed an essential facility is beyond the scope of this Note. However, there are a number of other rationales that could justify the open access provision, for instance, the theory that the prohibition of common carrier regulation does not immunize AT&T from the antitrust laws.

111. Brief of the FCC as Amicus Curiae at 14, AT&T v. Portland, 43 F. Supp. 2d 1146 (D. Ore. 1999) (No. 99-335609).

112. *See id.*

Cable Act, this task is vested both in the FCC and in local franchising authorities. Although some regulations would no doubt amount to common carrier regulation, such as specific rate setting requirements, open access requirements do not necessarily constitute common carrier regulation. Both the FCC and local franchising authorities retain the power to prevent antitrust violations through regulation. Finally, Congress made clear in the 1992 amendments that it still intended antitrust laws to apply fully to the Cable Act.[113]

D. The Restriction Does Not Violate the Commerce Clause

The district court correctly held that the open access requirement did not violate the dormant Commerce Clause, although it probably erred in finding that the requirement only affected commerce in the Portland metropolitan area. The court did, however, recognize the "incidental burden on interstate commerce" caused by expenses incurred by AT&T.[114]

There are two types of state regulation which may impermissibly burden interstate commerce under the dormant Commerce Clause:

> A facially nondiscriminatory regulation supported by a legitimate state interest which incidentally burdens interstate commerce is constitutional unless the burden on interstate trade is clearly excessive in relation to the local benefits. However, when a regulation "clearly" discriminates against interstate commerce, it violates the Commerce Clause unless the discrimination is demonstrably justified by a valid factor unrelated to state protectionism.[115]

In the case of "clear discrimination" against out-of-state interests, the state has the burden of establishing that the justification could not be served by less discriminatory alternatives.[116] However, "if the regulations apply evenhandedly to both in-state and out-of-state interests, the party challenging the regulations must establish that the incidental burdens on

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113. 1992 Amendments to the Cable Act, Cable Television Consumer Protection and Competition Act of 1992, Pub. L. No. 102-385, 106 Stat. 1460 (1992) ("Nothing in this Act or the amendments made by this Act shall be construed to alter or restrict in any manner the applicability of any Federal or State antitrust law."); *see also* Total TV v. Palmer Communications, Inc., 69 F.3d. 298, 302 (9th Cir. 1995) (holding that Cable Act does not preempt California Unfair Practices Act).

114. AT&T Corp. v. City of Portland, 43 F. Supp. 2d 1146, 1154 (D. Ore. 1999).

115. International. Ass'n of Indep. Tanker Owners v. Locke, 148 F. 3d 1035, 1068 (9th Cir. 1998) (citations omitted).

116. *See* Pacific Northwest Venison Producers v. Smitch, 20 F.3d 1008, 1012 (9th Cir.1994).

interstate and foreign commerce are clearly excessive in relation to the putative local benefits."[117]

Portland's open access requirement was facially nondiscriminatory, because it applied to all ISPs equally. Although concern about the local community of ISPs was an issue during local hearings,[118] Portland's regulation, on its face, allows all ISPs, regardless of their location in the country, to connect to AT&T's facilities. Portland, during its hearings, found that @Home had "no viable competitors in the local retail market."[119] Moreover, the costs imposed on AT&T would not necessarily be great, considering that AT&T is already required to individually negotiate each of the franchise agreements governing its cable systems. Although the costs of such negotiations are no doubt high, the franchise model is mandated by the Cable Act. Similarly, whenever there is a transfer of ownership, AT&T is already obligated to negotiate with local franchising authorities, subject to various conditions on transfer. With regard to the actual cost of installing the equipment required to implement open access, these costs would be borne by the third-party ISPs under the Portland requirement.

The open access requirement affects both in-state and out-of-state interests. AOL, for example, has been a strong supporter of open access provisions,[120] and its customers in Portland would benefit greatly from the ability to access AOL at a faster rate. Similar nationwide ISPs would no doubt seek interconnection with AT&T's plant if the open access requirement were in place. Yet because AT&T did not make a sufficient showing of the incidental burdens on interstate commerce, the *Portland* court did not need to weigh the interstate burdens in relation to the local benefits.[121]

IV. FURTHER DEVELOPMENTS

AT&T agreed to merge with MediaOne Group on May 6, 1999, and MediaOne reports that 89 percent of its franchise transfers nationwide have been approved.[122] MediaOne contends that the transfers in New York

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117. *Id.*

118. *See Portland,* 43 F.Supp. 2d at 1150.

119. *Id.*

120. *See* openNET Coalition, *For the Press* (visited Jan 21, 2000) ⟨http://opennetcoalition.org/press/⟩ (describing AOL as "a leading advocate of open access and a continuing member of the openNET Coalition").

121. *See* AT&T Corp. v. City of Portland, 43 F. Supp. 2d 1146, 1154 (D. Ore. 1999).

122. *See* MediaOne, *AT&T and MediaOne Merger Gains Unanimous Support in New York State* (November 23, 1999) ⟨http://www.mediaonegroup.com/investorinfo/index.html⟩.

were all approved unconditionally, although it didn't mention the status of the other transfers.[123] Yet despite MediaOne's apparent success, an increasing number of communities are currently considering or have already imposed open access requirements on transfers relating to the AT&T mergers.[124]

In a very interesting move, on December 6, 1999, AT&T sent a letter to the FCC agreeing to implement Internet access over cable that would provide consumers with a choice of ISPs.[125] Specifically, the company agreed to negotiate (after the expiration of its exclusive contract with @Home in 2002), "Internet transport services ... at prices reasonably comparable to those offered by AT&T to any other ISP for similar services. . ."[126] Four cities in Massachusetts have seized on the opportunity and requested a hearing before the state's Department of Telecommunications and Energy, arguing that AT&T "conceded all barriers to open access" in the letter.[127]

The recent announcement of the merger of AOL and Time Warner puts a further wrinkle into the open access debate, as Steve Case recently announced that "he's committed to open access over Time Warner's wires."[128] Such announcements from cable Internet access providers could render the open access debate moot, to the extent local franchising authorities are content to accept voluntary access concessions.

Although AT&T and AOL-Time Warner have offered self-regulatory solutions to the problem, for many open access advocates, such a proposed solution is still too vague. Communities in other circuits may therefore impose open access restrictions regardless of the Ninth Circuit's ruling in the *Portland* matter or industry attempts at self-regulation. The battle only

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123. *See id.*

124. Some examples include Henrico County, VA; Culver City, CA; St. Louis, MO; Weymouth, MA; Cambridge, MA; Fairfax City, VA; Broward County, FL; San Francisco, CA, Dallas, TX, Denver, CO and Seattle, WA. The Pennsylvania House of Representatives is also holding hearings on the necessity of open access. *See* openNET Coalition, *For the Press* (visited Jan 21, 2000) ⟨http://opennetcoalition.org/press/⟩.

125. *See* Letter from David N. Baker, Mindspring Enterprises, Inc., James W. Cicconi, AT&T Corp.,and Kenneth S. Fellman, Esq., to Chairman William Kennard, FCC (December 6, 1999), *available at* ⟨http://www.opennetcoalition.org/news/12061999/joint.shtml⟩.

126. *Id.*

127. *See* Patricia Fusco, *Gang of Four takes on AT&T-MediaOne in Massachusetts* (December 14, 1999) ⟨http://www.internetnews.com/isp-news/print/0,1089,8_259141,00.html⟩.

128. James Surowiecki, *More on the AOL-Time Warner Deal* (January 10, 2000) ⟨http://slate.msn.com/code/MoneyBox/MoneyBox.asp?Show=1/10/00&idMessage=4346⟩.

appears to be intensifying, and further litigation and uncertainty about the regulatory landscape in this area are likely to persist. As such, Congress and the FCC should act promptly to resolve this issue even as courts, industry and local governments across the country continue to grapple with it.

At least some elements in Congress have already begun to develop such a solution. The recently proposed Internet Freedom Act would require cable providers with market power to provide open access to competing ISPs.[129] This and other legislation could help to clarify Congress' intent in this area and guide the FCC in making national policy concerning competition in the Internet services market.

V. CONCLUSION

Eventually, Congress will need to harmonize the law in this area to account for convergence of both technologies and companies. There are a number of ways this could be done within the general policy framework set forth in both the Cable Act, the 1996 Act, and the general antitrust framework. How to structure regulation in this area depends on many factors, one of which is the ability of competition in the Internet services market (and competition in various broadband platforms) to speed delivery of advanced telecommunications capability to all Americans.

Until such harmonization arrives, however, local governments and courts across the country need a predictable set of rules to guide them. The Cable Act, which preserves local franchising authorities' discretion over cable franchise transfers, offers a compelling interim solution. Its terms are relatively clear, and take account of the potential for differing competitive environments in different localities.

Because localities are in the best position to make these assessments, and because at least for now, broadband cable Internet services appear to be covered under the Cable Act, local governments should be permitted to act as Portland did under that act. Despite a couple of analytical missteps, the district court in *Portland* was right in ruling that the Cable Act permits local governments to impose open access conditions on transfers of this type.

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129. *See* Internet Freedom Act, H.R. 1686, 106th Cong. §§ 102, 103 (1999).

AT&T CORP. V. IOWA UTILITIES BOARD

By Michael L. Gallo

The Telecommunications Act of 1996 ("1996 Act") is a monumental piece of legislation designed to restructure the telecommunications industry by encouraging competition and facilitating the development of new technologies.[1] The 1996 Act seeks to foster competition in local telephone service markets by imposing a set of duties on currently existing providers of local telephone service[2] (more commonly known as incumbent local exchange carriers or "ILECs"). *AT&T Corp. v. Iowa Utilities Board*[3] is a dispute between the Federal Communications Commission ("FCC") and state public utility commissions ("PUCs") about who has authority under the 1996 Act to administer this new competitive scheme.

In *AT&T v. Iowa Utilities Board,* the Supreme Court held that the plain meaning of the 1996 Act vests power in the FCC that had traditionally belonged to the states.[4] This Note argues that in arriving at this decision, the Court strains the plain language of the 1996 Act and seems to ignores much of its precedent regarding both state control of intrastate telecommunications and the operation of federal preemption in general. The Court relies on the findings of the FCC regarding its own jurisdiction. Although arguably improper, this reliance is an understandable and perhaps unavoidable application of the *Chevron* doctrine.[5] Despite its dubious foundation in doctrine, this Note concludes that the decision is probably salutary because any other reading of the 1996 Act would engulf the telecommunications industry in protracted litigation, which would burden the

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1. *See* Telecommunications Act of 1996, Pub. L. No. 104-104, purpose statement, 110 Stat. 56, 56 (1996) (codified in scattered sections of 47 U.S.C.) (stating that the purpose of the Act is "to promote competition and reduce regulation in order to secure lower prices and higher quality services for American telecommunications consumers and encourage the rapid deployment of new telecommunications technologies").

2. The 1996 Act also deals with many other areas such as broadcast media, cable and wireless service. However, since *AT&T Corp. v. Iowa Utilities Board* is a dispute about the local competition provisions of the 1996 Act relating to telephone service, only those sections will be discussed in this Note.

3. 119 S. Ct. 721 (1999).

4. *See id.* at 730.

5. *See* Chevron U.S.A. Inc. v. Natural Resources Defense Council, Inc., 467 U.S. 837, 843-44 (1984) (stating that courts should defer to reasonable decisions by administrative agencies when Congress's intent is ambiguous).

courts and retard the progress of local competition that Congress clearly mandated.

I. REGULATORY BACKGROUND

A. From Natural Monopoly to Facilitated Open Market

The 1996 Act reflects a reconceptualization of how local telephone service markets operate. Telephone service was traditionally viewed as a "natural monopoly."[6] In order to compete, multiple local service providers would have had to create enormously expensive parallel networks of cables, switches and lines into customers' homes. Because of the inefficiency and impracticability of such duplication, a single provider was the natural outcome. Even after the development of microwave technologies, which paved the way for MCI's competitive entry into the long distance market in the 1960s,[7] local service continued to be considered a natural monopoly.[8]

The local competition provisions of the 1996 Act are based on the idea that competition in local service is both possible and necessary in order to lower prices and encourage innovation. The 1996 Act attempts to overcome existing local access monopolies and facilitate market entry by creating a system of duties and incentives for ILECs. Section 251 sets out the conditions for mandatory interconnection: ILECs must negotiate in good faith with potential competitors who wish to interconnect their services with the existing network,[9] as well as provide access to the current network, in whole or in part, through the resale of services[10] or the leasing of

6. *See generally* THOMAS KRATTENMAKER, TELECOMMUNICATIONS LAW AND POLICY 464 (1994).

7. See HENK BRANDS AND EVAN T. LEO, THE LAW AND REGULATION OF TELECOMMUNICATIONS CARRIERS 262 (1999).

8. *See generally* United States v. American Tel. and Tel. Co. 552 F. Supp. 131 (D.D.C. 1982) (basic premise of Modification of Final Judgment ("MFJ") breaking up the Bell system was that long distance service, which had the potential to become competitive, must be separated from local service, which would continue to operate as a monopoly. This prevented the Bell system taking advantage of a local service monopolies to squeeze out long distance competitors, both by making it difficult for competitors to connect to local service and by charging their captive local rate payers high rates and using the profits to underwrite artificially low prices in long distance).

9. *See* 47 U.S.C. § 251(c)(1) (Supp. IV 1998).

10. *See id.* § 251(c)(4).

unbundled network elements.[11] Prices negotiated for these services should be "just, reasonable, and non-discriminatory."[12]

If the parties fail to negotiate an agreement, section 252 provides that state public utility commissions arbitrate the dispute and that their determinations of the rates for interconnection and unbundled network elements "shall be based on ... cost ... and may include a reasonable profit."[13] As an incentive for the ILECs to facilitate access to their networks quickly, section 271 allows them to begin offering long distance service in their local calling area as soon as they can demonstrate the presence of a facilities-based competitor (i.e., one that has built its own parallel network) or can show they have met a fourteen point "competitive checklist" which includes compliance with the interconnection and access requirements of sections 251 and 252.[14]

B. Telecommunications Federalism

Because it was thought to be a natural monopoly, local telephone service has been regulated almost since its inception in order to prevent the exploitation of consumers.[15] The basic jurisdictional framework of the Communications Act of 1934 ("1934 Act") was the division of regulatory authority over communications between the newly created Federal Communications Commission ("FCC") and the states. While section 152(a) of the 1934 Act granted the FCC power over "all interstate and foreign communication by wire or radio,"[16] section 152(b) explicitly denied the FCC jurisdiction "with respect to ... charges, classifications, practices, services, facilities, or regulations for or in connection with intrastate communication service..."[17] Authority over intrastate service continued to be vested in the state public utility commissions ("PUCs"), which had traditionally regulated the local provision of phone service.

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11. *See id.* § 251(c)(3).

12. *Id.* § 251(c)(2)(D) (interconnection); *id.* § 251(c)(3) (unbundled access).

13. *Id.* § 252(d)(1)(A)-(B).

14. *See id.* § 271(c)(2)(B).

15. Regulation usually took the form of the grant of an exclusive franchise subject to 'rate of return' limits on the prices that could be charged. *See* BRANDS & LEO, *supra* note 7, at 4.

16. 47 U.S.C. § 152(a) (1994).

17. *Id.* § 152(b). Brands and Leo suggest that this clause was inserted partly to legislatively overrule the application to telecommunications of the Supreme Court's holding in the *Shreveport Rate Cases* (which recognized federal authority over intrastate rates under the Commerce Clause where necessary to "foster and protect interstate commerce." Houston, East & W. Tex. Ry. Co. v. United States, 234 U.S. 342, 353 (1914)). *See* BRANDS & LEO, *supra* note 7, at 46.

Given that the same physical plant of wires and switches carries both local and long distance calls, the division of the system between intrastate and interstate is often ambiguous. The FCC and state regulators have often squabbled about how to assign costs and share authority.[18] Nevertheless, preemption questions were of secondary importance so long as the Bell System possessed a nearly complete monopoly on phone service and equipment.[19] As competition began to emerge in some parts of the telecommunications industry, however, the interests of regulators diverged more often and courts began to examine more closely the boundaries of jurisdictional authority.[20]

Appellate decisions in the 1970s and early 1980s construed the 1934 Act in ways favorable to FCC preemption. For example, in *North Carolina Utilities Commission v. FCC*,[21] the Fourth Circuit held that while section 152(b) of the 1934 Act deprived the FCC of power over intrastate regulations that were "separable from and [did] not substantially affect the conduct or development of interstate communications,"[22] it did not sanction any state regulation of intrastate matters that "in effect encroaches substantially upon [FCC] authority."[23] This line of reasoning, based on the separability of intrastate and interstate services and on the encroachment on federal objectives, was followed in a long line of appellate court cases.[24]

In 1986, the Supreme Court's decision in *Louisiana Public Service Commission v. FCC*[25] ("*Louisiana PUC*")significantly limited the FCC's preemption power. Utility commissions in numerous states challenged an FCC order that changed the way utilities determined their depreciation rates (and, by extension, the invested capital base used to calculate their allowable profit). The FCC interpreted section 220 of the 1934 Act[26] as

18. *See, e.g.*, Smith v. Illinois Bell Tel. Co., 282 U.S. 133, 148 (1930) (separation of interstate from intrastate telephone revenue was necessary to recognize the competent governmental authority in each sphere).

19. *See* BRANDS & LEO, *supra* note 7, at 56.

20. *See id.* at 56-57.

21. 537 F.2d 787 (4th Cir. 1976).

22. *Id.* at 793.

23. *Id.*

24. *See, e.g.*, California v. FCC, 567 F.2d 84 (D.C. Cir. 1977), *cert. denied*, 434 U.S. 1010 (1978); Computer and Communication Indus. Ass'n v. FCC, 693 F.2d 198 (D.C. Cir. 1982), *cert. denied sub nom.* National Ass'n of Regulatory Util. Comm'rs v. FCC, 461 U.S. 938 (1983), *discussed in* Michael Zpevak, *FCC Preemption After Louisiana PSC*, 45 FED. COMM. L.J. 185, 187-89 (1993).

25. 476 U.S. 355 (1986).

26. *See* 47 U.S.C. § 220(b) (Supp. IV 1998) (providing that "[t]he Commission may prescribe . . . the classes of property for which depreciation charges may be properly in-

preempting inconsistent state depreciation regulations whenever federal policies would be frustrated by them.[27]

The Court asserted that while it was true that Congress has the power to preempt state regulation that frustrates federal purposes, a federal agency may only do so "if it is acting within the scope of its congressionally delegated authority."[28] The Court found that the dual jurisdictional scheme embodied in sections 151 and 152(b) of the Act was determinative, and that section 152(b) "fences off from FCC reach or regulation intrastate matter—indeed, including matters 'in connection with' intrastate service"[29] and that the scheme represented "a Congressional *denial* of power to the FCC."[30] The Court specifically rejected arguments based on *NCUC I* that section 152(b) only applied to purely local matters which did not impinge on interstate communication in any way.[31]

II. CASE SUMMARY

The *Iowa Utilities Board* litigation evolved from the FCC's interpretation of the 1996 Act in its First Report and Order, entitled *Implementation of the Local Competition Provisions in the Telecommunications Act of 1996*.[32] In this rulemaking, the FCC claimed broad authority regarding all aspects of the local competition provisions, including the ability to determine the pricing methodology for interconnection and access to unbundled network elements.[33] Additionally, the FCC adopted a pricing methodology—Total Element Long Range Incremental Cost ("TELRIC")—which sets rates for new market entrants based on forward-looking costs[34] as opposed to historical costs.[35] ILECs argued that because it costs less today to add a user than it did to create existing capacity, charging new entrants forward-looking costs instead of historical costs means the difference be-

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cluded under operating expenses, and the percentages of depreciation which shall be charged with respect to each of such classes of property.").

27. *See Louisiana PSC*, 476 U.S. at 362.

28. *Id.* at 374.

29. *Id.* at 370 (quoting 47 U.S.C. § 152(b)).

30. *See id.* at 374.

31. *See id.* ("The short answer to this argument is that it misrepresents the statutory scheme and the basis and test for pre-emption.").

32. 11 F.C.C.R. 15,499 (1996) [hereinafter *First Report and Order*].

33. *See id.* ¶¶ 54, 111.

34. The cost to add customers to the network today. *See id.* ¶¶ 679-85. Note that TELRIC does not give the "actual" costs of connection because they are unknown. Rather, it relies on an economic model to estimate the costs.

35. The actual, embedded costs of building the existing network. *See id.* ¶¶ 704-05.

tween the two is "stranded"; thus, the ILECs' full cost of building their networks can never be recovered.[36]

Though the substance of TELRIC was the real problem for the ILECs, they challenged the pricing methodology on jurisdictional grounds. State PUCs, which traditionally had rate making authority in local telecommunications markets, joined with several ILECs to challenge the general authority of the FCC to set rates and the validity of the FCC's pricing rules mandating the use of TELRIC. They argued that section 252 of the 1996 Act plainly directed the state commissions to set prices for interconnection, unbundled access and resale.[37] They further argued that the FCC could not determine these rates because section 152(b) prevented them from regulating local intrastate communications service.[38] The FCC countered that the 1996 Act gave them authority to "issue general rules governing the ratemaking procedure, while the state commissions are left to establish the actual prices by applying the FCC's mandates."[39]

A. Eighth Circuit Decision[40]

The Eighth Circuit found that the plain meaning of section 252(c)(2), which states that "a State commission shall . . . establish any rates for interconnection,"[41] and section 252(d)(1), which provides for "[d]eterminations by a State commission of the just and reasonable rate for . . . interconnection,"[42] was to grant state commissions primary authority to set rates.[43] The Eighth Circuit rejected the FCC's argument that the language of section 251(d)(1), which provided that the FCC complete "all actions necessary . . . to implement the requirements" of the section within six months,[44] granted the FCC plenary power over all aspects of section 251.[45] Instead, the court saw the provision as a time limit for FCC to make

36. *See id.* ¶ ¶ 706-07.

37. *See* Iowa Utils. Bd. v. FCC, 120 F.3d 753, 793 (8th Cir. 1997), *reversed and remanded sub nom.* AT&T Corp. v. Iowa Utils. Bd., 119 S. Ct. 721 (1999).

38. *See id.*

39. *Id.* at 794

40. "United States Courts of Appeals have been granted exclusive statutory jurisdiction to review the FCC's final orders pursuant to 28 U.S.C. § 2342(1) (1994) and 47 U.S.C. § 402(a)." *Id.* at 793.

41. 47 U.S.C. § 252(c)(2) (Supp. IV 1998).

42. *Id.* § 252(d)(1).

43. *See Iowa Utils. Bd.*, 120 F.3d at 794.

44. 47 U.S.C. § 252(d)(1) (Supp. IV 1998).

45. *See Iowa Utils. Bd.*, 120 F.3d at 794.

rules concerning those aspects that Congress had explicitly instructed it to oversee, which did not include pricing.[46]

Alternatively, the court found that section 152(b) settled any question about the FCC's ambiguous authority in favor of the states.[47] The court relied on *Louisiana PSC*'s reading of section 152(b) as an "explicit congressional denial of power" which could only be overcome by an unambiguous grant of authority.[48] The 8th Circuit compared the FCC's "roundabout construction" of section 251 with explicit grants of authority to the FCC in section 276 of the 1996 Act[49] and in the Cable Act[50] and with the specific mention of the FCC in the non-pricing provisions of section 251.[51]

B. The Supreme Court Opinions

1. Majority opinion

Justice Scalia, writing for the majority,[52] found that the FCC was within its authority when it made rules regarding intrastate rates. Although the 1934 Act created a distinction between interstate and intrastate regulation, leaving intrastate regulation primarily to the states, the Court found that inserting the 1996 Act into the text of the 1934 Act redefined the FCC's jurisdiction: "Congress, by extending the Communications Act into local competition, has removed a significant area from the States' exclusive control."[53] Justice Scalia reasoned that once the 1996 Act was found to extend the FCC's authority into local competition, then the FCC was empowered to make any local competition rules it chose under its section 201(b) general rulemaking authority.[54] Justice Scalia further found that although section 252(c)(2) of the 1996 Act specifically provides that a state commission shall "establish any rates for interconnection, services,

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46. *See id.*

47. *See id.* at 796.

48. *Id.* (citing *Louisiana PSC*, 476 U.S. at 377).

49. *See* 47 U.S.C. § 276(b)(1)(A) (1994) (requiring the FCC to establish a compensation plan regarding both intrastate and interstate pay phone calls).

50. *See id.* § 543(b)(1) ("The Commission shall, by regulation, ensure that the rates for the basic service tier are reasonable.").

51. *See Iowa Utils. Bd.*, 120 F.3d at 797.

52. On jurisdictional issues, Justice Scalia was joined by Justices Ginsberg, Kennedy, Souter and Stevens. Justices Breyer, Rehnquist and Thomas dissented. Justice O'Connor did not participate in the case.

53. AT&T Corp. v. Iowa Utils. Bd., 119 S. Ct. 721, 731 n.8 (1999).

54. 47 U.S.C. § 201(b) (1994) ("the Commission may prescribe such rules and regulations as may be necessary in the public interest to carry out the provisions of this Act.").

or network elements,"[55] establishing rates in this case could be interpreted to mean merely implementing the FCC's mandatory pricing methodology.[56]

2. *Justice Thomas's dissent*

Justice Thomas disagreed with the majority's "wholesale" transfer of authority from the states to the FCC.[57] He emphasized that throughout the development of federal telecommunications policy, the states were given authority over intrastate matters as codified in section 152(b) of the 1934 Act.[58] The FCC's claim to general rulemaking authority failed because it did not demonstrate "unambiguous and straightforward evidence that Congress intended to eliminate section 152(b)'s substantive jurisdictional limitation"[59] as required by both the historical division of authority and the holding in *Louisiana PSC*.[60]

Justice Thomas further argued that even if the FCC did have general rulemaking power, its pricing rules could not stand in the face of the 1996 Act's explicit grant of primary responsibility to the state commissions in approving interconnection agreements and its imposition of specific standards for setting prices.[61] He concluded that the scope of the FCC's rulemaking authority was limited to the areas specifically granted to it in section 251, including number portability, number administration and the minimum availability standards for network elements.[62] As section 251 makes no mention of pricing, however, he firmly rejected the majority's position that these provisions should be read as allowing states to set prices subject to strict guidelines from the FCC.[63]

3. *Justice Breyer's dissent*

Justice Breyer's dissent built upon Justice Thomas's critique, suggesting several reasons why Congress's desire to create a new, pro-

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55. 47 U.S.C. § 252(c)(2) (Supp. IV 1998).

56. *See AT&T v. Iowa Utils. Bd.*, 119 S. Ct. at 732.

57. *Id.* at 741 (Thomas, J., dissenting).

58. *Id.* at 742.

59. *Id.* at 744.

60. *See id.* at 744 (internal quotations omitted) (giving examples of provisions which Congress had specifically exempted from the operation of section 152(b) in 1992).

61. *See id.* at 745.

62. *See id.* at 743.

63. *See id.* ("It seems to me that Congress consciously designed a system that respected the States' historical role as the dominant authority with respect to intrastate communications. . . . I simply do not think that Congress intended to limit States' authority to mechanically apply whatever methodologies, formulas, and rules that the FCC mandated.").

competitive local market environment with the 1996 Act implied neither FCC control of rates, nor the specific rates that the FCC chose. Justice Breyer argued that the importance of local geography and history, local regulators' familiarity with utilities' specific operations, costs and competitive environments, the fact that local regulators are often stakeholders in their local communities, and the pace of technological change, all operated in favor of local control of rates.[64] He further added that rate setting differences "can amount to the kind of 'experimentation' long thought a strength of our federal system."[65] Given the traditional status and eminent reasonableness of local rate setting, Justice Breyer argued, the section 252(c) and (d) grant of power to state commissions to establish rates ought to be read as confirming "the traditional allocation of ratemaking authority—an allocation that within broad limits assumes local rates are local matters for local regulators."[66]

III. DISCUSSION

The *AT&T v. Iowa Utilities Board* majority overcomes traditional presumptions against federal preemption of state police power by claiming that the language of the 1996 Act explicitly grants intrastate rulemaking power to the FCC. However, the majority's claim that the plain meaning of the statute is clear is dubious given the numerous ambiguities the statute contains. The Court's decision to construe the statute in the FCC's favor seems rather to reflect the influence of some structural considerations, including burdens on the judiciary and a somewhat unusual application of the *Chevron* rule of deference to find that an administrative agency has the power to determine its own jurisdiction.

A. Preemption and Plain Meaning

Because section 252 seems to grant explicit authority to establish rates to state commissions, the question of whether the FCC has jurisdiction to issue pricing rules is at best ambiguous. As Justice Breyer notes, in cases of ambiguity both traditional preemption doctrine and the holding of *Louisiana PSC* favor state authorities over the FCC.[67] Federal law preempts or renders inoperative state law whenever there is a clear conflict between them.[68] This preemption can occur expressly, as when Congress explicitly

64. *See id.* at 748 (Breyer, J., dissenting).
65. *Id.*
66. *Id.* at 749.
67. *See id.* at 749-50.
68. Because of the operation of the Supremacy Clause. *See* U.S. CONST. art. VI, cl. 2.

acts to overturn state law, or it can be implied when federal legislation occupies the entire available field, compliance with federal and state regulations is a physical impossibility, or because existing state law is "an obstacle to the accomplishment and execution of the full purposes and objective of Congress."[69] However, in areas where states have traditionally exercised their police power, Supreme Court preemption doctrine as developed over the last century contains a presumption in favor of preserving state power unless it is clearly preempted by federal law.[70] The Court's insistence in *Louisiana PSC* that the FCC requires an unambiguous Congressional grant of power in order to regulate in the state's traditional preserve of intrastate telephone service[71] reinforces that presumption in the context of telecommunications regulation.

In spite of this presumption, and contrary to the 8th Circuit's ruling, the *AT&T v. Iowa Utilities Board* majority finds that the regulation of local competition was "unquestionably" taken away from the states with regard to matters addressed by the 1996 Act.[72] Rather than basing its preemption analysis on evidence of legislators' desire to change the status quo with respect to local rate setting, or by offering structural reasons why the change would be advantageous, the majority pursues a forced plain-meaning analysis which presumes, rather than proves, that the local competition provisions constitute a pervasive "new federal regime."[73]

The core holding of *AT&T v. Iowa Utilities Board* is that with the passage of the 1996 Act, section 201(b), which provides for such FCC rulemaking authority "as may be necessary in the public interest,"[74] now extends the FCC's plenary power to intrastate as well as interstate service. It is not readily apparent that this should be so. First, section 201(b), which was not directly modified by the 1996 Act, was limited to interstate service by section 201(a)[75] in its original context under the 1934 Act. Second, although the 1996 Act clearly permits the FCC to have some control over local communications, it also clearly preserves some role for state commissions. Given what appears to be a system of dual jurisdiction over local competition, why should the plenary nature of the FCC's interstate power

69. Hines v. Davidowitz, 312 U.S. 52, 67 (1941). *See generally* Gade v. National Solid Wastes Management Ass'n, 505 U.S. 88 (1992); Cipollone v. Liggett Group, Inc., 505 U.S. 504 (1992).

70. *See* Rice v. Santa Fe Elevator Corp., 331 U.S. 218 (1947).

71. *See* Louisiana Public Service Comm'n, 476 U.S. 355, 374 (1986).

72. *AT&T v. Iowa Utils. Bd.*, 119 S. Ct. at 730 n.6.

73. *Id.*

74. 47 U.S.C. § 201(b) (1994).

75. *See id.* § 201(a) (stating that communication services subject to the Act are those which engage in "interstate or foreign communication by wire or radio").

necessarily serve as a sufficient ground for its total penetration into intrastate service, especially in the face of traditional state authority?

The Court's simple but unsatisfying answer is to turn to the language of the statute: "[w]e think that the grant in §201(b) means what it says: The FCC has rulemaking authority to carry out the provisions of this Act."[76] The majority offers no legislative history or policy arguments for this broad extension of FCC power; instead it hangs its argument on the plain meaning of a provision which has never heretofore meant what the majority states that it means.[77] This absence of substantive arguments in favor of FCC power undercuts the plausibility of the majority's interpretation of the statutory language, especially when compared to the dissents' numerous policy arguments in favor of continued state control. This pattern of unsupported arguments by the majority contrasted with specific reasons offered by the dissenters for their position continues throughout the opinion. Without a firm basis in structure or policy, the legitimacy of the majority's decision becomes questionable; it would be much more convincing if it had offered a clear rationale for its position.

The majority's reliance on less than formidable arguments is apparent in the way it disposes of the section 152(b) presumption against preemption of state authority by reading that section as a provision which operates only as a total bar on federal action. Because "Congress, by extending the Communications Act into local competition, has removed a significant area from the States' exclusive control,"[78] the majority reasons that the section 152(b) prohibition is breached and that the FCC can make any rules it wants, regardless of existing state rules or procedures. No explanation is offered for why taking exclusive control away from the states implies that the FCC should have it instead, nor does the majority attempt to show such a change of control was Congress's intention.

It is equally plausible to conceive of section 152(b) as a flexible constraint on FCC power, rather than an all-or-nothing barrier, as does the

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76. *AT&T v. Iowa Utils. Bd.*, 119 S. Ct. at 730.

77. Interestingly, the FCC claimed in the First Report and Order that courts had interpreted 201(b) authority as "expansive" and "something more than the normal grant of authority permitting an agency to make ordinary rules and regulations." *First Report and Order*, *supra* note 32, ¶ 96. However, the cases that it cited for that proposition are only tenuously related to the question at hand. *See* FCC v. National Citzens for Broadcasting, 436 U.S. 775, 794 (1978) (holding that the FCC's power to regulate common ownership of a radio or television station and daily newspaper in the same market is permissible even though the Act refers only to "communication by wire or radio"); Fulani v. FCC, 49 F.3d 904, 909 (granting exceptional deference to an FCC disposition on equal time provision claims by political candidates).

78. *AT&T v. Iowa Utils. Bd.*, 119 S. Ct. at 731 n.8.

dissent.[79] In this view section 152(b) reflects Congress's ongoing recognition that states play important roles in the intrastate rulemaking process, even while permitting the FCC limited jurisdiction over some intrastate activities. Unlike the majority, the dissent supports its interpretation with evidence, pointing to historical sharing of authority between the FCC and the states and to the language of section 252(c) and (d) specifically granting pricing authority to the states as reasons why its interpretation makes sense.[80]

Although section 251 only mentions the FCC in certain subsections, the majority insists that the FCC's authority extends to all of them. This reflects the majority's belief that the local competition provisions are indivisible. Justice Scalia states that the language referring to Commission jurisdiction in section 251 reads "not like conferrals or authority, but like references to the exercise of authority conferred elsewhere (we think of course in 201(b))."[81] He further notes that to accept the dissent's assertion that power is granted to the FCC in section 251 only when it is specifically mentioned "produces a most chopped up statute, conferring Commission jurisdiction over . . . curious and isolated matters . . . but denying Commission jurisdiction over much more significant matters. We think it most unlikely that Congress created such a strange hodgepodge."[82] Again, it seems odd that the majority premises its position on what is basically an aesthetic argument, rather than offering concrete reasons why the FCC should have plenary authority.[83] On the other hand, if local competition provisions are conceived as separable, Justice Breyer furnishes numerous reasons why it might make sense for the states to be allowed to regulate specifically in the area of rates.[84]

What may be the least convincing part of the majority opinion is its interpretation of the language specifically instructing the state commissions to establish rates (and the lack of any such mention of the FCC) to mean that the FCC sets the rates within an extremely narrow band and the state merely implements them.[85] Justice Breyer vehemently disagreed with

79. *See id.* at 745 (Thomas, J., dissenting); 748-49 (Breyer, J., dissenting).

80. *Id.*

81. *Id.* at 731.

82. *Id.*

83. The aesthetic argument is even stranger given Justice Scalia's statement, later in the opinion, that the 1996 Act "is in many important respects a model of ambiguity or indeed even self-contradiction." *Id.* at 738.

84. See *supra* text accompanying notes 64-66.

85. *Id.* at 732 ("The FCC's prescription, through rule making, of a requisite pricing methodology no more prevents the States from establishing rates than do the statutory "Pricing Standards" set forth in §252(d). It is the States that will apply these standards

the majority's view that the FCC is not actually establishing rates in the fashion traditionally reserved to the states, but instead giving a federal gloss to the "just and reasonable" price provisions of section 252(c) and (d).[86] He states that, far from being mere guidelines, the FCC rules are "highly specific and highly detailed [and] deprive state commissions of methodological leeway"[87] and represent "a policy-oriented effort to choose among several different systems."[88]

B. Pushing the Limits of *Chevron* Deference—Should Agencies be Allowed to Interpret Their Own Jurisdiction?

After considering the jurisdictional issues, the Court in *Iowa Utilities Board* examines the validity of other challenged FCC determinations.[89] Because these are areas where the FCC has uncontested rulemaking power under the 1996 Act, the Court addresses them by means of the *Chevron* rule.[90] *Chevron* held that where Congress has not directly spoken on an issue, an agency's "construction of a statutory scheme it is entrusted to administer" is entitled to a deferential standard of review: the court asks only whether the agency's decision was reasonable or not.[91] *Chevron* assumes that regulatory agencies unavoidably face unforeseen circumstances and details which Congress has not investigated. In order to regulate effectively, agencies must be able to fill gaps and maintain flexibility.[92] Furthermore, they must be able to do this with minimal interference from the courts. Congress relies on the agencies' technical and policy making competence and expertise, and there is no reason courts, composed of non-experts who are not politically accountable, should undertake a de novo review of all the factors involved in agencies' decisions.[93]

The last paragraph of the majority opinion seems to extend the principle of *Chevron* deference to the FCC's determination of its own jurisdiction:

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and implement that methodology, determining the concrete result in particular circumstances. That is enough to constitute the establishment of rates.").

86. *Id.* at 751 (Breyer, J., dissenting).

87. *Id.*

88. *Id.*

89. The Court examined primarily the question of which network elements the ILECs should be forced to provide on an unbundled basis. *See id.* at 733-38.

90. *See* Chevron U.S.A., Inc. v. Natural Resources Defense Council, Inc., 467 U.S. 837 (1984).

91. *Id.* at 844.

92. *See id.* at 843.

93. *See id.* at 865-66.

> The 1996 Act can be read to grant . . . most promiscuous rights to the *FCC vis-à-vis the state commissions* and to competing carriers vis-à-vis the incumbents—and the Commission has chosen in some instances to read it that way. But Congress is well aware that the ambiguities it chooses to produce in a statute will be resolved by the implementing agency. . . . We can only enforce the clear limits that the 1996 Act contains.[94]

In other words, the Court seems to suggest that the FCC, as the implementing agency, gets to "resolve" the question of whether it has authority to regulate in the first place, subject only to the requirement of reasonableness.[95] As a general rule this approach is problematic because it allows Congress to effectively delegate a jurisdictional decision to an agency—a questionable course of action. When an agency claims that its rulemaking authority grants it jurisdiction it is easy for courts to substitute acceptance of the agency's logic for an independent examination of Congressional purpose; this decreases Congressional accountability.

Congress may have deliberately left the question of who was to administer certain aspects of the 1996 Act unanswered. The 1996 Act clearly mandated an opening of local markets, regardless of who was given the authority to regulate that opening.[96] The FCC interpreted the Act to give it power over rate setting. But where Congress is ambiguous, or for that matter agnostic, about jurisdictional authority, the usual presumption is that an agency determination should normally not be able to supersede traditional state police powers.[97] In this case, however, structural considerations, especially the argument that vesting authority in the states will

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94. *AT&T v. Iowa Utils. Bd.*, 119 S. Ct. at 738 (emphasis added) (internal quotations omitted).

95. While the Court as a whole does not appear to have ever directly addressed this issue, this is almost certainly Justice Scalia's personal view. In a case which considered the authority of the FERC to take certain actions, Justice Scalia maintained that "the rule of deference applies even to an agency's interpretation of its own statutory authority or jurisdiction . . . [because] . . . Congress would neither anticipate nor desire that every ambiguity in statutory authority would be addressed, de novo, by the courts." Mississippi Power and Light Co. v. Mississippi, 487 U.S. 354, 381-82 (1988) (Scalia, J. concurring).

96. Like most legislation, the 1996 Act represents a series compromises between interest groups—to ask Congress to consider ex post the question of who has authority will upset the delicate balance of compromises which makes it work. One of the most interesting questions posed by this case is whether the local competition provisions would have passed if the interested parties knew ex ante how authority was eventually going to be allocated by the FCC and the courts. Perhaps the ambiguity that causes the problem in this case is not only intentional on the part of Congress, but necessary.

97. See *supra* notes 68-70 and accompanying text.

lead to further litigation rather than repose, militate against that presumption.

One argument for the necessity of federal control in order to achieve substantial deregulation posits an interdependence of interest between state PUCs and ILECs; their historical relationship of comity will cause the PUCs to favor the ILECs when they set rates. In this view, "[j]urisdiction to dictate pricing methodology may be the most potent tool by which the FCC can prod laggard states loath to undertake the politically unpleasant task of deregulating the local exchange."[98] Perhaps this view is supportable given the alignment of parties in this litigation.

On the other hand, the same ends could be achieved if the FCC dictated general guidelines for "just and reasonable" prices and let the states implement them with federal agency or court approval. In spite of the Supreme Court's comment that "a federal program administered by 50 independent state agencies is surpassing strange,"[99] this sort of "cooperative federalism" characterizes many laws[100] and arguably is a central part of the scheme of the reorientation of telecommunications regulation section of the 1996 Act. Justice Breyer's dissent enumerated some advantages that limited deference to the states in a such scheme might have: state control allows for attention to local conditions and enables experiments to see how successful different pricing regimes are in practice before making final determinations.[101]

The Court's primary critique of the cooperative federalism approach is that giving pricing authority to the state commissions will burden the federal judiciary and force the courts to engage in policy making. If the Eighth Circuit decision were followed, state PUCs, rather than the FCC, would have control over prices. District courts will be forced to rule state-by-state on whether each PUC is adhering to the general pricing methodology standards set forth in the 1996 Act. If district courts rigorously scrutinize the fairness of the states' individually-determined rates, they will undoubtedly come to different conclusions, which will in turn have to be resolved in each circuit and ultimately by the Supreme Court. In addition to the protracted litigation and uncertainty this would cause, the federal standard that would ultimately emerge would have been crafted by the

98. Jim Chen, *TELRIC in Turmoil, Telecommunications in Transition: A Note on the Iowa Utilities Board Litigation*, 33 WAKE FOREST L. REV. 51, 54 (1998).

99. *AT&T v. Iowa Utils. Bd.*, 119 S. Ct. at 730 n.6.

100. *See e.g.*, Philip Weiser, *Chevron, Cooperative Federalism, and Telecommunications Reform*, 52 VAND. L. REV. 1, 3 n.8 (1999) (noting, for example, Medicaid and many environmental laws).

101. *See AT&T v. Iowa Utils. Bd.*, 119 S. Ct. at 748 (Breyer, J., dissenting).

judiciary. It is on these grounds that Justice Scalia objects to Justice Breyer's framing of the case as a states' rights question, saying instead, "it will be the FCC or the federal courts that draw the lines to which [the states] must hew."[102] Judicial policy-making is something that the 1996 Act definitely sought to avoid.[103]

Of course, finding for the FCC is not the only way to keep courts from making policy. Another possibility is to extend *Chevron* deference to the "reasonable" interpretations of state agencies operating under federal guidance. The 8th Circuit's decision envisioned a regime where the FCC had broadly entered intrastate rulemaking but left some important areas up to state commissions. However, the Court finds this approach and "the attendant legal questions, such as whether federal courts must defer to state agency interpretations of federal law" too novel, and discards them.[104] Presumably, the Court would require a clearer statement of congressional intention before undertaking action it considers so extraordinary.[105]

There are other practical problems with the level of deference that the Court does not mention. Justice Breyer advocated state control as a means for experimentation, but once control is in the hands of the states, the proliferation of standards is very difficult to control. The advantage of leaving control in the hands of the FCC is that its solutions, although monolithic, are easier to modify and more directly accountable to Congress and the national political process. Also, the pricing standards are designed not only to facilitate local competition but also to create the minimum conditions for the ILEC's participation in the long distance market via the "competitive checklist" of section 271.[106] The potential inequity of different local pricing regimes on new market entrants pales in comparison to

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102. *AT&T v. Iowa Utils. Bd.*, 119 S. Ct. at 730 n.6.

103. At one point the legislative history of the 1996 Act, invoking the difficulties of the judicial administration of the *MFJ*, claimed its purpose was "to end government by consent decree." H.R. REP. NO. 104-230, at 201 (1996), *reprinted in* 1996 U.S.C.C.A.N. 10, 215, *cited in* Weiser, *supra* note 100, at 28 n.106.

104. *AT&T v. Iowa Utils. Bd.*, 119 S. Ct. at 733.

105. However, one commentator points out that some form of *Chevron* deference to state administrative decisions may be an unavoidable part of the 1996 Act's structure. Even if the states do not set default pricing methodologies, they still establish the actual rates and pass on the validity of negotiated interconnection agreements. Their decisions can challenged in the courts, which will face a choice between relying on the expertise of the state agencies and making an independent judgment. Most of the same factors that make *Chevron* necessary for federal administrative behavior will weigh against a de novo review of state administrative judgments as well. *See* Weiser, *supra* note 100, at 21-23.

106. *See* 47 U.S.C. § 271(c)(2)(B) (Supp. IV 1998).

the unfairness of allowing ILECs into the long distance markets on what would essentially be different conditions.

C. Considering the Ultimate Validity of TELRIC.

The most immediate practical effect of Court's decision is that the Eighth Circuit must consider the validity of TELRIC on remand. Although the merits of TELRIC are certainly debatable,[107] it will probably be approved. Because the Court has determined that the FCC has jurisdiction, the 8th Circuit will probably consider TELRIC under the reasonableness standard of *Chevron* or the arbitrary and capricious standard of the Administrative Procedures Act.[108] ILECs' inability to recover stranded costs can be justified in several ways. The FCC argued that prices based on TELRIC are not meant to be final but are, rather, intended as a framework to stimulate private negotiation. New market entrants lack bargaining power, and the FCC felt that default pricing rules favoring them were necessary to give them leverage in negotiation.[109] Therefore, ILECs can negotiate rates more favorable than TELRIC by giving potential competitors better terms in other areas of their agreements. Another argument is that the consideration for the loss of the stranded costs is the ILECs' newly granted ability to compete in long distance markets. In theory, this should more than make up for the losses suffered in the local market over time. A final argument is not really a justification for unfairness so much as an acknowledgement that stranded costs are an unfortunate but necessary side effect of imposing competition and that the Court is willing to sanction them in the greater interests of competition. TELRIC will not be thrown out on remand under the *Chevron* rule unless it is found to be completely unreasonable.

IV. CONCLUSION

The Court's decision in *AT&T v. Iowa Utilities Board* is driven by a sense that Congress's desire for results should be its paramount concern. Ultimately, the Court is willing to cut against the grain of traditional allocations of power, telecommunications preemption precedent and the plain meaning of the statute itself in order to implement Congress's local competition regime quickly and efficiently. In the Court's judgment, it is more

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107. *See, e.g.*, Breyer's dissent in *AT&T v. Iowa Utils. Bd.* 119 S. Ct. at 746-53; Chen, *supra* note 98, at 88-92; Weiser, *supra* note 101, at 46-49.

108. *See* 5 U.S.C. § 706(2)(A) (1994) (requiring that agency actions should be set aside only when "arbitrary, capricious, an abuse of discretion, or otherwise not in accordance with law").

109. *First Report and Order*, *supra* note 32, ¶ 47.

important that something get done than who does it, in spite of the pressure this puts on existing doctrine.

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BUSINESS LAW

LUNNEY V. PRODIGY SERVICES CO.

By Suman Mirmira

I. INTRODUCTION

The Internet is expanding at an extraordinary rate with the number of Internet users estimated to have increased from forty million in 1996[1] to over 240 million by the beginning of 2000.[2] Many users gain access to the Internet from internet service providers ("ISPs") such as America Online ("AOL"), Prodigy Services Company ("Prodigy") or CompuServe, which, for a fee, offer access to their own networks as well as a link to the much larger resources of the Internet.[3]

Among the legal questions created by the Internet is the liability of ISPs or their users for a defamatory posting, such as an e-mail or news posting. Who should be at fault when an individual user uses the services of an ISP to post a defamatory message on the Internet—the author of the statement, the service provider or both? Until recently, courts applied common law definitions of "publisher" to decide whether or not the ISP should be held liable for a defamatory statement authored by a third party.[4] In 1996, Congress established "Good Samaritan" immunity for ISPs[5] to respond to the growing concerns of whether ISPs should be held liable for defamatory statements authored by third parties who use their services to disseminate content.[6] This provision, although intended to en-

1. *See* Reno v. ACLU, 521 U.S. 844, 850 (1997) (discussing the findings of the Advanced Research Project Agency).

2. *See* NUA Internet Surveys, *How Many Online* (visited Jan. 28, 2000) ⟨http://www.nua.ie/surveys/how_many_online/index.html⟩ (estimating that as of January 2000 there were approximately 249 million Internet users); *Global Internet Statistics (by Language)* (last revised Jan. 20, 2000) ⟨http://glreach.com/globstats/⟩ (estimating the number of world-wide Internet users at 243 million as of January 2000).

3. *See Reno*, 521 U.S. at 850.

4. *See, e.g.*, Stratton Oakmont, Inc. v. Prodigy Servs. Co., No. 31063/94, 1995 N.Y. Misc. LEXIS 229, at *10 (Sup. Ct. May 24, 1995) (finding that Prodigy was a "publisher" because it screened messages posted on its bulletin boards, and hence it was liable for the defamatory statements posted by a third party).

5. *See* 47 U.S.C. § 230 (Supp. IV 1998).

6. *See* James F. Breisford, *Online Liability Issues: Defamation, Invasion of Privacy and Negligent Publishing*, 482 PLI/PAT 471, 489 (1997).

courage ISPs to self-regulate their content,[7] actually removed all legal incentives for them to do so. Further, by providing broad immunity to ISPs, Congress has removed all incentives for them to monitor the activities of their users and identify the authors of defamatory messages so that the plaintiff can sue the truly liable party. The outcome in *Lunney v. Prodigy Services Co.*[8] is a perfect example of this problem.

II. DEFAMATION LAW

A. Traditional Defamation Law

The common law of defamation includes the distinct torts of slander and libel.[9] The tort of slander provides redress for harmful oral statements that are not embodied in at least semi-permanent form,[10] whereas the tort of libel provides redress for printed or written statements, or statements in permanent form.[11] In order to establish a cause of action for defamation, four essential elements must be satisfied.[12] Actionable defamation requires "(a) a false and defamatory statement concerning another; (b) an unprivileged publication to a third party; (c) fault amounting at least to negligence on the part of the publisher; and (d) either actionability of the statement irrespective of special harm or the existence of special harm caused by the publication."[13]

Traditional law has developed a sliding scale of liability for those who distribute defamatory information.[14] Disseminators of defamatory material are divided into three categories: the primary publisher, the secondary publisher and the common carrier.[15] The categorization is based on the discretion a disseminator of news has to modify the published information; the higher the discretion, the higher the duty of care and corresponding

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7. *See id.* § 230(b); *See also* H.R. REP. NO. 104-458, at 86 (1996).

8. 683 N.Y.S.2d 557 (App. Div. 1998), *aff'd*, No. 164, 1999 N.Y. LEXIS 3746 (Dec. 2, 1999).

9. *See* RESTATEMENT (SECOND) OF TORTS § 568 (1977).

10. *See id.* § 568(2).

11. *See id.* §§ 568(1), 568 cmt. d.

12. *See id.* § 558.

13. *Id.* § 558. A defamatory statement is one that has the tendency to "harm the reputation of another as to lower him in the estimation of the community or to deter third persons from associating or dealing with him." *Id.* § 559.

14. *See* Kean J. Decarlo, *Tilting at Windmills: Defamation and the Private Person in Cyberspace*, 13 GA. ST. U. L. REV. 547, 552 (1997).

15. *See id.* at 552-53. Common carriers, such as telephone and telegraph companies, were free from liability for the transmission of defamatory messages "if they did not have knowledge of the defamer's lack of privilege to send the message." *Id.* at 558.

liability.[16] Historically, a publisher of print material, such as a newspaper, was considered a "primary publisher" and was liable regardless of fault.[17] A distributor, such as a bookstore or a library, was considered a secondary publisher[18] and was liable only if it knew or should have known the defamatory nature of the material it was distributing.[19]

In its landmark decision in *New York Times v. Sullivan*,[20] the Supreme Court concluded that, in order to prevail in a defamation lawsuit against a newspaper, a public official must establish that the defendant acted with "actual malice," which is defined as actual knowledge that the statement was false, or reckless disregard for its truth.[21] For libels of a private individual, the Court, in *Gertz v. Robert Welch, Inc.*,[22] denied the strict liability standard of common law, but otherwise left the matter to individual states.[23]

The common law rule as it originally developed in New York was:

> [H]e who furnishes the means of convenient circulation, knowing, or having reasonable cause to believe, that it is to be used for that purpose, if it is in fact so used, is guilty of aiding in the publication and becomes the instrument of the libeler.[24]

If taken literally, the application of this rule could, hypothetically, render IBM liable for selling typewriters to The National Enquirer or Xerox Corporation liable for the damages caused by the copying of a libelous document on one of its machines.[25] Subsequent authority establishes that a finding of liability requires that the defendant had some editorial, or at

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16. *See id.* at 552.

17. *See* Loftus E. Becker, *The Liability of Computer Bulletin Board Operators for Defamation Posted by others*, 22 CONN. L. REV. 203, 221.

18. *See* W. PAGE KEETON ET AL., PROSSER AND KEETON ON THE LAW OF TORTS, § 113, at 803 (5th ed. 1984).

19. *See* Becker, *supra* note 17 at 221; *see also* RESTATEMENT (SECOND) OF TORTS §§ 581, 612; Osmond v. EWAP, Inc., 153 Cal. App. 3d 842, 847 (Ct. App. 1984) (affirming trial court's grant of summary judgment motion to defendant because "plaintiff failed to raise a triable issue on the question of malice, an element of libel which must be proved to impose liability on a distributor which merely disseminated libelous material published by others.").

20. 376 U.S. 254 (1964).

21. *See id.* at 279-80 (limiting this standard only to public officials).

22. 418 U.S. 323 (1974).

23. *See id.* at 347 (requiring at minimum, a showing that defendant was negligent). The Court also extended the *New York Times* standard to include public figures. *See id.* at 345.

24. Lunney v. Prodigy Servs. Co., 683 N.Y.S.2d 557, 560 (App. Div. 1998).

25. *See id.*

least participatory function, in connection with the dissemination of the defamatory material.[26]

B. Internet Defamation Law Prior to the Communications Decency Act

Prior to the 1996 enactment of the Communications Decency Act ("CDA"), courts viewed defendant ISPs as either primary or secondary publishers. Hence, the courts imposed liability on ISPs rather arbitrarily depending on their perception of whether or not the ISP exercised editorial control.[27] In an early online tort case, *Daniel v. Dow Jones & Co.*,[28] the plaintiff sued Dow Jones News Retrieval, which provided on-line electronic news reports, alleging harm for a mistake in one of defendant's reports.[29] In granting defendant's motion to dismiss,[30] the court stated that the plaintiff's relationship to the defendant was functionally similar to that of a purchaser of a newspaper,[31] and a newspaper, whether in paper or electronic form, should not be liable for false information in the reports on a showing of "mere negligence."[32]

In *Cubby, Inc. v. CompuServe Inc.*,[33] the defendant was treated as a secondary publisher and held not liable for defamatory postings by a third party.[34] In *Cubby*, the plaintiff brought an action against the defendant for libel, business disparagement, and unfair competition.[35] The defendant asserted that an independent content provider posted the information without the editorial supervision of the defendant.[36] The trial court granted defendant's motion for summary judgment,[37] reasoning that the defendant

26. *See* Anderson v. New York Tel., 345 N.Y.S.2d 740 (App. Div. 1973), *rev'd*, 35 N.Y.2d 746, 750 (1974) (holding that the defendant telephone company could not be held liable for its client's actions because a caller communicates directly with another party without any intervention by the telephone company).

27. *Compare* Stratton Oakmont, Inc. v. Prodigy Servs. Co., No. 31063/94, 1995 N.Y. Misc. LEXIS 229, at *10 (Sup. Ct. May 24, 1995) (holding defendant ISP to the strict liability standard of a publisher because defendant exerted some control over material posted on its service), *with* Cubby, Inc. v. CompuServe Inc., 776 F. Supp. 135, 140 (S.D.N.Y. 1991) (holding defendant ISP to the lower standard of a secondary publisher and thus not liable because plaintiff could not establish malice on defendant's part).

28. 520 N.Y.S.2d 334 (Civ. Ct. 1987).

29. *See id.* at 335.

30. *See id.* at 340.

31. *See id.* at 337.

32. *See id.* at 338.

33. 776 F. Supp. 135 (S.D.N.Y. 1991).

34. *See id.* at 140-41.

35. *See id.* at 137.

36. *See id.*

37. *See id.* at 144.

was a secondary publisher—no different from "a public library, book store, or newsstand"—and should not be held liable absent a showing of malice.[38]

By contrast, in *Stratton Oakmont, Inc. v. Prodigy Services Co.*,[39] an anonymous person posted a message on Prodigy's bulletin board, "Money Talk," that a securities offering being made by Stratton Oakmont, a securities investment firm, was a major fraud.[40] The message also claimed that Stratton's president would soon be proven a criminal, and that Stratton brokers were pressured to lie for a living, on pain of being fired.[41] The court held Prodigy to the strict liability standard normally applied to original or primary publishers of defamatory statements.[42] The court reasoned that the defendant acted more like an original publisher than a distributor, both because it advertised its practice of controlling content on its service and because it actively screened and edited messages posted on its bulletin boards.[43]

The *Stratton Oakmont* decision was heavily criticized by scholars and legislators, who argued that the court's ruling would discourage ISPs from maintaining editorial control over content posted on its services.[44] It can also be argued, however, that because the message was apparently posted by someone using a former employee's unretired access code,[45] Prodigy had been negligent and was correctly held liable.

C. The Communications Decency Act and Its Impact on Internet Defamation Law

The holding in *Stratton Oakmont*, which penalized self-regulation, was viewed as a disincentive for service providers to self-regulate the dissemi-

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38. *Id.* at 140-141.

39. No. 31063/94, 1995 N.Y. Misc. LEXIS 229 (Sup. Ct. May 24, 1995).

40. *See id.* at *1-*2.

41. *See id.* at *2.

42. *See id.* at *13.

43. *See id.* at *10.

44. *See, e.g.*, David P. Miranda, *Defamation in Cyberspace:* Stratton Oakmont, Inc. v. Prodigy Services Co., 5 ALB. L.J. OF SCI. & TECH. 229, 244-45 (1996); *see also* Robert Cannon, *The Legislative History of Senator Exon's Communications Decency Act: Regulating Barbarians on the Information Superhighway*, 49 FED. COMM. L.J. 51, 61-62 (1996).

45. *See* Robert B. Charles & Jacob H. Zamansky, *Liability for Online Libel After* Stratton Oakmont, Inc. v. Prodigy Services Co., 28 CONN. L. REV. 1173, 1189 n.68 (1996) (citing claims made in the Plaintiffs' Memorandum of Law In Support of Motion For Partial Summary Judgment). These claims were, however, not addressed in the summary judgment motion, nor discussed in detail in the Charles article. *See id.*

nation of offensive information over their services.[46] Fearing that the specter of liability would deter service providers from blocking or screening offensive material, Congress enacted a broad "Good Samaritan" immunity for ISPs.[47] The relevant part of section 230 states that "[n]o 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."[48] Congress explicitly stated that it enacted the provision:

> to promote the continued development of the Internet and other interactive computer services . . . to preserve the vibrant and competitive free market that presently exists for the Internet and other interactive computer services, unfettered by Federal or State regulation . . . [and] to remove disincentives for the development and utilization of blocking and filtering technologies . . . .[49]

After the enactment of this statute, the law shifted dramatically from finding an ISP liable despite its attempt to block the posting of offensive material[50] to finding it not liable even when it had knowledge of offensive content on its services,[51] or even when it promoted the offensive posting.[52] In attempting to remove disincentives for ISPs or interactive computer service[53] providers ("ICS providers") to monitor postings over their services, Congress has in fact removed all legal incentive for ICS providers to do so.

D. Internet Defamation Law after the Enactment of the CDA

Very few cases have been decided after the enactment of the CDA. In *Zeran v. America Online*,[54] the first reported case to consider the scope of

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46. *See* Cannon, *supra* note 44 at 62-63.

47. 47 U.S.C. § 230 (Supp. IV 1998).

48. *Id.* § 230(c)(1).

49. *Id.* § 230(b); *see also* H. R. REP. NO. 104-458 at 86 (1996).

50. *See* Stratton Oakmont, Inc. v. Prodigy Servs. Co., No. 31063/94, 1995 N.Y. Misc. LEXIS 229, at *13 (Sup. Ct. May 24, 1995).

51. *See* Zeran v. America Online, Inc., 129 F.3d 327, 332-33 (4th Cir. 1997), *cert. denied*, 118 S. Ct. 2341 (1998).

52. *See* Blumenthal v. Drudge, 992 F. Supp. 44, 51-52 (D.D.C. 1998).

53. "The term 'interactive computer service' means 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. . . ." 47 U.S.C. § 230(f)(2) (1996).

54. 958 F. Supp. 1124 (E.D. Va.), *aff'd*, 129 F.3d 327 (4th Cir. 1997), *cert. denied*, 118 S. Ct. 2341 (1998).

ISP immunity conferred by section 230, an unidentified person, acting without Zeran's knowledge, posted a message on AOL's bulletin board advertising T-shirts and other items with offensive slogans related to the 1995 bombing of the Federal Building in Oklahoma.[55] The message directed those interested in purchasing the T-shirts to call the plaintiff at his home telephone number.[56] The plaintiff, Zeran, received a flood of abusive telephone calls and even death threats.[57] Zeran informed AOL of the posting and demanded that the posting be removed and a retraction posted.[58] Although AOL removed the message the next day, "various similarly offensive notices continued to appear" over the next few days.[59] In addition, AOL refused to publish a retraction on its network, as a matter of policy.[60]

Zeran sued AOL for negligent distribution of defamatory material, but his common-law negligence claim was dismissed on the grounds that it conflicted with the CDA's prohibition against treating ISPs as publishers and was thus preempted.[61] Zeran argued on appeal that section 230 immunity barred only publisher liability, but left distributor liability intact for ICS providers who had notice of the defamatory postings.[62] The Fourth Circuit, however, held that the CDA barred his claims even if AOL could be considered a "distributor," because a distributor would be immune under section 230 as a type of "publisher."[63] Not only did this decision give AOL broad immunity, but because the author apparently established an AOL account under a false name and was never identified by AOL,[64] Zeran was completely denied compensation for the harm caused to him. Whether the *Zeran* holding is supported by the text of the law is not

55. *See Zeran*, 958 F. Supp. at 1126.

56. *See id.*

57. *See id.* at 1127.

58. *See id.*

59. *Id.* at 1128.

60. *See id.* at 1127.

61. *See id.* at 1133. The court noted that the CDA did not expressly preempt the field of liability for ICS providers. *See id.* at 1130-31. The CDA states that "[n]othing in this section shall be construed to prevent any State from enforcing any State law that is consistent with this section. No cause of action may be brought and no liability may be imposed under any State or local law that is inconsistent with this section." 47 U.S.C. § 230(e)(3) (Supp. IV 1998).

62. *See* Zeran v. America Online, Inc., 129 F.3d 327, 331 (4th Cir. 1997), *cert. denied*, 118 S. Ct. 2341 (1998).

63. *See id.* at 332.

64. *See id.* at 330; *see also* Zeran v. America Online, Inc., 958 F. Supp. 1124, 1126 (E.D. Va. 1997).

clear;[65] however, it is arguably consistent with Congress's intent, expressed in the CDA itself.[66]

After the *Zeran* decision, other state and federal courts were faced with the issue of ISP liability. For example, in *Blumenthal v. Drudge*,[67] the court not only followed *Zeran* but also expanded the broad immunity conferred to AOL.[68] The plaintiffs in *Blumenthal* sued Matt Drudge, the creator of the "Drudge Report," and AOL for defamation.[69] The day before Blumenthal started a new job as an aide to President Clinton, the Drudge Report reported that Blumenthal allegedly had "a spousal abuse past that has been effectively covered up."[70] Blumenthal argued that AOL was not immune under section 230 of the CDA because Drudge was not merely an anonymous person who sent a message through AOL; rather, he had a contract with AOL and was paid $3,000 a month for his postings.[71] Despite AOL's knowledge of the postings and AOL's affirmative act of paying for them, the court did not find AOL liable.[72] This result differs dramatically from those of the pre-section 230 era. It also differs from the current treatment of publishers of print material, who are accountable for the material they publish.[73]

In *Doe v. America Online*,[74] the plaintiff brought charges against AOL and Richard Lee Russell under state law. Russell videotaped and photographed his sexual assault of the plaintiff's minor son and later advertised the videotapes and photographs for sale by openly describing their con-

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65. 47 U.S.C. § 230(c)(1) states that "[n]o 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." The plain text of the law would support the conclusion that the law immunizes ICS providers from publisher liability. It is unclear whether distributor liability is also included.

66. *See* 47 U.S.C. § 230(b) (Supp. IV 1998); *see also supra* Section II.C.

67. 992 F. Supp. 44 (D.D.C. 1998).

68. *See* Michelle Kane, Note, *Blumenthal v. Drudge*, 14 BERKELEY TECH. L.J. 483, 491 (1999).

69. *See Blumenthal* 992 F. Supp. at 46-47.

70. *See id.* The allegations of past spousal abuse were attributed to "top GOP operatives." *See id.*

71. *See id.* at 51.

72. *See id.* at 51-52 (stating that because Congress made the choice to immunize ISPs even when they had an active, aggressive role in making the content available, the court was faced with no choice but to find AOL not liable even though it may have been inclined to find otherwise). The court stated that AOL "has taken advantage of all the benefits . . . [of the CDA], and then some, without accepting any of the burdens Congress intended. . . ." *Id.* at 52-53.

73. *See* Becker, *supra* note 17, at 222.

74. No. CIV. CL 97-631 AE, 1997 WL 374223 (Fla. Cir. Ct. June 26, 1997), *aff'd*, 718 So.2d 385 (Fla. Dist. Ct. App. 1998), *review granted*, 729 So.2d 390 (Fla. 1999).

tents on AOL's chat rooms.[75] Doe sued AOL, asserting, in addition to other complaints, that AOL negligently breached its "duty to exercise reasonable care to ensure that its services not be used for the 'purposes of the sale or distribution of child pornography.'"[76] She asserted that AOL did nothing to prevent these postings despite being "on notice" that its services were being used to market child pornography.[77]

AOL moved to dismiss on three separate grounds, the first of which was that all of Doe's claims were barred by section 230 of the CDA.[78] The Florida circuit court granted AOL's motion and held that section 230 effectively barred any cause of action Doe may have against AOL.[79] Based on the ruling of the federal court in *Zeran*, the court dismissed Doe's argument that AOL was a "distributor" rather than a "publisher."[80] In addition, the court decided that holding AOL liable for negligence for harm caused by third-parties would defeat one of the purposes of the section 230, namely to remove disincentives for providers of online services to voluntarily screen or block objectionable content from their services.[81] On appeal, the court held that the trial court's decision that section 230 preempted statutory and common laws of Florida was consistent with *Zeran* and affirmed the trial court's ruling.[82] Plaintiff's motion for review has been granted by the Supreme Court of Florida.[83]

Zeran, *Blumenthal*, and *Doe* typify the problems encountered with section 230: the potential for overly broad application and a lack of ISP accountability. Not only do the ICS providers have no incentive in monitoring the postings on their services, but they also have little or no incentive to maintain adequate records so that the original party responsible for the defamation can be identified. *Lunney* is a perfect example of a case

75. *See* No. CIV. CL 97-631 AE, 1997 WL 374223, at *1 (Fla. Cir. Ct. June 26, 1997).

76. *Id.* at *2.

77. *See id.* at *1.

78. *See id.* at *2.

79. *See id.*

80. *See id.* at *3.

81. *See id.* at *4 (citing 47 U.S.C. § 230(b)(4), which states that "[i]t is the policy of the United States . . . to remove disincentives for the development and utilization of blocking and filtering technologies that empower parents to restrict their children's access to objectionable or inappropriate online material. . . .").

82. *See* Doe v. America Online, Inc., 718 So.2d 385, 389, (Fla. Dist. Ct. App. 1998).

83. Doe v. America Online, Inc., 729 So.2d 390 (Fla. 1999).

where the plaintiff had no redress because of the ICS provider's failure to maintain adequate records.[84]

III. SUMMARY OF THE CASE

A. Summary of Facts and Procedure

Alex G. Lunney, then a fifteen-year-old prospective Eagle Scout, brought this state cause of action against Prodigy asserting claims of libel per se, negligence, and intentional infliction of emotional distress from libelous statements "published" by Prodigy over its network through fictitious accounts opened at Prodigy in Lunney's name.[85] The imposter, after opening several accounts in Lunney's name and posing as Lunney, posted two vulgar bulletin board messages and sent an offensive e-mail message to a local scoutmaster threatening to kill him and molest his children.[86] The scoutmaster reported the e-mail to the local police and to Lunney's scoutmaster.[87] Although the police took no action against Lunney, his scoutmaster questioned Lunney in his mother's presence.[88] Lunney denied sending the message and his denial was accepted by the Boy Scout authorities.[89]

Prodigy, presuming that Lunney was responsible for the e-mail, informed him that his account had been suspended for transmitting an obscene and sexually explicit e-mail.[90] Lunney denied sending the defamatory e-mail and informed Prodigy that he had never subscribed to their service and that whoever had opened the accounts in his name and thereby sent the e-mail had done so fraudulently.[91] Prodigy apologized to Lunney and informed him that the unauthorized accounts had been terminated.[92]

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84. *See* Jacob H. Zamansky, *Issues Unresolved in E-mail Libel Ruling*, N.Y.L.J., Jan. 26, 1999, at 5. The article quotes from the deposition of a Prodigy security representative, who conceded that at the time of the transmission of the defamatory messages, Prodigy was "the only on-line service . . . that didn't require a credit card, [and] people were enrolling in Prodigy services [using false information]." *See id.* (last alteration in original). Such lax policies allowed the anonymous imposter to remain unidentified and denied redress to Lunney.

85. *See* Lunney v. Prodigy Servs. Co., 683 N.Y.S.2d 557, 559 (App. Div. 1998).

86. *See* Lunney v. Prodigy Servs. Co., No. 164, 1999 N.Y. LEXIS 3746, at *1-*2 (Dec. 2, 1999).

87. *See id.* at *2.

88. *See Lunney*, 683 N.Y.S.2d at 559.

89. *See id.*

90. *See id.*

91. *See id.*

92. *See id.*

On July 2, 1997, the Supreme Court of New York, Westchester County, denied Prodigy's motion for summary judgment and Prodigy appealed.[93] On December 28, 1998, the Appellate Division voted unanimously to dismiss the case, and on December 2, 1999, the New York Court of Appeals affirmed the order of the Appellate Division.[94]

B. The Appellate Division's Decision

In granting summary judgment to Prodigy, the Appellate Division held that the messages were not "of and concerning" Lunney and therefore did not defame him; while the messages did portray the plaintiff as a bully, the stigma associated with them did not amount to defamation.[95] The court further held that Prodigy was not the publisher of the messages, but even if it could be so considered, a New York common law privilege afforded to telegraph and telephone companies protected it from liability absent any proof that Prodigy knew such a statement would be false.[96]

The Appellate Division relied heavily on *Anderson v. New York Telephone Company*,[97] the "key case on this point."[98] In *Anderson*, the lessee of the defendant's telephone equipment played a recorded message containing accusations of misconduct by the Presiding Bishop of the Church of God in Christ of Western New York, including allegations that he fathered illegitimate children.[99] The Bishop sued the telephone company, and the New York Court of Appeals held that the Bishop had no cause of action because the telephone company's role was merely passive.[100]

The court reasoned that not only was there similarity between the *Lunney* fact pattern and the *Anderson* fact pattern, but that Lunney's case was even weaker than the plaintiff's in *Anderson*.[101] In *Anderson*, the defendant telephone company had actually been notified of the improper use to which its equipment was being put and the plaintiff had made repeated

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93. *See id.*

94. *See* Lunney v. Prodigy Servs. Co., No. 164, 1999 N.Y. LEXIS 3746, at *14 (Dec. 2, 1999).

95. *See Lunney*, 683 N.Y.S.2d at 559-60.

96. *See id.* at 560.

97. 345 N.Y.S.2d 740 (App. Div. 1973), *rev'd*, 35 N.Y.2d 746 (1974). The opinion of the New York Court of Appeals was merely a statement adopting Judge Witmer's dissenting opinion from the Appellate Division and reinstating the order from the Supreme Court. *See id.* at 748.

98. *See Lunney*, 683 N.Y.S.2d at 560.

99. *See Anderson*, 345 N.Y.S.2d at 741-42.

100. *See id.* at 752; *see also Anderson*, 35 N.Y.2d at 749-50 (Gabrielli, J., concurring).

101. *See Lunney*, 683 N.Y.S.2d at 560.

requests to stop the messages.[102] In fact, company employees had dialed the numbers and actually listened to the defamatory messages.[103] Nevertheless, the telephone company did nothing to stop the messages.[104] Prodigy, on the other hand, learned of the problem only when Lunney wrote to the company indicating that he had never subscribed to Prodigy's service and that the statements in the e-mails were false.[105]

The *Lunney* court was not persuaded by the argument that, because Prodigy had devised a method to automatically exclude certain epithets from messages sent via its network, its role could be equated to that of an editor or publisher.[106] The court reasoned that a highly offensive message could be composed without the use of these epithets; therefore, editorial control required the use of judgment.[107] Because a computer program cannot exercise judgment, and there was no evidence that any of Prodigy's employees monitored the e-mail transmissions or bulletin board postings, Prodigy exercised no editorial control and therefore could not properly be considered a publisher of that material.[108]

The court in *Lunney* found *Stratton Oakmont* not controlling because Prodigy did not exercise editorial control over its e-mail messages in *Lunney* as it did with its bulletin board service in *Stratton*.[109] The court also stated that Prodigy abandoned the editorial efforts cited in *Stratton Oakmont* prior to the posting of the obscene messages.[110] For these reasons, as well as its reliance on *Anderson*, the court in *Lunney* held that *Stratton Oakmont* had no impact on its decision to grant Prodigy's motion for summary judgment.[111] The court reasoned that its decision, unlike *Stratton Oakmont*, was based on fairness.[112] The *Lunney* court stated that the defendant in *Stratton Oakmont* was being penalized for inadequately performing a task which it had no legal duty to perform and that the *Stratton Oakmont* outcome actually discouraged ISPs from performing the very task that the plaintiff argued should be encouraged.[113]

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102. *See Anderson*, 345 N.Y.S.2d at 748.
103. *See id.*
104. *See id.*
105. *See Lunney*, 683 N.Y.S.2d at 561.
106. *See id.*
107. *See id.*
108. *See id.*
109. *See id.* at 562.
110. *See id.*
111. *See id.*
112. *See id.*
113. *See id.*

Lunney claimed that at the time the defamatory messages were posted, Prodigy was negligently soliciting members by requesting just a name and an address and not verifying the bona fides of any person before opening an account.[114] While the *Lunney* court went into great detail on its reasons for dismissing the libel claim, it cursorily dismissed the other claims, including Lunney's negligence claim, as "patently meritless."[115]

C. The Decision of the New York Court of Appeals

On December 2, 1999, the Court of Appeals unanimously affirmed the Appellate Division's decision to dismiss the case against Prodigy.[116] The court initially noted that, because Lunney's defamation action was grounded in New York common law, it would be evaluated in accordance with established New York tort principles.[117] The court observed that, although these principles were established before the advent of e-mail, they could accommodate the advanced technology comfortably.[118]

With regard to the e-mail message, the court, relying on *Anderson*, held that an ISP was merely a conduit for information, as opposed to a publisher, and consequently was no more responsible than a telephone company for the transmission of defamatory material over its lines.[119] The court in *Anderson* drew a distinction between telegraph companies, which may be considered to have published the messages submitted by telegraph senders because a telegraph is sent only "through the direct participation of the agents of the telegraph company," and telephone companies, which may not properly be considered publishers because "the caller communicates directly with the listener over the facilities of the telephone company, with no publication by the company itself."[120] The *Lunney* court concluded that the role played by Prodigy in connection with the offensive messages sent in Lunney's name was more analogous to that of a tele-

114. *See* Jacob H. Zamansky, *supra* note 84, at 5. The Appellate Division opinion mentions that Lunney brought a negligence claim against Prodigy, but fails to give any details of it. *See Lunney*, 683 N.Y.S.2d at 559. The opinion of the Court of Appeals states that, Lunney claimed that Prodigy was negligent in failing to safeguard against an imposter opening the accounts in his name. *See* Lunney v. Prodigy Servs. Co., No. 164, 1999 N.Y. LEXIS 3746, at *11 (Dec. 2, 1999).

115. *Lunney*, 683 N.Y.S.2d at 563.

116. *See Lunney*, 1999 N.Y. LEXIS 3746, at *14.

117. *See id.* at *7.

118. *See id.*

119. *See id.* at *8.

120. Anderson v. New York Tel. Co., 345 N.Y.S.2d 740, 752.

phone company than to that of a telegraph company, and under the holding in *Anderson*, Prodigy could not be considered a publisher.[121]

Further, the court stated that, based on *Anderson*, even if Prodigy could be considered a publisher, it was protected by a qualified immunity accorded to telephone and telegraph companies, under which the defendant could be held liable only upon a showing of actual malice.[122] The court was "unwilling to deny Prodigy the common-law qualified privilege accorded to telephone and telegraph companies" and stated that "[t]he public would not be well served by compelling an ISP to examine and screen millions of e-mail communications, on pain of liability for defamation."[123]

The court distinguished bulletin board messages from e-mails because there was a greater level of cognizance that bulletin board operators could have over them.[124] The court recognized that different bulletin boards operate differently; some post messages instantly and automatically without any editing, while others edit the messages and decide whether or not to post them.[125] The court found unpersuasive Lunney's argument that Prodigy was liable in tort because, in its membership agreements, it reserved the right to screen its bulletin board messages.[126] The court held that Prodigy merely reserved the right, but was not obligated, to edit any material that was transmitted via its network.[127] The court agreed with the Appellate Division's decision that merely screening for vulgarities in postings did not alter Prodigy's "passive character."[128]

Unlike the Appellate Division, the Court of Appeals specifically addressed Lunney's claim that Prodigy was negligent in failing to safeguard against an imposter opening the accounts in his name.[129] The court, in dismissing the claim, found Lunney's proposed requirement that ISPs verify applicants' bona fides and credit cards too burdensome to the ISPs; it would unjustifiably open ISPs to liability for the "wrongful acts of countless potential tortfeasors committed against countless potential victims."[130]

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121. *See Lunney*, 1999 N.Y. LEXIS 3746, at *8.
122. *See id.*, at *8-*9.
123. *Id.*
124. *See id.* at *9.
125. *See id.* at *9-*10.
126. *See id.* at *10-*11.
127. *See id.*
128. *Id.* at *11.
129. *See id.* *11-*12.
130. *Id.* at *11.

In a one-line statement, without addressing the claim of intentional infliction of emotional distress specifically, the court dismissed "any remaining causes of action" against Prodigy.[131] Further, holding that the case "does not call for it," the court declined to rule on the applicability of the CDA to this case.[132]

IV. DISCUSSION

A. Analysis of *Lunney*

The *Lunney* decision was the first major ruling by the New York Court of Appeals on privacy and defamation in cyberspace.[133] In its opinion, the court made it clear that the case was decided under New York common law and declined to enter the fray over whether section 230 renders an ISP unconditionally immune from notice-based liability, stating that it was "beyond the issues necessary to decide the case at hand."[134] Although *Lunney* decided the issue of ISP liability under New York common law, the court stated that the decision was in accord with the CDA and the *Zeran* decision.[135] It failed to mention, however, that it had no alternative but to be consistent with section 230, and it is only because New York common law was in harmony with the congressional intent to immunize ISPs that it could apply State law in this case.[136] In any case, whether the decision was based on the CDA or New York common law, the *Lunney* decision was fair in that the defendant, who had no knowledge of the defamatory posting, was held not liable.[137]

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131. *See id.* at *14.

132. *Id.* at *13-*14.

133. *See* John Caher, *No Liability for Internet Bulletin Board Provider; Prodigy Not at Fault for Postings Defaming Boy*, N.Y.L.J., Dec. 3, 1999, at 1.

134. *See* Lunney v. Prodigy Servs. Co., No. 164, 1999 N.Y. LEXIS 3746, at *13-*14 (Dec. 2, 1999); *see also* Lunney v. Prodigy Servs. Co., 683 N.Y.S.2d 557, 563 (App. Div. 1998) (stating that the court need not decide the "essentially academic question" of whether the federal statute would apply to the case).

135. *See* Lunney v. Prodigy Servs. Co., 683 N.Y.S.2d 557, 562-63 (App. Div. 1998) (stating that its decision was consistent with contemporary federal and state case law as well as with the federal statute).

136. *See supra* note 61 and accompanying text.

137. It is not clear, however, that the decision would have been any different had the defendant possessed the required knowledge. *See, e.g.*, Zeran v. America Online, Inc., 129 F.3d 327, 329-330 (4th Cir. 1997) (finding that Zeran's case against AOL was barred by section 230 even though AOL was informed of the defamatory postings); *see also* 47 U.S.C. § 230(e)(3) (Supp. IV 1998) (stating that no liability may be imposed on an ICS provider that is inconsistent with section 230).

The problem with the *Lunney* decision is that, as the poster was anonymous and the ISP was immune, no one is legally accountable for the plaintiff's injuries. Lunney claimed that at the time the defamatory messages were posted, Prodigy was negligently soliciting members by requesting just a name and an address and not verifying the bona fides of any person before opening an account.[138] This set of policies, Lunney claimed, made it easy to open fictitious accounts.[139] The Court of Appeals dismissed the negligence claim finding Lunney's proposal that ISPs verify applicants' bona fides and credit cards would require ISPs "to perform investigations on millions of potential subscribers" and subject them to "a limitless field of liability."[140] The "court was confronted with a basic policy choice, and it found in favor of the [Internet] industry over . . . very elementary individual rights."[141]

B. The Problems with Current Internet Defamation Law

Congress passed section 230 of the CDA in 1996 to remove the disincentives to self-regulation created by the New York state court's decision in *Stratton Oakmont*.[142] Congress's intent in enacting section 230 was to prevent the chilling effect of *Stratton Oakmont* and to encourage ICS providers to monitor the content of their bulletin board and other postings.[143] Congress' "Good Samaritan" law seems perfectly rational when applied to a situation as in *Lunney* where the ISP played no part in disseminating the offensive e-mail.[144] The law, however, inadequately addresses the accountability for defamatory statements made on the Internet, and as seen in *Lunney*, leaves the plaintiff without any compensation for his injuries when an ISP is negligent in allowing users access to its services.[145] What is needed is a balance between an individual's right to free speech and Congress' policy of promoting the Internet and growth of technology on the one hand, and protecting innocent people from serious harm to their

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138. *See* Zamansky, *supra* note 84, at 5.

139. *See id.*

140. Lunney v. Prodigy Servs. Co., No. 164, 1999 N.Y. LEXIS 3746, at *11-*12 (Dec. 2, 1999).

141. Judy Greenwald, *Prodigy is Not Held Liable For False Information Online*, BUSINESS INSURANCE, Jan. 3, 2000, at 2 (quoting Thomas Marino, a New York-based attorney who represented Lunney).

142. *See, e.g.*, Cannon, *supra* note 44, at 61-62.

143. *See* 47 U.S.C. § 230(b) (Supp. IV 1998); *see also* H.R. REP. NO. 104-458, at 86 (1996) ("It is the policy of the United States . . . to remove disincentives for the development and utilization of blocking and filtering technologies that empower parents to restrict their children's access to objectionable or inappropriate online material. . . .").

144. *See* Lunney v. Prodigy Servs. Co., 683 N.Y.S.2d 557, 560 (App. Div. 1998).

145. *See supra* note 84 and accompanying text.

reputation on the other. To achieve this balance, it is necessary that the law should, at a minimum, require ISPs to keep accurate records of their clients and their usage and to release these records when a court orders them to do so.

Congress also enacted a sub-section of the CDA which provided immunity for the good-faith blocking or removal of any defamatory statements.[146] While its intentions may have been good, what Congress seems to have overlooked is that, although the CDA protects ICS providers from liability to persons whose material they exclude, it provides no incentive for ICS providers to monitor their web sites. This is because they can no longer be held accountable for any third party posting over their services. Also, in not clearly defining the scope of the statute, Congress may have empowered the courts to allow overly-broad immunity to ICS providers.[147]

More importantly, the blanket immunity of the CDA has left no incentive for ICS providers to maintain records of their users to identify the authors of defamatory messages to allow the plaintiff to seek redress. While the author of the defamatory statement should be held primarily liable for the harm caused, there is a very practical reason to hold ICS providers liable for statements that it permits, after being notified, to remain on its services—such liability is the only way to motivate them to either remove the message or to reveal the identity of the author so that plaintiff may sue the truly liable person. If ICS providers fail to do either, then it is only fair that they compensate the plaintiff for the harm resulting from the statement. Current law would need to be modified in order to be fair to both the plaintiff and ICS providers.

C. A Proposed Solution for Internet Defamation Liability

Various solutions have been proposed to solve the problem of liability for anonymous postings on the Internet. One proposal would require ICS providers to maintain records of users' names and addresses, to warn subscribers, to review posted messages in public space within a reasonable

146. *See* 47 U.S.C. § 230(c)(2) (Supp. IV 1998) (stating that "[n]o 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 [§ 230(c)](1)).

147. *See* Kane, *supra* note 68 at 495.

amount of time and to remove offensive or defamatory messages.[148] Under this system, the ICS provider remains liable for knowingly or negligently transmitting defamatory messages.[149] The merits of this proposal are that it solves the accountability problem and provides a way for the injured party to be made whole by the defaming party. In addition, individuals would be deterred from posting defamatory messages because they would be identifiable. Under this scheme, an ICS provider would not be liable if these steps were taken, but, it would be liable if it knowingly or negligently allowed defamatory messages to be posted. One of the proposal's most significant drawbacks is that there are millions of messages posted every day—it would be virtually impossible to efficiently review them. Another problem is the difficulty in pointing to the exact point at which it is appropriate to say that the ICS provider is liable for the posted statement. Further, there is no way for a provider to distinguish messages that are defamatory from those that are true.[150] The removal of innocent messages by such a law would curtail people's First Amendment right to free speech.

Another proposal, because of problems with anonymous and insolvent users, advocates strict liability standards for ICS providers.[151] This proposal suggests that strict liability would force each provider "to determine the most advantageous mix of preventative measures," including the need to ensure user solvency, to perform message screening, to limit uploading, as well as to spread the losses from wrongful messages over all its users.[152] Proponents defend this proposal by stating that the law has shown a tendency "to hold new activities, the safety of which is not well understood, to strict liability until more is known about the activities."[153] This proposal solves the problem of plaintiff compensation for anonymous defamatory postings. A criticism of this proposal is that it was tried in *Stratton Oakmont* and it failed because Congress reacted immediately to *Stratton Oakmont* by enacting section 230 of the CDA.[154] This approach is not very different from that taken by the *Stratton Oakmont* court in holding

148. *See* Robert Charles, Note, *Computer Bulletin Boards and Defamation: Who Should be Liable? Under What Standard?* 2 J.L. & TECH. 121, 147 (1987).

149. *See id.* at 147-48.

150. For example, a posting stating that a particular doctor is "terrible and should be avoided" may be true and based on a bad experience or may be untruthful and made purely to harm the doctor's practice and reputation.

151. *See* I. Trotter Hardy, *The Proper Legal Regime for "Cyberspace,"* 55 U. PITT. L. REV. 993, 1044 (1994).

152. *Id.* at 1044.

153. *Id.*

154. *See* James F. Breisford, *Online Liability Issues: Defamation, Invasion of Privacy and Negligent Publishing*, 482 PLI/PAT 471, 489 (1997).

the defendant ISP liable without a showing of knowledge or negligence. Indeed, it would have the same chilling effect on the growth and development of ICS providers and provide a disincentive for self-regulation. This proposal may also face a First Amendment challenge under *Gertz* for holding a defendant liable for defamation without a showing of fault.

A third scheme would hold an ICS provider liable if it failed to remove postings within a reasonable period after being notified.[155] Unlike the first proposal, this one does not impose the burden of verifying users' names and their addresses nor the burden of monitoring the numerous messages that get posted. It is also fair to the service provider, as it requires a showing of fault before the provider can be held liable. In failing to require the provider to maintain any records of the users or clients,[156] however, this proposal fails to provide a solution whereby the plaintiff could be compensated if the message was posted anonymously.

A better solution would be one in which the ICS providers would be required to maintain records of users' names and addresses, to remove defamatory messages within a reasonable period of time after notification, and to release the user's true identity if issued a subpoena. Under this proposal, a user must provide a name and either a credit card or driver's license number to the ICS provider who would then verify the information. Upon verification, the service provider would notify the user that his or her account is "active." Only after being so notified would the user have access to the Internet via the ICS provider's services. Whether the ICS provider charges the user a fee for allowing access to its services is left to the provider, but the provider must maintain a record of the verified identity of each user. Further, it should keep an accurate record of the activities of the user so as to enable even an anonymous posting on a public bulletin board to be traced to the poster.

These requirements may, at a first glance, appear to be too burdensome to ICS providers and to violate individual users' privacy, but it is by and large the existing practice. Most ICS providers charge their clients an hourly or monthly fee for accessing the Internet, and maintain records of the client's name, address and credit card number for billing purposes. This information has been used to identify users indulging in Internet-related criminal activities and to prosecute them.[157] This proposal would require that this widely prevalent practice become law, i.e., it would no

155. *See* Frank P. Darr, *A Proposed Defamation Standard for Commercial Computer Information Systems*, 18 HASTINGS COMM/ENT L.J. 267, 284-285 (1996).

156. *See id.* at 285.

157. *See* Noah Levine, Note, *Establishing Legal Acountability for Anonymous Communication in Cyberspace*, 96 COLUM. L. REV. 1526, 1526-27 (1996).

longer be optional for ICS providers to maintain records of its users' identities and activities; they would be required to do so.

Another argument against this solution could be that there may be a time lag between applying for an Internet account and gaining Internet access.[158] While that may be true, one must keep in mind that not all applications are processed instantaneously. ISPs who collect a fee may require the client to wait while the bona fides are verified. Similar delays are seen in other related industries too—one cannot get telephone or credit card accounts instantaneously. This has not had a significant effect on people's lives. An Internet account need not be any different.

The records that this proposal requires an ICS provider to keep are no different from those which a phone company keeps. Extending the analogy of a phone company to an ICS provider, as *Lunney* did,[159] one could argue that if a person used his phone to make obscene calls to another, then the phone company's records could trace the call to the person who made it. ICS providers should not be permitted to get away with anything less.

This solution therefore requires that the ISPs have a duty to maintain accurate records of user identities and activities and to release them if ordered by a court to do so. In addition, if the ISP is notified that a particular posting or message is defamatory, the ISP has a duty to look into the matter. If the ISP determines that the posting is, most likely, defamatory, then it has a duty to remove the posting. The ISP would not be liable to the poster for removing the message because the law protects ISPs who remove postings in good faith.[160] While not required under this proposal, an ISP could, in order to show good faith, inform the author of the removed posting that it was compelled to remove the posting because of a complaint it received indicating that the message was defamatory in nature. This proposal also mandates that the ISPs post a retraction to any message that was proven to be defamatory. This would compensate the plaintiff at least partially for the damage done to his reputation. This solution is fair to the provider as well as to the defamed plaintiff, who has no other recourse but to turn to the ISP to track the identity of the poster.

There is one situation where the proposed solution would fail. If a user were to go to a public library or any other place where there is an anony-

158. This may happen in some cases, but it need not be true all the time. As customers shopping with a credit card in a store have experienced, current technology is advanced enough to verify credit cards instantaneously.

159. *See* Lunney v. Prodigy Servs. Co., 683 N.Y.S.2d 557, 560 (App. Div. 1998).

160. *See* 47 U.S.C. § 230(c)(2) (Supp. IV 1998).

mous link to the Internet, the user could circumvent the system and access the Internet directly with no record of his identity. This is no different from a person escaping detection by using a public phone to make an obscene phone call. Not all activity can be prevented by any law. The goal should be to deter the activity in general, to make it difficult for a person to indulge in it, and to catch the majority of wrong-doers. Reasonable precautions should be taken to prevent wrong doing.

V. CONCLUSION

The Internet has created a forum in which everyone can instantaneously disseminate their comments worldwide with only a few keystrokes and at little or no cost. The pervasiveness of the Internet calls for some need to balance the promotion of technology and the protection of ISPs as well as the First Amendment right to free speech with an equally important goal—protection of innocent citizens' reputations from unwarranted attacks.[161]

While the *Lunney* decision was fair to the defendant, Prodigy's lax enrollment policy left the plaintiff with absolutely no compensation for his injuries. The decision of the Court of Appeals weighed the impracticality of demanding that ISPs keep an accurate record of the identities and activities of its users against an individual's right to protection against defamation, and came out in favor of the ISPs. One solution to protect the defamed plaintiff would be to require ICS providers to maintain accurate records of their clients and their activities and to produce the records when the courts order them to do so. If the ICS provider is going to profit from the large number of clients who use its services, it is only fair that it take on the burden of maintaining accurate records of its clients' usage. It is only the ICS provider who can track and record client usage; Lunney had no way to determine the identity of the anonymous person who posted the vulgar messages in his name.

While ICS providers are very similar to telephone companies, the liability of ICS providers for third-party postings is not as easily analogized to a telephone service as the court in *Lunney* made it out to be.[162] ICS providers combine the elements of both telephone companies and traditional media services like newspapers and magazines. There is a need to redefine

161. *See* THOMAS IRWIN EMERSON, TOWARD A GENERAL THEORY OF THE FIRST AMENDMENT 68 (1966) (stating that, "[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.").

162. *See Lunney*, 683 N.Y.S.2d at 560.

the duties that ICS providers have to their clients and to the public. Congress should balance the needs of ICS providers with those of their users and ensure that all individuals are protected from the serious damage that could result from a reckless statement made over the Internet.

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FOREIGN & INTERNATIONAL LAW

THE EUROPEAN UNION DATA PRIVACY DIRECTIVE

By Julia M. Fromholz

In an increasingly wired world, even our mundane daily transactions leave permanent records. What brand of toothpaste do we buy? Ask the supermarket's marketing department, which maintains a database of our "discount card" purchases. What stores do we frequent? Check with the credit card company, which tracks our every purchase. Which movies do we rent? Tap into the video-rental store's computer, and retrieve the records in an instant. With the omnipresence of the computer, coupled with the interconnectivity of the Internet, not only can such individual firms keep and analyze detailed records about us, but they can also spread such information quickly and easily anywhere in the world.

The ubiquity of computers and the growth of networks have made the collection, analysis, and dissemination of personal data inexpensive and easy. This growth has also led to a heightened concern about the level of protection afforded to personal data. National boundaries no longer present a barrier to data flows; therefore, a regulatory regime with traditional, territory-based rules can have only a limited effect. Some countries seeking to protect the privacy of their citizens' data have done so in ways that extend the reach of their data privacy laws into other countries. Conflict over such reach is virtually inevitable and, if serious, will likely impede the growth of worldwide electronic commerce.

In the European Union ("EU"), governments have moved aggressively to regulate the use of personal data. In the United States, on the other hand, the government has largely refrained from such regulation, instead allowing companies and associations to regulate themselves, save for a small number of narrowly drawn regulations targeting specific industries.[1]

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1. American and European approaches to data protection are fundamentally different. European privacy statutes tend to protect information proactively and broadly, while American privacy statutes tend to stem from reactions to specific crises. *See* PAUL M. SCHWARTZ & JOEL R. REIDENBERG, DATA PRIVACY LAW: A STUDY OF UNITED STATES DATA PROTECTION 5 (1996). This book, commissioned by the EU to give an overview of U.S. data protection law, provides a comprehensive analysis of data protection law in several fields in both the public and private sectors. The authors identify medical and direct marketing data as being particularly loosely protected by U.S. government regulation. *See id.* at 154, 308-09.

These divergent responses to the challenge presented by the proliferation of electronic data can best be explained by different cultural mores and the different legal approaches to privacy in general.[2]

The EU's aggressive regulation of the use of personal data originating in its fifteen member countries is embodied in its Directive on the Privacy of Personal Data 95/46/EC ("the Directive"), which took effect on October 25, 1998.[3] The Directive embodies the principle that privacy is a fundamental human right.[4] It also serves the purpose of equalizing the level of data privacy protection guaranteed in each EU member country so as to decrease transaction costs for entities that operate across national borders.[5] The Directive provides a high level of protection for the privacy of personal data, and it extends that protection beyond the EU by prohibiting the transfer of data to third countries[6] unless those countries can guarantee a vaguely defined "adequate" level of data protection.[7] Although some Americans have long called for stronger regulation, it seems unlikely that the U.S. will pass comprehensive data privacy legislation in the near future.[8] Such an absence of an overarching privacy law seems to be the primary reason that the EU has already concluded that the U.S. does not provide adequate protection, as defined in the Directive.[9] American firms

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2. *See* PETER P. SWIRE & ROBERT E. LITAN, NONE OF YOUR BUSINESS: WORLD DATA FLOWS, ELECTRONIC COMMERCE, AND THE EUROPEAN PRIVACY DIRECTIVE 153 (1998). The authors state that while Americans "have a strong suspicion of government and a relatively strong esteem for markets and technology," Europeans "have given government a more prominent role in fostering social welfare but have placed more limits on unfettered development of markets and technology." *Id.*

3. *See* Directive 95/46/EC of the European Parliament and of the Council of 24 October 1995 on the protection of individuals with regard to the processing of personal data and on the free movement of such data [hereinafter Directive]. The Directive is available at *Community Legislation in Force* (visited Dec. 1, 1999) ⟨http://europa.eu.int/eur-lex/en/lif/dat/1995/en_395L0046.html⟩, as well as in FRED H. CATE, PRIVACY IN THE INFORMATION AGE 133-76 app. A (1997), and in SWIRE & LITAN, *supra* note 2, at 213-46 app. A.

4. *See id.* at art. 1(1); James Harvey, *An Overview of the European Union's Personal Data Directive*, COMPUTER LAW., Oct. 1998, at 19.

5. *See Data Protection: Background Information* (visited Aug. 27, 1999) ⟨http://europa.edu.int/comm/dg15/en/media/dataprot/backinfo.htm⟩.

6. The term "third countries" refers to countries outside the EU.

7. Directive, *supra* note 3, at art. 25.

8. *See infra* Part III.A.

9. *See Opinion 1/99 concerning the level of data protection in the United States and the ongoing discussions between the European Commission and the United States Government* (visited Aug. 28, 1999) ⟨http://europa.eu.int/comm/dg15/en/media/dataprot/wpdocs/wp15en.htm⟩ ("[T]he Working Party takes the view that the current patchwork of narrowly-focussed sectoral laws and voluntary self-regulation cannot at present be relied

must therefore figure out how to comply with the Directive's privacy standard, perhaps by exploiting what little flexibility it allows, or else face the prospect of having the flow of data from Europe cut off at the source. While individual firms, trade associations, and government entities are well aware of the problem and are working to avoid such a blockage, any solution to the immediate challenge posed by the EU Directive will likely not satisfy the need for a more certain privacy protection standard in the U.S., and indeed throughout the interconnected world.

I. DEFINITIONS OF PRIVACY AND COSTS OF PROTECTION

Citizens and governments of both the U.S. and Europe have long debated the appropriate level of privacy protection and have come to varying conclusions. Before discussing "privacy," however, it is necessary to define the term with some precision and to acknowledge both the costs and benefits of protecting it. The Directive attaches great import to the privacy of personal information, at least as compared to the standards of other countries today. Yet protecting privacy is not a pure and unquestioned good.

A. The Meaning of "Privacy"

The theoretical basis of a right to privacy is not always clear,[10] especially in an age in which the computer is ubiquitous.[11] The literature ex-

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upon to provide adequate protection in all cases for personal data transferred from the European Union."). Article 29 of the Directive created the Working Party, and Article 30 authorizes it to advise the European Commission on matters related to implementation of the Directive, including data protection standards in third countries. *See* Directive, *supra* note 3, at arts. 29, 30.

10. In 1890, Louis D. Brandeis & Samuel D. Warren wrote the seminal article on privacy, basing their analysis on the "right to be let alone." Samuel D. Warren and Louis D. Brandeis, *The Right to Privacy*, 4 HARV. L. REV. 193, 193 (1890). One contemporary view of the privacy problem today is that it does not concern just disclosures of embarrassing facts, but that it "involves disclosures that threaten control." Randall P. Bezanson, *The Right to Privacy Revisited: Privacy, News, and Social Change, 1890-1990*, 80 CALIF. L. REV. 1133, 1146 (1992).

11. The current focus on privacy may be due to the explosive growth of computers and networks: the protection of personal data arguably "revived in the 1960s when computers began to take a prominent place in public awareness." Robert M. Gellman, *Can Privacy Be Regulated Effectively on a National Level? Thoughts on the Possible Need for International Privacy Rules*, 41 VILL. L. REV. 129, 133 (1996). That argument is based on the idea that people started paying attention "when new physical, psychological and data surveillance technology applications transformed privacy into an issue that affected average consumers." *Id.* at 134 n.15. An example of such an application is 1800USSearch.com, where, for a nominal fee, anyone can run a search to find a person's

amining what privacy means and whence privacy interests spring is extensive.[12] Some theorists argue that personal information should be deemed a form of property; under this view, others have no more right to use our personal information without our permission than they do to drive our cars or enter our houses. This concept is intuitively appealing, as we may have a sense that we own information that is personal to us. On further reflection, however, a property right in personal information is a troublesome concept. Professor Arthur Miller has argued that a property right to privacy would protect far too much:

> The objective of protecting individual privacy is to safeguard emotional and psychological tranquillity by remedying an injurious dissemination of personal information; it was never intended to serve as a vehicle for defining the legal title to information or as a method for determining who has the right to control its commercial exploitation—typical functions of the law of property.[13]

A property right also seems not to fit the situation of the privacy of personal data because in order for the "information to be 'property,' . . . the owner must possess it. The difficult question[, however, is] how someone could 'possess' an intangible thing, like information, which [is] not subject to physical control."[14] A property right to privacy of personal data thus may not be justified on the basis that one person's use of the data makes the information less useful for others; data may be replicated many times over without losing any of its utility.[15]

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current and past addresses; phone number; vehicle make, model, purchase price, and current value; debts; and other personal data. *See 1-800 U.S. Search—Instant Search* (visited Jan. 29, 2000) ⟨http://www.1800ussearch.com/fast6_credit.htm⟩.

12. One participant in this debate has compiled a fairly comprehensive list of distinct rights that are often referred to under the common rubric of "privacy":

> The right to individual autonomy; The right to be left alone; The right to a private life; The right to control information about oneself; The right to limit accessibility; The right of exclusive control of access to private realms; The right to minimize intrusiveness; The right to expect confidentiality; The right to enjoy solitude; The right to enjoy intimacy; The right to enjoy anonymity; The right to enjoy reserve; The right to secrecy.

DAVID H. FLAHERTY, PROTECTING PRIVACY IN SURVEILLANCE SOCIETIES 8 tbl.1 (1989). This Note focuses only on the right to control personal information in this discussion of the EU Directive and other possible ways to regulate privacy protection.

13. ARTHUR R. MILLER, THE ASSAULT ON PRIVACY 212 (1971).

14. Robert G. Bone, *A New Look at Trade Secret Law: Doctrine in Search of Justification*, 86 CALIF. L. REV. 241, 254 (1998).

15. *See id.*

B. Costs and Benefits of Protecting Privacy

Though proponents of heightened privacy protection often speak as if privacy is an unquestionable individual and societal good, it must be acknowledged that privacy carries costs as well. Privacy allows people to act autonomously, providing them the "private space to develop, and reflect on, ideas and opinions," thereby strengthening a democratic government.[16] With privacy, people may also develop their individuality, apart from the groups to which they belong.[17] Privacy gives people the ability to decide what face they want others to see; such freedom allows people to set their own path to a greater degree than they would be able without it. But "privacy is not an absolute good because it imposes real costs on society."[18] In protecting some individual rights, a broadly defined privacy right not only fails to protect other individuals and society from the consequences of, but indeed promotes, "the dissemination of false information . . . [and] the withholding of relevant true information."[19] Privacy thereby imposes economic and social costs, as people are less able to acquire the information necessary to make fully informed decisions, such as whether a "child's babysitter had been convicted for child abuse" or whether a "physician had a history of malpractice."[20]

In seeking the appropriate level of protection for personal data, governments, industry groups, and companies must consciously balance these costs and benefits, rather than blindly hop on the privacy bandwagon. Achieving the proper balance is difficult because "[o]ne individual's privacy interests may conflict with another's, with the interests of society, or even with others of his own interests."[21] But it is clear that a system that unthinkingly elevates privacy above other interests will give insufficient regard to the costs privacy imposes on the very people it is intended to benefit.

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16. CATE, *supra* note 3, at 24.

17. *See id.* at 25-26.

18. U.S. West, Inc. v. Federal Communications Comm'n, 182 F.3d 1224, 1235 (10th Cir. 1999) (invalidating FCC regulations concerning the privacy of telephone customers' personal information).

19. CATE, *supra* note 3, at 28.

20. *Id.* at 29.

21. *Id.* at 31.

II. THE EU DIRECTIVE: BACKGROUND AND SCOPE

A. Prelude to the Directive

European citizens and their governments view privacy as a fundamental human right and thus support strong protections against the unauthorized commercial use of personal data.[22] European governments have long debated the appropriate way to safeguard their citizens' personal information from improper exploitation; the Directive is only the latest development in this process, which has involved discussion outside the forum of the EU as well.

In 1980, the Organization for Economic Cooperation and Development ("OECD")[23] passed an international agreement concerning data privacy.[24] The guidelines promulgated by the OECD were intended as a response to the "danger that disparities in national legislations could hamper the free flow of personal data across frontiers."[25] The Guidelines set forth basic principles underlying data privacy protection; the OECD intended that these "principles . . . be built into existing national legislation, or serve as a basis for legislation in those countries which do not yet have it."[26] The OECD principles are largely mirrored in the Directive's principles.

Although the OECD Guidelines, which do apply to electronic data,[27] reflect a basic agreement on principles for data protection, they are not binding and do not set a maximum level of permissible protection,[28] the absence of which may hinder harmonization of national laws.[29] In addi-

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22. *See* Directive, *supra* note 3, at art. 1(1).

23. The OECD consists of 29 member countries, including the United States and many European countries, as well as some in Asia. *See What is OECD* (visited Nov. 1, 1999) ⟨http://www.oecd.org/about/general/index.htm⟩; *OECD Member countries* (visited Dec. 1, 1999) ⟨http://www.oecd.org/about/general/member-countries.htm⟩.

24. *See* OECD, Guidelines on the Protection of Privacy and Transborder Flows of Personal Data [hereinafter OECD Guidelines]. This document is available at *Guidelines on the Protection of Privacy and Transborder Flows of Personal Data* (visited Nov. 1, 1999) ⟨http://www.oecd.org/dsti/sti/it/secur/prod/PRIV-EN.HTM⟩.

25. *Id.*

26. *Id.*

27. *See Implementing the OECD "Privacy Guidelines" in the Electronic Environment: Focus on the Internet* (visited Nov. 1, 1999) ⟨http://www.oecd.org/dsti/sti/it/secur/prod/reg97-6e.htm⟩.

28. *See* OECD Guidelines, *supra* note 24.

29. *See* Jane A. Zimmerman, Comment, *Transborder Data Flow: Problems with the Council of Europe Convention, or Protecting States from Protectionism*, 4 J. INT'L L. & BUS. 601, 623-24 (1982) (stating that the Council of Europe Convention's failure to set

tion, because each member country must implement the Guidelines on its own, their implementation is not at all certain.

Although the OECD Guidelines may set forth principles on which all or most countries agree, the OECD does not have the power to enforce its recommendations, and it seems unwilling or unable to take on the contentious issue of how countries should work together to bridge their different standards of protection. The OECD does state that it will "[s]upport Member countries in exchanging information about effective methods to protect privacy on global networks, and . . . report on their efforts and experience in achieving the objectives of this Declaration."[30] But that is a far cry from a firm commitment to achieve a single international standard.

In another attempt at establishing data-protection guidelines, the Council of Europe, an organization of forty-one countries that focuses on "strengthen[ing] democracy, human rights, and the rule of law throughout its member states,"[31] promulgated a Convention on Personal Data.[32] This Convention provides consistent principles intended to inform national legislation on the protection of personal data.[33] The Council has largely failed to achieve uniform protection for personal data, however, because it could not force countries to implement its Convention through legislation.[34] Additional barriers to uniformity sprang from existing national data protection legislation and the Convention's failure to define key terms.[35] Although neither the OECD Guidelines nor the Council of Europe Convention resulted in uniformity of national data protection laws, they both set the stage for the broad and deep protection afforded by the Directive.

B. The Directive

Although the EU Data Privacy Directive has been approved by the EU itself, it is not self-implementing. Before taking effect in individual na-

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maximum standards for data privacy protection will allow countries to refuse all data flows with other countries, even if all have agreed to and abide by the Convention).

30. OECD Working Party on Information Security and Privacy, Ministerial Declaration on the Protection of Privacy on Global Networks 5 (Oct. 1998), *available at* ⟨http://www.oecd.org/dsti/sti/it/secur/prod/reg97-6e.htm⟩.

31. *About the Council of Europe* (visited Dec. 1, 1999) ⟨http://www.coe.fr/eng/present/about.htm⟩.

32. *See* European Convention for the Protection of Individuals with Regard to the Automatic Processing of Personal Data, *cited in* Rosario Imperiali d'Afflitto, *Recent Development: European Union Directive on Personal Privacy Rights and Computerized Information*, 41 VILL. L. REV. 305, 305 (1996). The Convention became effective in 1985. *See* CATE, *supra* note 3, at 34.

33. *See* d'Afflitto, *supra* note 32, at 305.

34. *See* CATE, *supra* note 3, at 34.

35. *See id.* at 35.

tions, each of the fifteen EU member countries must pass its own implementing legislation.[36] As of the effective date, only five had done so.[37] And even now, the interpretation of some parts of the Directive, particularly those concerning the transfer of data to third countries, is still being clarified by the Working Party.[38]

The European Commission, which proposes legislation for the EU and monitors the implementation thereof, has identified several goals of the Data Privacy Directive. The explicit primary goal was to harmonize data privacy laws among the fifteen member states of the EU.[39] In an effort to reach that goal, the Directive sets a minimum level of protection; however, it does not set a maximum limit.[40] Linked to the goal of harmonization is the Commission's mandate to protect its citizens' fundamental rights, including the right to privacy.[41]

In order to achieve these goals, the Commission took a broad view of data protection. It established high levels of protection for personal data, requiring, with narrow exceptions, that entities collecting personal data get permission from individuals whose data they wish to exploit.[42] The Com-

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36. *See Data Protection: Background Information*, *supra* note 5.

37. *See* Chris Nuttall, *Privacy Laws Protect Personal Data* (last modified Oct. 24, 1998) ⟨http://news2.thls.bbc.co.uk/hi/english.sci/tech/newsid%5F200000/200284.stm⟩. These countries were the United Kingdom, Greece, Italy, Portugal, and Sweden. *See id.* As of September 1999, Belgium, Finland, and Austria had also implemented the Directive, leaving seven of the fifteen member countries without implementing legislation, nearly a year after the "effective" date. *See Status of Implementation of Directive 95/46* (visited Dec. 1, 1999) ⟨http://europa.eu.int/comm/dg15/en/media/dataprot/law/impl.htm⟩.

38. *See, e.g.*, Letter from Ambassador David L. Aaron, United States Under Secretary of Commerce for International Trade, to industry groups (Nov. 15, 1999), *available at* ⟨http://www.ita.doc.gov/ecom/aaronmemo1199.htm⟩ [hereinafter Aaron Letter]. For an explanation of the mandate of the Working Party, see *supra* note 9.

39. *See Data Protection: Background Information*, supra note 5.

40. *See* d'Afflitto, *supra* note 32, at 310; *see also* Directive, *supra* note 3, at art. 26(1) (stating that, with some narrow exceptions, member countries shall not allow data transfers to third countries lacking "an adequate level of protection," except "where otherwise provided by domestic law governing particular cases"). As noted *supra* note 29, such an absence of a maximum limit can be as destructive of harmony as is a lack of a minimum limit.

41. *See* d'Afflitto, *supra* note 32, at 310.

42. *See* Directive, *supra* note 3, at art. 7. Those collecting data ("data controllers") may be public or private entities. Those whose data are at issue are called "data subjects." *See id.* at art. 2(d). The Directive limits its protection to "personal data," which it defines as "any information relating to an identified or identifiable natural person . . . [which is] one who can be identified, directly or indirectly, in particular by reference to an identification number or to one or more factors specific to his physical, physiological, mental, economic, cultural or social identity." *Id.* at art. 2(a). The Directive does, however, cover non-electronic data, as long as they are part of a "filing system." *Id.* at art. 3.

mission directed each member country to create an independent supervisory body to oversee the regulation of personal data[43] and established a right of redress for data subjects in order to ensure that its provisions are rigorously enforced.[44]

Because transferring data across national borders generally involves no more effort than sending it next door, the Commission also sought to make uniform the protection given to all data originating in the EU, regardless of the location of processing.[45] The transfer requirements in Articles 25 and 26 also seek to avoid the problem that "[d]ouble standards would inevitably not only affect the credibility of the Union's regulatory aspirations but also favor, if not incite, attempts to relocate the processing of personal data."[46] Article 25 requires that data be transferred only to countries that ensure a notably undefined "adequate" level of protection,[47] while Article 26 sets out some exemptions to the Article 25 rule.[48] The detailed exemptions in Article 26 are narrow but provide some flexibility by allowing firms and customers to individually contract for the protection of personal data.[49]

The EU gives different types of data different levels of protection: more rigorous rules than those imposed on most types of personal data are imposed on the processing of "personal data revealing racial or ethnic origin, political opinions, religious or philosophical beliefs, trade union membership, and . . . data concerning health or sex life." *Id.* at art. 8; *see also Data Protection: Background Information*, *supra* note 5.

43. *See* Directive, *supra* note 3, at art. 28. In addition, Articles 29 and 30 create the Working Party, which advises the Commission on matters regarding the Directive but does not enforce its provisions. *See* Directive, *supra* note 3, at arts. 29-30.

44. *See id.* at arts. 22-24.

45. *See id.* at art. 25.

46. Spiros Simitis, *Foreword* to SCHWARTZ & REIDENBERG, *supra* note 1, at vi.

47. Directive, *supra* note 3, at art. 25(1). "Adequacy" of the privacy protection afforded by non-EU countries is to be "assessed on a case by case basis 'in the light of all the circumstances surrounding a data transfer operation or set of data transfer operations'." *Working Document: Transfers of personal data to third countries: Applying Articles 25 and 26 of the EU data protection directive* (adopted by Working Party on July 24, 1998) (visited August 28, 1999) ⟨http://europa.eu.int/comm/dg15/en/media/dataprot/wpdocs/wp12en.htm⟩ [hereinafter *Transfers*] (quoting Directive art. 25(2)).

48. Article 26(1) includes exemptions for unambiguous consent of the data subject (paragraph (a)), contractual necessity (paragraph (b)), and public interest necessity (paragraph (d)), among others. *See* Directive, *supra* note 3, at art. 26(1).

49. *See* Directive, *supra* note 3, at art. 26(2) .

III. THE U.S. PERSPECTIVE ON PRIVACY AND ON THE DIRECTIVE

A. U.S. Perspective on Data Privacy

Americans and Europeans conceive of data privacy in fundamentally different ways. In fact, the language Americans and Europeans use in discussing the issue reflects this deep disparity: Americans tend to use the term "privacy," while Europeans discuss "data protection."[50] In the U.S., "privacy" can refer to anything from a woman's right to abortion, to a resident's right to be free from the gaze of a "peeping Tom," to an individual's ability to choose whether he wants his name included on a telemarketing list.[51] Europeans, on the other hand, tend to speak more precisely of "data protection," referring to the narrower issue of regulating the collection and processing of personal data, rather than of "privacy" in general.[52]

1. Constitutions and statutes

Government regulation of data privacy in the United States starts with the U.S. Constitution, which protects, in a variety of ways, freedom from government intrusion into private affairs.[53] The Constitution circumscribes government regulation of private relationships and promotes the transparency of government itself.[54] Therefore, American privacy statutes regulate the government's use of personal data far more broadly and strictly than the private use of such data.[55] A European model of personal data protection would therefore be a jarring change from the norm of protection in the U.S.

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50. *See* Gellman, *supra* note 11, at 132.

51. *See* SCHWARTZ & REIDENBERG, *supra* note 1, at 5-12; *see also* Joel R. Reidenberg, *Setting Standards for Fair Information Practice in the U.S. Private Sector*, 80 IOWA L. REV. 497, 498 (1995).

52. *See* Gellman, *supra* note 11, at 132.

53. *See* CATE, *supra* note 3, at 49-52; SCHWARTZ & REIDENBERG, *supra* note 1, at 6-7.

54. *See* SCHWARTZ & REIDENBERG, *supra* note 1, at 6 ("This emphasis [on freedom from government intrusion] creates a basic philosophy that favors the free flow of information, though restrictions on public power also oblige the state to set limits on its own use of personal information.").

55. Compare the Privacy Act of 1974, 5 U.S.C. § 552a (1994), with sectoral laws regulating private use of personal data, such as the Children's Online Privacy Protection Act, 15 U.S.C. §§ 6501-6506 (Supp. IV 1998), the Cable Television Consumer Protection and Competition Act of 1992, 47 U.S.C. §§ 551-554 (1994), and the Video Privacy Protection Act of 1988, 18 U.S.C. § 2710 (1994). *See infra* notes 66-71 and accompanying text.

Beyond providing the general structure for privacy protection in the U.S., the Constitution includes specific protections that may pose obstacles to the implementation of European-style data privacy regulation. The First Amendment's free-speech guarantee imposes limits on the ability of the government to regulate the flow of information, including personal data.[56] Indeed, it is the very protection of one kind of privacy embodied in the First Amendment that limits protection of other varieties of privacy.[57] As one commentator points out, "the First Amendment—perhaps the most significant protection for privacy in the Constitution—restrains the power of the government to control expression or to facilitate its control by private parties in an effort to protect privacy."[58] The First Amendment therefore must be considered in any attempt to regulate the use of personal data as broadly as does the Directive.

Cultural standards also shape the U.S. approach to data privacy. Traditionally, Americans have been less likely than Europeans to turn to the government to regulate private enterprise, instead relying on the market or new technologies to address public concerns about commercial activity.[59] The relatively narrow scope of U.S. privacy law, based as it is on the Constitution and cultural mores, seems unlikely to change in the near future, particularly when the impetus for change comes from a culture that takes a very different view of both privacy and the role of government.

One major problem for the EU—one that many Europeans perhaps hoped the Directive would remedy—is that the U.S. does not have a single, overarching privacy law.[60] Federal privacy-protection statutes exist in certain industry sectors,[61] and state laws provide protection in various areas as well.[62] U.S. privacy legislation tends to be reactive;[63] that is, "gov-

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56. *See, e.g.*, U.S. West, Inc. v. Federal Communications Comm'n, 182 F.3d 1224 (10th Cir. 1999) (invoking the First Amendment to invalidate FCC regulation restricting phone company use of customer data for marketing purposes).

57. *See* CATE, *supra* note 3, at 55 ("Just as the First Amendment protects the privacy of every person to think and to express thoughts freely, it also fundamentally blocks the power of the government to restrict expression, even in order to protect the privacy of other individuals.").

58. *Id.*

59. *See* Graham Pearce & Nicholas Platten, *Orchestrating Transatlantic Approaches to Personal Data Protection: A European Perspective*, 22 FORDHAM INT'L L.J. 2024, 2024-25 (1999); *see also supra* note 1.

60. *See* Henry H. Perritt, Jr. and Margaret G. Stewart, *False Alarm?*, 51 FED. COM. L.J. 811, 812 (1999).

61. *See infra* notes 66-71 and accompanying text.

62. *See* CATE, *supra* note 3, at 66-68, 88-89 (discussing state constitutions, which regulate government activities, and state statutes, which regulate private behavior through

ernment tends to intervene only when a specific problem is identified."[64] Moreover, privacy legislation tends "to be narrowly tailored to deal with a specific type of information maintained by a particular sector of the economy."[65] For example, the Video Privacy Protection Act of 1988,[66] also known as the "Bork Bill,"[67] strictly regulates the use of individuals' videotape-rental data, and the Cable Television Consumer Protection and Competition Act of 1992[68] regulates disclosure of personally identifiable information on cable subscribers.[69] The Fair Credit Reporting Act[70] regulates consumer credit report information by, among other provisions, requiring credit bureaus to make certain disclosures to consumers and setting out procedures to be followed in case of disputes. The Children's Online Privacy Protection Act[71] requires operators of websites targeted at children to provide notice regarding personal information collected from children, as well as to obtain parents' consent before collecting such information. This sample of privacy statutes reflects the patchwork nature of American privacy legislation, and this "complex web of privacy laws"[72] means that there is "no single baseline" available by which to compare U.S. law with European standards.[73] Indeed, while some sectors of the U.S. economy would likely be judged to meet the standards set by the Directive,[74] there is little to no chance that other sectors would satisfy them.[75]

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adoption of a general right to privacy, codification of common law privacy torts, or enactment of sectoral privacy legislation).

63. *See Options for Promoting Privacy on the National Information Infrastructure* (visited Nov. 6, 1999) ⟨http://www.iitf.nist.gov/ipc/privacy.htm⟩ [hereinafter *Options for Privacy*]; *see also* SCHWARTZ & REIDENBERG, *supra* note 1, at 10.

64. *Options for Privacy*, *supra* note 63.

65. *Id.*

66. 18 U.S.C. § 2710 (1994).

67. The statute is so known because it was passed in response to a newspaper's disclosure of Judge Robert Bork's video rental records after he was nominated to the Supreme Court. *See* SCHWARTZ & REIDENBERG, *supra* note 1, at 10.

68. 47 U.S.C. §§ 551-554 (1994).

69. *See id.* § 551.

70. 15 U.S.C. §§ 1681-1681t (1994).

71. 15 U.S.C. §§ 6501-6506 (Supp. IV 1998).

72. SWIRE & LITAN, *supra* note 2, at 43.

73. *Id.* at 43-44.

74. For example, wiretaps, video rental records, student records, and home telephone records "are more strictly regulated than in many European countries." *Id.* at 43.

75. *See id.*

2. *Agencies*

In stark contrast to the system established by the EU Directive, there is no single United States government agency that supervises privacy protection. Instead, authority over this issue resides in several agencies, including the Department of Commerce ("DOC"),[76] the Federal Trade Commission ("FTC"),[77] and the Office of Management and Budget ("OMB").[78] This dispersion of authority reflects the reactive and sectoral nature of U.S. privacy protection and also complicates European efforts to negotiate for stronger protection.

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76. The International Trade Administration in the DOC has taken the lead in negotiations with the EU over a safe harbor approach to U.S. satisfaction of the Directive's adequacy standard. *See infra* Part IV.A. The National Telecommunications and Information Administration in the DOC has also joined the privacy protection fray, publishing privacy principles and reports. *See, e.g.*, *Discussion Draft—Privacy Principles* (visited Nov. 26, 1999) ⟨http://www.ntia.doc.gov/reports/privacydraft/198dftprin.htm⟩; *Privacy Study* (visited Nov. 26, 1999) ⟨http://www.ntia.doc.gov/reports/privacy/privacy_rpt.htm⟩.

77. Section 5 of the Federal Trade Commission Act prohibits "unfair or deceptive acts or practices in or affecting commerce." FTC Act § 5(a)(1), 15 U.S.C. § 45(a)(1) (1994). The FTC may seek administrative or judicial redress to protect consumers under this provision. *See* FTC Act §§ 5(b), 13(b), 15 U.S.C. §§ 45(b), 53(b) (1994). If the safe harbor, *see infra* Part IV.A, is approved, the FTC will be an active player in enforcing it: "The FTC has committed to reviewing on a priority basis referrals received from privacy self[-] regulatory organizations . . . and EU member countries alleging non-compliance with the safe harbor principles to determine whether Section 5 of the FTC Act . . . has been violated." *Draft Frequently Asked Questions (FAQs): FAQ 11: Dispute Resolution and Enforcement* (visited Nov. 26, 1999) ⟨http://www.ita.doc.gov/ecom/FAQ11DisputeRes1199.htm⟩ [hereinafter *Enforcement FAQ*].

78. The OMB's Office of Information and Regulatory Affairs is charged with monitoring implementation of the Privacy Act of 1974, which regulates only government use of personal information. *See supra* note 55 and accompanying text. In March 1999, the Administration appointed Professor Peter Swire as the OMB's Chief Counselor for Privacy (also known as the "Privacy Czar"); he sees his role as "coordinat[ing] the wide range of federal government agencies in their efforts to shape privacy issues." *Peter Swire Home Page* (visited Dec. 1, 1999) ⟨http://www.acs.ohio-state.edu/units/law/swire1/pshome1.htm⟩; *see also The Standard: News Briefs* (visited Dec. 1, 1999) ⟨http://thestandard.com/article/display/0,1151,3748,00.html⟩. Critics have called for a stronger central figure to oversee data privacy protection: "This is certainly a step toward [a data protection commissioner], but [Swire] doesn't have the resources, role, and authority that most countries' data protection commissioners have." Jason Catlett, Founder of Junkbusters.com, *quoted in* Courtney Macavinta, *U.S. to Appoint Privacy Adviser*, CNET.com, Mar. 3, 1999, *available at* ⟨http://news.cnet.com/news/0-1005-200-339497.html⟩.

B. U.S. Perspective on the Directive

The European Commission attempted to extend the Directive's reach globally through Article 25, which requires countries receiving personal data from the EU to provide an "adequate" level of protection.[79] If strictly implemented, the Directive could prohibit mundane transactions such as the transfer of data from the European subsidiary of a multinational company to its American headquarters or the transfer of data between code-sharing airlines based in different countries. Although multinational companies "ordinarily expect to comply with local laws," those laws usually do not have extraterritorial effects.[80] However, in this case, the EU's goal—ensuring the same level of protection for data of EU origin no matter where the data are processed—necessarily reaches well beyond the borders of the fifteen member states.[81]

Although the Directive may affect the entire world, the fact remains that only fifteen countries agreed to it. A single, global privacy standard surely would enhance efficiency, but a unilateral decision by a small group of countries is not the most effective way to create a widely accepted standard. The Directive in effect forces the United States, along with all other non-EU countries, to abide by its regulations, to negotiate with the EU in order to win an interpretation that is more flexible than the words of the Directive suggest, or to suffer the ill consequences of not being able to transfer data out of the EU. In a world aspiring to seamless transnational electronic commerce, such a purely regional approach to regulation "jeopardize[s] the aspirations of free trade as codified in the World Trade Organization Agreement."[82] The U.S. might object to the Directive at the World Trade Organization ("WTO"), under which "laws that appear to prevent free trade in goods and services are carefully scrutinized."[83] The General Agreement on Trade in Services ("GATS"),[84] however, includes an exception that permits each member nation to set its own data protection laws without undergoing review by the international body.[85] Despite this likelihood that the Directive would survive WTO review, an agree-

79. *See* Directive, *supra* note 3, at art. 25(1).

80. SWIRE & LITAN, *supra* note 2, at 42.

81. *See id.* at 3 ("In the European view these effects [on third countries] are not extraterritorial because the Directive governs only the personal information of people in Europe."). Indeed, at least some in the EU hoped that third countries would enact new privacy legislation in response to the Directive. *See id.* at 154.

82. Perritt & Stewart, *supra* note 60, at 813-14.

83. SWIRE & LITAN, *supra* note 2, at 4; *see also id.* at 188-96.

84. The GATS is enforced by the WTO. *See id.* at 190.

85. *See id.* at 191.

ment among fifteen countries is not the most efficient or effective way to implement a broadly applicable law.

In addition to attempting to impose a foreign set of cultural values on American entities, the Directive also may be trying to impose rules that are not well suited to today's technology. Some scholars argue that the Directive could function well in a mainframe world, but not in a world of distributed processing.[86] For example, the Directive's use of the terms "controller" and "data subject" seems almost archaic in the world of laptop computers and the Internet.[87] "The entity running a Web site is often an individual or a small company—hardly worthy of the term 'controller.' The persons browsing may be equipped with a large variety of tools for protecting their privacy. . . . Such people are no longer passive and powerless."[88] Looking beyond the language to the application of the Directive, commentators also argue that

> mainframe computers may be easier to fit within the [Directive] than other forms of modern information technology [because] . . . mainframes generally exist within major organizations, which are easily identified by regulators and have staff to devote to compliance efforts . . . [and because] mainframe operations are a natural setting for self-regulatory measures such as contracts that can be approved by European authorities.[89]

In addition, the Directive requires so much oversight of even individual data transfers that the transaction costs of implementing a system that fulfilled the requirements for every transfer could be prohibitive.[90] It would seem to make little sense for the U.S. and other third countries to spend significant resources attempting to comply with a regulation that cannot realistically be enforced.

IV. RESOLVING THE CONFLICT BETWEEN U.S. AND EU PRIVACY PROTECTION

Although a third country will not be assured of receiving European data unless it meets the strict standard set out in the Directive, individual organizations in third countries may continue to receive personal data from Europe if they fall within certain exceptions spelled out in the docu-

86. *See id.* at 14.
87. *See id.* at 50.
88. *Id.* at 51.
89. *Id.* at 53.
90. *See generally id.* at 52, 58-59, 64 (discussing the difficulty of monitoring data protection in mainframe, client-server, and Internet environments).

ment. In Article 26, the Directive allows for both self-regulatory measures and contractual provisions to ensure the adequacy of an organization's data privacy protection. However, the U.S. and the EU seem close to agreement on a third alternative, one not explicitly mentioned in the Directive, but one that would provide a structure through which U.S. organizations would be deemed to provide adequate protection. This alternative, negotiated by the DOC and the European Commission, is known as the "safe harbor."

A. The Safe Harbor Approach

The safe harbor approach would allow American firms to transfer data from EU nations provided that they sign on to a set of privacy-protection principles. Discussions regarding such an approach began in the fall of 1998, around the time that the Directive went into effect. Adherence to the guidelines would provide an American company or industry association a finding that it meets the adequacy standard for data transfers.[91] A safe harbor would fill in what the European Commission sees as gaps in United States privacy statutes, without requiring any legislative action. An organization that earns the presumption of adequacy would experience no blockages in its flow of data from the EU.[92]

After a year of negotiations and comments from interested parties, the European Commission and the DOC have recently reached a new agreement on the safe harbor principles; they are now awaiting further comment from industry groups in the U.S. and other interested committees in the EU.[93] Once the comment deadline has passed, the two sides will consider comments and possibly finalize the proposal.[94]

The safe harbor documents include a list of privacy principles, as well as frequently asked questions ("FAQs") to aid firms in their compliance efforts.[95] In order to qualify for the safe harbor and thereby satisfy the Di-

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91. *See Draft International Safe Harbor Privacy Principles Issued by the U.S. Department of Commerce* (Nov. 15, 1999), *available at* ⟨http://www.ita.doc.gov/ecom/Principles1199.htm⟩ [hereinafter Draft Safe Harbor of 11/99]. Under the previous draft safe harbor principles, promulgated in November 1998, a company adhering to the safe harbor would have earned only a presumption of adequacy. *See International Safe Harbor Privacy Principles* (visited Aug. 28, 1999) ⟨http://ita.doc.gov/ecom/shprin.html⟩.

92. *See* Draft Safe Harbor of 11/99, *supra* note 91.

93. *See id.*; Aaron Letter, *supra* note 38.

94. The EU has agreed not to disrupt data flows to the United States during the negotiations; that "'standstill'" will apparently continue as long as good faith negotiations are underway. *See* Aaron Letter, *supra* note 93.

95. *See id.*; *Draft Frequently Asked Questions (FAQs), available at* ⟨http://www.ita.doc.gov/ecom/menu.htm⟩.

rective's adequacy standard, a company may develop its own "self[-] regulatory privacy policies . . . conform[ing] with the principles," or it may "join a self[-]regulatory privacy program that adheres to the principles."[96] A company may also self-certify its adherence to the safe harbor if it is regulated by a body of law that provides sufficient protection for personal privacy.[97] The EU has highlighted two further requirements for protection by the safe harbor: "organizations must publicly declare their adherence to the Principles and . . . [they] must be subject to the jurisdiction of the Federal Trade Commission or another government body with powers to take enforcement action in cases of deception or misrepresentation."[98] The current safe harbor proposal envisions that "all enforcement [will] be carried out in the United States, subject to very limited exceptions."[99] The Enforcement FAQ identifies the FTC and privacy seal programs[100] as principal actors in the effort to ensure adherence to safe harbor principles.[101]

B. Other Ways to Provide Adequate Protection

Article 26 and Working Party papers identify alternative ways third-country organizations may satisfy the adequacy standard if their home country is deemed inadequate: self-regulation[102] and private contracts.[103] Other options may be available as well, as the Working Party has acknowledged that the volume of personal data transfers would make impossible the case-by-case analysis of protection foreseen in Article 25.[104] It

96. Draft Safe Harbor of 11/99, *supra* note 91.

97. *See id.*

98. *Summary of the Main Operative Provisions of a Possible Decision on the Basis of Article 25.6 of the Data Protection Directive Concerning the U.S. "Safe Harbor"*, *available at* ⟨http://www.ita.doc.gov/ecom/256summary1199.html⟩. However, in a footnote to that document, the U.S. asserts that this "condition applies only to participants in the 'safe harbor' relying wholly or partly on self-regulation." *Id.* at n.2.

99. Aaron Letter, *supra* note 38.

100. *See Enforcement FAQ*, *supra* note 77; *see also infra* notes 133-135 and accompanying text.

101. *See Enforcement FAQ*, *supra* note 77.

102. *See First Orientations on Transfers of Personal Data to Third Countries—Possible Ways Forward in Assessing Adequacy* (June 26, 1997) (visited Nov. 13, 1999) ⟨http://europa.eu.int/comm/dg15/en/media/dataprot/wpdocs/wp4en.htm⟩ [hereinafter *First Orientations*]; *Judging Industry Self-Regulation: When Does it Make a Meaningful Contribution to the Level of Data Protection in a Third Country?* (Jan. 14, 1998) (visited Nov. 13, 1999) ⟨http://europa.eu.int/comm/dg15/en/media/dataprot/wpdocs/wp7en.htm⟩ [hereinafter *Judging Industry Self-Regulation*].

103. *See* Directive, *supra* note 3, at art. 26(2) (stating that "adequate safeguards . . . may in particular result from appropriate contractual clauses").

104. *See First Orientations*, *supra* note 102.

therefore has suggested two alternative ways of ensuring the requisite level of protection: a "White List" of acceptable third countries,[105] and a risk analysis using the level of risk to personal privacy posed by different types of processing and of data to "determine the precise nature of what is considered to be 'adequate protection.'"[106] But self-regulation and contractual provisions may well provide more certainty for the organizations involved than would the White List, which might apply to only a few countries, or the risk analysis, which might not apply to a company's most important data transfers.

1. Industry self-regulation

Self-regulation allows for flexibility in that companies and associations that wish to comply with the Directive may do so entirely on their own, without delays or prolonged negotiations.[107] However, self-regulation may raise the problem of preemption, as industry regulations that provide adequate safeguards may not prevail over conflicting laws.[108] The variety of self-regulatory measures available, and the different standards they are likely to have, results in "a reasonable likelihood of a responsible company finding potential or real conflicts, or overlaps even at the voluntary level."[109] A company that adheres to a self-regulatory code in one country but does business in another might also run afoul of the second country's laws, as different countries are likely to have divergent codes and laws.[110] If self-regulatory codes are unable to assure certainty of enforcement in situations such as these, such codes are unlikely to be widely developed and used.

a) The Directive Approach

If a third country is not in compliance with the Directive, its industries can choose to provide an adequate level of protection by writing and adhering to industry codes that do provide sufficient data privacy protec-

105. *See id.* Although such a list would be an efficient means of ensuring that a country provides adequate protection, it would likely be complicated by factors such as sectoral differences in privacy protection in third countries and a difficulty in deciding who should determine the composition of the list. *See id.*

106. *Id.*; *see also* SWIRE & LITAN, *supra* note 2, at 167-69.

107. *See* SWIRE & LITAN, *supra* note 2, at 157.

108. *See* Gellman, *supra* note 11, at 143.

109. *Id.* at 144.

110. *See id.* at 145.

tion.[111] One advantage of self-regulation is that the process is likely to move more quickly than would governments seeking to pass legislation.[112]

The Working Party has stated that one of the key factors in assessing industry self-regulation is determining the "degree to which its rules can be enforced."[113] On this point, the Working Party focuses more on the sanctions the industry group can impose than on the size of the group, although it also states that the latter may inform the analysis of the former.[114]

According to the Working Party, self-regulation must achieve the basic principles of the Directive.[115] By assessing an industry code's effectiveness in achieving these principles, one can determine whether the code will provide "a good level of general compliance[,] support and help to individual data subjects[, and] appropriate redress (including compensation where appropriate)."[116] The Working Party states that this analysis is an objective matter and therefore should not be difficult to perform.[117] Some factors may make the analysis easier; for example, punitive sanctions and mandatory external audits are, in the Commission's view, effective ways to gauge whether an industry code will afford adequate protection.[118]

b) U.S. Industry Views

Most U.S. businesses strongly prefer self-regulation to the alternative of state-imposed mandates. Companies have taken several different routes, none mutually exclusive, to regulate themselves: industry codes, organi-

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111. *See* Directive, *supra* note 3, at art. 25(2) ("The adequacy of the level of protection afforded by a third country shall be assessed in the light of all the circumstances surrounding a data transfer operation; particular consideration shall be given to . . . the professional rules and security measures which are complied with in that country."); *see also Judging Industry Self-Regulation*, *supra* note 102.

112. *See* SWIRE & LITAN, *supra* note 2, at 157.

113. *Transfers*, *supra* note 47. In this document the Working Party defines industry self-regulation as "any set of data protection rules applying to a plurality of data controllers from the same profession or industry sector, the content of which has been determined primarily by members of the industry or profession concerned." *Id.* The Working Party acknowledges that this definition is a broad one, encompassing a wide range of codes. *See id.*

114. *See id.*

115. *See First Orientations*, *supra* note 102.

116. *Judging Industry Self-Regulation*, *supra* note 102.

117. *See id.*

118. *See id.*

zations such as the Online Privacy Alliance,[119] and third-party privacy seal programs.[120]

Many industry groups, including the powerful Direct Marketing Association ("DMA"), vehemently favor self-regulation over government regulation, as this approach allows them to establish the limits of protection.[121] The DMA has promulgated a "Privacy Promise" for consumers[122] and established a "Privacy Task Force," but it has also hired lobbyists to promote its cause among those who will make decisions on behalf of consumers.[123] On their own, the promise and the task force can do little more than set expectations for DMA members; enforcement authority must accompany such steps if they are to provide real protection. The DMA does "issu[e] quarterly reports on members who are being disciplined for violating DMA codes of conduct,"[124] but such action may not be enough of a deterrent to protect consumers. Industry groups such as the DMA will have to overcome a "perceived . . . intrinsic conflict that occurs when data users promulgate their own data protection codes of conduct"[125] if they are to be able to provide the "adequate" privacy protection mandated by the EU Directive.

In 1998, the Online Privacy Alliance ("OPA"), a group of more than eighty global corporations and associations that have organized to promote and lobby for industry self-regulation,[126] announced privacy-protection guidelines somewhat similar to those in the Directive.[127] Notably, how-

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119. *See Online Privacy Alliance* (visited Nov. 15, 1999) ⟨http://www.privacyalliance.org⟩.

120. *See, e.g.*, *BBBOnline* (visited Nov. 6, 1999) ⟨http://www.bbbonline.org⟩; *TRUSTe: Building a Web You Can Believe In* (visited Nov. 6, 1999) ⟨http://www.truste.org⟩.

121. *See* SCHWARTZ & REIDENBERG, *supra* note 1, at 309.

122. *See The DMA Privacy Promise Information for Consumers* (visited Dec. 1, 1999) ⟨http://www.the-dma.org/pan7/conspri.shtml⟩. The Privacy Promise includes commitments to notify customers that they may opt out of having their personal data shared among companies and to honor such requests. *See id.*

123. *See* SCHWARTZ & REIDENBERG, *supra* note 1, at 309 & n.5.

124. CATE, *supra* note 3, at 107.

125. *Id.* at 108.

126. *See Online Privacy Alliance: Who We Are* (visited Nov. 15, 1999) ⟨http://www.privacyalliance.org/who/⟩. Members include companies and associations in a variety of industries, including 3Com, Bank of America, Bell Atlantic, Dell, Dun & Bradstreet, eBay, Ernst and Young, Microsoft, Procter & Gamble, Time Warner, Xerox, American Advertising Federation, Business Software Alliance, Direct Marketing Association, and Motion Picture Association of America. *See id.*

127. *See* Directive, *supra* note 3; *First Orientations*, *supra* note 102; *Online Privacy Alliance: Privacy Policy Guidelines* (visited Nov. 15, 1999) ⟨http://www.privacyalliance.org/resources/ppguidelines.shtml⟩.

ever, the OPA's enforcement principle is markedly different.[128] As a voluntary organization, the OPA does not have the authority to enforce its guidelines; instead, it relies on agencies such as the FTC, third-party privacy seal programs, and state privacy statutes to ensure that its members adhere to their commitments.[129]

Support for self-regulatory measures is seen across business organizations, whether based in the U.S. or in Europe. For example, the TransAtlantic Business Dialogue ("TABD") is an organization of U.S. and EU companies and industry associations that discusses and develops trade-policy recommendations.[130] Given the character of the TABD's members as multinational corporations and associations, it is not surprising that the group strongly favors self-regulation to protect data privacy and ensure an uninterrupted data flow among countries.[131]

Third-party privacy seal programs hold the possibility of providing a less biased, and therefore more trustworthy, level of protection than do industry groups.[132] As the best known seal programs today, BBBOnline[133] and TRUSTe[134] award seals to websites that meet their standards for privacy protection.[135] The programs also promise to monitor the sites they license to ensure their continued adherence to the seals' commitments,[136] but such monitoring has yet to prove broadly effective in securing privacy protection. For example, two TRUSTe licensees, RealNetworks and Microsoft, have been accused of using their software to transmit customers' personal data without consent.[137] But because the privacy breach was effected through software, not through the websites bearing the privacy seal,

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128. *See Online Privacy Alliance: Effective Enforcement of Self-Regulation* (visited Nov. 15, 1999) ⟨http://www.privacyalliance.org/resources/enforcement.shtml⟩.

129. *See id.*

130. *See TransAtlantic Business Dialogue* (visited Sept. 12, 1999) ⟨http://www.tabd.org/tabd.html⟩.

131. *See TransAtlantic Business Dialogue* (visited Sept. 12, 1999) ⟨http://www.tabd.org/resources/content/apr98.html⟩.

132. These programs apply only to consumers and companies doing business online, not to other sorts of electronic data collection.

133. *See BBBOnline*, *supra* note 120.

134. *See TRUSTe*, *supra* note 120.

135. *See BBBOnline Privacy Program* (visited Dec. 1, 1999) ⟨http://www.bbbonline.com/businesses/privacy/index.html⟩; *TRUSTe: for Web Users* (visited Dec. 1, 1999) ⟨http://www.truste.org/users/users_how.html⟩.

136. *See How BBBOnline Protects Your Privacy* (visited Dec. 1, 1999) ⟨http://www.bbbonline.com/consumers/protectsprivacy.html⟩; *TRUSTe: for Web Users*, *supra* note 135.

137. *See* Alex Lash, *TRUSTe Goes Easy on RealNetworks*, THE STANDARD, Nov. 8, 1999, *available at* ⟨http://www.thestandard.com/article/display/0,1151,7536,00.html⟩.

TRUSTe was not able—or perhaps not willing—to enforce the companies' privacy commitments.[138] Privacy seal programs have the potential to solve the enforcement problem, as they are less beholden to data collectors than are other entities, yet they provide more flexibility than does government regulation. But in order to provide real protection, they will have to determine the proper scope for their work as well as ways to avoid even the appearance of providing special treatment to some companies.

2. *Contractual provisions*

Article 26 provides the possibility of flexibility for U.S. businesses by allowing contractual provisions to satisfy the adequacy standard. Article 26(2) contains the first mention of contractual provisions, stating that "adequate safeguards may in particular result from appropriate contractual clauses."[139] In Article 26(4), the Commission stated its further acceptance of "standard contractual clauses" to provide adequate safeguards.[140] Although these provisions may add some flexibility to the Directive's requirements, as is the case with self-regulation, the Working Party's goal for the use of contractual provisions is to export the level of data protection guaranteed in the EU.[141]

Contractual provisions that are used to provide the adequate protection missing in the third country's laws will be judged by the same criteria that would apply to laws and industry self-regulatory codes.[142] The Working Party stated that "[f]or a contractual provision to fulfil this function, it must satisfactorily compensate for the absence of a general level of protection, by including the essential elements of protection which are missing in any given situation."[143] An early Working Party document downplayed the applicability of Articles 26(2) and (4), stating that contractual solutions are "appropriate only in certain specific, and probably relatively rare circumstances."[144] A later document, however, seems to envision wider use of contractual clauses.[145] The Working Party does, however, see

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138. *See id.*

139. Directive, *supra* note 3, at art. 26(2).

140. *See id.* at art. 26(4).

141. *See Working Document: Preliminary views on the use of contractual provisions in the context of transfers of personal data to third countries* (Apr. 22, 1998) (visited Nov. 13, 1999) ⟨http://europa.eu.int/comm/dg15/en/media/dataprot/wpdocs/wp9en.htm⟩ [hereinafter *Preliminary Views*].

142. *See Transfers*, *supra* note 47.

143. *Id.*

144. *First Orientations*, *supra* note 102.

145. The Working Party's *Preliminary Views* states that "there will be some situations in which a contractual solution may be an appropriate solution, and others where it

practical limits on the use of such provisions; in particular, the contract must be "detailed and properly adapted to the data transfer in question," and the data subject must have redress in case of a problem, even if the data processor is in a third country.[146] Therefore, the Working Party concluded, contractual solutions are "particularly suited to situations where data transfers are similar and repetitive in nature [and] . . . where the parties to a contract are large operators already subject to public scrutiny and regulation."[147] Some commentators believe that these limitations mean contractual provisions will be most effective for firms that use mainframes, especially where the processors are large or multinational companies transferring data to branches within the same organization.[148]

V. CONCLUSION

As industry and government leaders approach a consensus regarding the safe harbor approach to compliance with the EU Directive, the urgent threat of blockages in the data flow appears to have subsided. However, the disparity between U.S. and European data privacy protection laws remains, and thus this negotiated settlement is unlikely to serve as a permanent solution to the problem. Unilateral action, such as the implementation of the EU Directive, will only stir international resentment. Only if a wide array of nations, possibly acting through a body such as the WTO or the United Nations, arrives at an agreement on the appropriate level of data protection will a truly global solution be possible.

Although the U.S is unlikely to enact comprehensive data privacy legislation anytime soon, firms appear willing to establish non-governmental bodies to regulate themselves. The existence of such entities should foster transnational electronic commerce by making public those companies' privacy standards and by creating a structure for enforcement. The private bodies will be hampered in their efforts to self-regulate, however, by a conflicting patchwork of laws. The U.S. may never have a single, national privacy agency or an over-arching privacy statute, but a clearer federal data-protection policy is necessary in order for U.S. companies to continue to function globally. The U.S. is a long way from arriving at such a comprehensive answer; until we reach such resolution, we will be forced

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may be impossible for a contract to guarantee the necessary 'adequate safeguards'." *Preliminary Views*, *supra* note 141. Although perhaps not a ringing endorsement of contractual solutions, this statement does seem to allow a wider use of them than did *First Orientations*.

146. *Id.*

147. *Id.*

148. SWIRE & LITAN, *supra* note 2, at 164, 173.

merely to react to the standards set by other players in this interconnected world.

SOUTH AFRICA'S MEDICINES AND RELATED SUBSTANCES CONTROL AMENDMENT ACT OF 1997

By Duane Nash

The Agreement on Trade-Related Aspects of Intellectual Property Rights[1] ("TRIPS") was designed to strengthen and harmonize the protection of intellectual property rights worldwide.[2] However, its genesis was complicated by harsh and often volatile disagreements between developed and developing nations.[3] The former, who hold the majority of the world's intellectual property rights, desired strong enforcement of these rights.[4] The latter, on the other hand, preferred less stringent enforcement to allow their economic development to proceed unencumbered by the developed world's monopoly on intellectual property.[5]

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1. Agreement on Trade-Related Aspects of Intellectual Property Rights, Apr. 15, 1994, World Trade Organization, [hereinafter TRIPS], *reprinted in* INTERNATIONAL INTELLECTUAL PROPERTY LAW 591-618 (Anthony D'Amato & Doris Estelle Long eds., Kluwer Law International 1997).

2. The preface of the TRIPS Agreement states that the purpose of the Agreement is "to reduce distortions and impediments to international trade . . . taking into account the need to promote effective and adequate protection of intellectual property rights. . . ." *Id.* at 591.

3. The developing nations were reluctant to cede jurisdiction of intellectual property protection to the General Agreement on Trade and Tariffs ("GATT") because of their perception that GATT catered to developed nations. As a result, developing nations preferred the World Intellectual Property Organization ("WIPO"). The developed nations, on the other hand, viewed the WIPO as hostile to their needs, and insisted that GATT was the proper forum. *See* Doris E. Long, *Copyright and the Uruguay Round Agreements: A New Era of Protection or an Illusory Promise?* 22 AIPLA Q.J. 531 (1995), *reprinted in* INTERNATIONAL INTELLECTUAL PROPERTY LAW, *supra* note 1, at 242-43.

4. "Developed countries uniformly view intellectual property as embodying pure property rights, entitled to comprehensive international protection in order to assure a full economic return to creators and owners. Reducing the potential for uncompensated, infringing uses by enacting and enforcing international protection norms is perceived as beneficial for both developed and developing countries." Doris E. Long, *The Role of Intellectual Property in Developing Nations*, *reprinted in* INTERNATIONAL INTELLECTUAL PROPERTY LAW, *supra* note 1, at 65. *See also* Carlos Alberto Primo Braga, *The Economics of Intellectual Property Rights and The GATT: Views from the South*, 22 VAND. J. TRANSNAT'L L. 243 (1989), *reprinted in* INTERNATIONAL INTELLECTUAL PROPERTY LAW, *supra* note 1, at 48-49.

5. "Because [developing countries] are not major producers of intellectual property, developing countries have little incentive to vigorously protect it. Weak protection is justified on the grounds that the developing world needs maximum access to Western

The intellectual property protection of pharmaceuticals illustrates the developing/developed world dichotomy. The majority of drug research and development occurs in the developed world[6] and these nations typically favor strong intellectual property protection of pharmaceuticals.[7] Developing nations, meanwhile, were often reluctant to extend patent protection to drugs.[8] TRIPS attempted to bridge these differences by requiring the extension of patent protection to drugs in all signatory nations along with a compulsory license provision and staggered compliance deadlines.[9]

Despite the presence of TRIPS, conflicts over pharmaceutical protection continue to arise among signatory nations.[10] In 1997, South Africa enacted the Medicines and Related Substances Control Amendment Act in order to make drugs cheaper and more available to combat South Africa's growing AIDS epidemic.[11] In response, the United States, through the United States Trade Representative ("USTR"), threatened economic sanctions against South Africa after alleging the Act's invalidity under TRIPS.[12] South Africa, in return, affirmed the Act's validity under inter-

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intellectual goods for its development and that stringent standards of protection are debilitating." Tara Kalagher Giunta & Lily H. Shang, *Ownership of Information in a Global Economy*, GEO. WASH. J. INT'L L. & ECON. 327 (1994), *reprinted in* INTERNATIONAL INTELLECTUAL PROPERTY LAW, *supra* note 1, at 62; *see also* Braga, *supra* note 4, at 48-49.

6. *See* Rachel F. Ochs, *Pharmaceuticals: The Battle for Control in the 21st Century*, 10 J. L. & HEALTH 297, 298 (1995).

7. *See* Long, *supra* note 4, at 67.

8. For example, Brazil and Thailand did not extend patent protection to pharmaceuticals until they were pressured by the United States to do so. *See* MICHAEL BLAKENEY, TRADE RELATED ASPECTS OF INTELLECTUAL PROPERTY RIGHTS: A CONCISE GUIDE TO THE TRIPS AGREEMENT 4 (Sweet & Maxwell 1996); Ted L. McDorman, *U.S.—Thailand Trade Disputes: Applying Section 301 to Cigarettes and Intellectual Property*, 14 MICH. J. INT'L L. 90 (1992), *reprinted in* INTERNATIONAL INTELLECTUAL PROPERTY LAW, *supra* note 1, 68-70.

9. *See* TRIPS, *supra* note 1.

10. In 1997, even after the enactment of TRIPS, the World Trade Organization (WTO) investigated complaints by the United States that India provided inadequate patent protection for pharmaceuticals. The WTO Appellate Panel concluded that India's failure to provide patent protection to pharmaceuticals was in violation of TRIPS. *See India—Patent Protection: Report of the Appellate Body*, *reprinted in* FREDERICK ABBOTT ET AL., THE INTERNATIONAL INTELLECTUAL PROPERTY SYSTEM: COMMENTARY AND MATERIALS, 556 (1999).

11. Medicines and Related Substances Control Amendment Act, No. 90 (1997) (S. Afr.)

12. The USTR report dated April 30, 1999 included the following:

> We call on the Government of South Africa to bring its [intellectual property rights] regime into full compliance with TRIPS before the

national law and alleged that the United States was pressuring South Africa simply to protect American pharmaceutical interests.[13]

An examination of the Act itself reveals that its parallel importation provision is valid under TRIPS. The Act's compulsory licensing provision, however, is vague and overly broad: in its current form this provision lacks important limitations enforced by TRIPS. As a result, its application poses a significant threat to the United States' pharmaceutical industry. Moreover, given the vagueness of the term "adequate remuneration," the compulsory licensing provision of TRIPS itself may imperil the pharmaceutical industry if widely employed.

I. BACKGROUND

A. TRIPS

As part of the 1994 Uruguay Round for Negotiations under the General Agreement on Trade and Tariffs ("GATT"), the World Trade Organization ("WTO") adopted TRIPS. This agreement attempts to standardize intellectual property protections at a rudimentary level and compels all signatories to adopt certain minimum standards. These standards include uniformity of patent terms,[14] patentability for inventions in all areas of technology without discrimination,[15] and basic regulations concerning compulsory licensing of intellectual property rights.[16]

In return for compliance with TRIPS, Articles 3 and 4 provide signatory nations with two trading benefits.[17] The first is national treatment,

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> January 1, 2000 deadline . . . and clarify that the powers granted in the Medicines Act are consistent with its international obligations and will not be used to weaken or abrogate patent protection.

United States Trade Representative, *1999 Report of the United States Trade Representative* (visited Sept. 15, 1999) ⟨http://www.ustr.gov/releases/1999/04/99-41.html⟩.

13. *See Envoy Says U.S. Not a "Puppet" of Drug Companies*, AIDS Weekly Plus, Aug. 16, 1999, at 1; Josey Ballenger, *U.S. Protectionist Stance Lashed*, BUSINESS DAY (S. Afr.), July 17, 1998, at 3.

14. Article 33 of TRIPS provides that patent terms shall extend for twenty years from the date of filing for all member nations. *See* TRIPS, *supra* note 1, at 603.

15. *See id.* at 601. This is of particular importance to the pharmaceutical industry, as many countries without significant innovative industry previously excluded pharmaceuticals from subject matter eligibility for patent protection, or granted the protection subject to compulsory licensing schemes. For example, until recently, Canada had a compulsory licensing scheme for pharmaceuticals. *See* Alexander J. Stack, *TRIPS, Patent Exhaustion and Parallel Imports*, 1 J. OF WORLD INTELL. PROP., 657, 660 (1998).

16. *See* TRIPS, *supra* note 1, at 602-03 (providing for compulsory licensing in certain conditions). *See* discussion *infra* Part I.A.1.

17. *See* TRIPS, *supra* note 1, at 592-93.

which provides that once one member's (foreign) goods have entered another member's market, the goods must be afforded the same intellectual property protection as goods which were domestically produced.[18] The second benefit is most favored nation treatment, which provides that a nation cannot discriminate between WTO trading partners: a lower custom or duty rate given to one WTO nation must be applied to all other WTO nations.[19] Failure to comply with TRIPS or any other WTO agreement can jeopardize a nation's general market access entitlements under the WTO, and leave the nation subject to trade sanctions.[20]

In addition, as a concession to poorer nations, the deadline for enforcement of TRIPS varies according to a nation's economic development. Article 65.1 of TRIPS grants signatories a grace period of one year from the date of entry into WTO to apply the provisions of TRIPS.[21] Moreover, Article 65.2 provides "developing countries"[22] with four additional years[23] in which to comply, and Article 66 provides least developed countries[24] with a ten year grace period with possible extensions granted by the World Trade Council "upon duly motivated request."[25] Because TRIPS came into full force on January 1, 1995, developed countries like the United States had until January 1, 1996 to apply TRIPS provisions, while developing

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18. Article 3 provides that: "[e]ach member shall accord to the nationals of other Members treatment no less favorable than that it accords to its own nationals with regard to the protection of intellectual property. . . ." TRIPS, *supra* note 1, art. 3, at 592-93. For a discussion of national treatment, see ABBOTT, *supra* note 10, at 317.

19. Article 4 provides that: "[w]ith regard to the protection of intellectual property, any advantage, favor, privilege or immunity granted by a Member to the nationals of any other country shall be accorded immediately and unconditionally to the nationals of all other Members." TRIPS, *supra* note 1, at 593. For a discussion of most favored nation status, see ABBOTT, *supra* note 10, at 316-17.

20. For violations of TRIPS, the WTO Dispute Regulation Body may authorize the imposition of unilateral trade sanctions against a violating nation. As a result, the violating nation may lose its most favored nation status and national treatment benefits. *See* ABBOTT, *supra* note 10, at 354.

21. *See* TRIPS, *supra* note 1, at 615.

22. The WTO has no definitions for "developed" or "developing" countries. The latter are designated on the basis of self-selection followed by WTO review. *See* World Trade Organization, *About the WTO—Summary* (visited Sept. 15, 1999) ⟨http://www.wto.org/wto/about/devgroups.htm⟩.

23. *See* TRIPS, *supra* note 1, at 615.

24. *See id.* The WTO recognizes as least-developed countries those countries which have been designated as such by the United Nations. For a list of the 29 least developed countries which are currently members of the WTO, see World Trade Organization, *supra* note 22.

25. *See* TRIPS, *supra* note 1, at 615-16.

countries like South Africa had until January 1, 2000, to come into full compliance.

An examination of TRIPS itself reveals that the agreement permits compulsory licensing so long as certain conditions are met, and fails to prohibit parallel importation in any circumstance.

1. Compulsory licensing

A compulsory license is "an involuntary contract between a willing buyer and an unwilling seller imposed and enforced by the state."[26] Article 31 of TRIPS, addressing "Other Use Without the Authorisation of the Right Holder," contains specific examples of the grounds on which member nations may force patent holders to grant compulsory licenses.[27] These grounds include refusal by the patent holder to deal on reasonable commercial terms, urgency and extreme emergency, anti-competitive practices by the patent holder, non-commercial use of the patented good, and the presence of dependent patents.[28] Commentators contend, however, that Article 31 is merely descriptive and not exhaustive,[29] such that other unlisted grounds could justify compulsory licensing under TRIPS. This interpretation is supported by other sections of TRIPS itself, which reinforce the agreement's much stated balance between intellectual property protection and the welfare of member nations.[30]

Unlike the vaguely delimited grounds under which a nation can engage in compulsory licensing, the conditions regulating the execution of these

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26. Gianna Julian-Arnold, *International Compulsory Licensing: The Rationales and the Reality*, 33 IDEA 349 (1993), *reprinted in* INTERNATIONAL INTELLECTUAL PROPERTY LAW, *supra* note 1, at 357 n.6.

27. *See* TRIPS, *supra* note 1, at 602-03.

28. *See id.*

29. *See* Carlos M. Correa, *Patent Rights, in* INTELLECTUAL PROPERTY AND INTERNATIONAL TRADE 189, 208 (Carlos M. Correa & Abdulqawi A. Yusuf eds., Kluwer Law International 1998).

30. TRIPS stated main goal is "to ensure that measures and procedures to enforce intellectual property rights do not themselves become barriers to legitimate trade." TRIPS, *supra* note 1, at 591. Similarly, Article 7 states that: "The protection and enforcement of intellectual property rights should contribute to the promotion of technological innovation and to the transfer and dissemination of technology . . . in a manner conductive to social and economic welfare, and to a balance of rights and obligations." *Id.* at 593. Finally, Article 8 provides that: "Members may, in formulating or amending their laws and regulations, adopt measures necessary to protect public health and nutrition, and to promote the public interest in sectors of vital importance to their socio-economic and technological development, provided that such measures are consistent with the provisions of this Agreement." *Id.* at 594. *See also* Correa, *supra* note 29, at 208-13.

compulsory licenses are more clearly defined.[31] According to Article 31, a member nation may only force a patent holder to grant a compulsory license if: "prior to such use, the proposed user has made efforts to obtain authorisation from the right holder on reasonable commercial terms and conditions and that such efforts have not been successful within a reasonable period of time."[32] Moreover, the license must be of limited scope and duration, non-exclusive, non-assignable, "predominantly for the supply of the domestic market," and accompanied by "adequate remuneration in the circumstances of each case."[33] Finally, the license must only be granted after a case by case determination, and the patent holder must be allowed the possibility of judicial review.

2. *Parallel importation*

Parallel imports are goods that are purchased in a foreign market by an independent third party and later resold in the domestic market where their much lower prices compete with those of authorized distributors.[34] TRIPS avoids mandating worldwide norms on the legality of parallel importation. Article 6 provides that "nothing in this agreement shall be used to address the issue of the exhaustion of intellectual property rights."[35]

Rules on exhaustion and parallel importation will likely be a major negotiating issue in the next GATT Round.[36] The International Law Association International Trade Commission has agreed to focus on this question as a central research topic and to attempt the formulation of a proposal.[37] In the meantime, until GATT or another international body[38] for-

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31. *See* Correa, *supra* note 29, at 208.

32. Article 31 is unique, because unlike other articles, Article 31(b) provides that this particular requirement "may be waived by a Member in the case of a national emergency or other circumstances of extreme urgency or in cases of public non-commercial use." TRIPS, *supra* note 1, at 602.

33. TRIPS, *supra* note 1, at 602-03.

34. *See* Stack, *supra* note 15, at 666-67.

35. TRIPS, *supra* note 1, at 593. Exhaustion refers to the doctrine which determines when a patentee or authorized licensee loses the right to control the sale of the patented item. Exhaustion enables parallel importation in that once the patent right is exhausted, the patentee or authorized licensee is unable to prevent parallel importation. *See* John E. Somorjai, *The Evolution of a Common Market: Limits Imposed on the Protection of National Intellectual Property Rights in the European Economic Community*, 9 INT'L TAX & BUS. L. 431 (1992), *reprinted in* INTERNATIONAL INTELLECTUAL PROPERTY LAW, *supra* note 1, at 324-27.

36. *See* F.M. Abbott, *Commentary: The International Intellectual Property Order Enters the 21st Century*, 29 VAND J. TRANSNAT'L L. 471, 478 (1996).

37. *See id.*

38. At the present time, the WTO, under which GATT exists, "is the only international agency overseeing the rules of international trade." World Trade Org., *World*

mulates an agreement on the exhaustion of intellectual property rights, the issue of parallel importation will remain an entirely domestic legal concern.[39]

B. South Africa's Medicines and Related Substances Control Amendment Act of 1997

In December of 1997, Nelson Mandela, the Prime Minister of South Africa, signed the Medicines and Related Substances Control Amendment Act.[40] The Act addresses South Africa's AIDS pandemic[41] by providing a mechanism through which antiretroviral agents could be made cheaper and more available to South Africa's poor and HIV infected.[42]

Trade Organization FAQ (visited Feb. 12, 2000) ⟨http://www.wto.org/wto/faqs/faq.htm#q1⟩.

39. In the absence of an international agreement, the majority of nations favor parallel importation free of restraint. *See* Ako Shimada Williams, *International Exhaustion of Patent Rights Doctrine: Is Japan's Move a Step Forward Or Back From the Current Harmonization Effort?*, 7 D.C. L.J. INT'L L. & PRAC. 327 (1998). For example, in *Jap Auto Products v. BBS Kraftfahrzeug Technik*, Case No. Heisei 7, 1988, HANREI JIHŌ (Sup. Ct., July 1, 1997), the Japanese Supreme Court adopted the principle of international exhaustion. Under this doctrine a patentee's rights are exhausted world-wide after the first sale, allowing that or subsequent purchasers to freely import a good anywhere without the patentee's consent. Moreover, the Court stated unequivocally that when a patentee wishes to exert patent rights in Japan, it is purely a matter of interpretation of Japanese patent law.

40. Medicines and Related Substances Control Amendment Act, No. 90 (1997) (S. Afr.).

41. Half of the world's 45 million HIV infections are located in sub-Saharan Africa. *See* CNN.com, *Minister Predicts Six Million South Africans with HIV*, Aug. 25, 1999 ⟨http://cnn.com/world/africa/9908/25/bc-AIDS-SAFRICA.reut⟩. South Africa appears to be the epicenter of this epidemic with approximately 1600 new infections with HIV per day. *See id.* Currently 22% of pregnant women in South Africa are seropositive. *See Hanging on to the Profits from AIDS*, THE GUARDIAN (London), August 5, 1999, at 18. In six years the number of cases in South Africa is expected to double, and, as a result, in ten years the South African life expectancy will decrease from 59 to 40. *See* CNN.com, *supra*. While transmission of HIV is generally preventable through safe sex measures and universal precaution procedures in the health care setting, South Africa's dilemma is compounded by the fact that in addition to very high rates of unprotected sex, South Africa also has the highest incidence of rape worldwide. *See Hanging on to the Profits from AIDS, supra*. To make matters worse, the average monthly income in South Africa is $250, compared to the $800 per month cost of HIV therapy. *See* Harry Schwartz, *Unlikely Support*, PHARMACEUTICAL EXECUTIVE, Aug. 1, 1999, at 26.

42. AIDS is a treatable, but incurable and frequently fatal condition caused by infection with HIV. HIV treatment with antiretrovirals is effective in preventing or at least delaying the morbidity and mortality resulting from AIDS. However, treatment has thus far been unable to eradicate HIV from an infected host.

In particular, the Act contains language granting the South African Minister of Health the power to engage in the compulsory licensing and parallel importation of pharmaceuticals. Section 10 provides the Minister of Health with the power to permit the compulsory licensing of pharmaceuticals, so long as the product was initially marketed by the owner or with the owner's consent, but without any other expressed limitation.[43] In addition, section 10 allows the Minister to permit parallel importation of drugs.[44] While this paper focuses on the Act's ability to increase the availability of antiretroviral agents for the treatment of AIDS, it should be noted that the language of the Act is general, allowing the Health Minister to use the Act to increase the availability of any pharmaceuticals used to treat any condition, so long as basic criteria are met.[45]

The Act quickly provoked severe criticism from western governments[46] and pharmaceutical interests,[47] who represent the majority of

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43. Section 10 of the Act provides that the following be inserted into Section 15C of South Africa's Act 101 of 1965:

> The Minister may prescribe conditions for the supply of more affordable medicines in certain circumstances so as to protect the health of the public, and in particular may (a) determine that the rights with regard to any medicine under a patent granted in the Republic shall not extend to acts in respect of such medicine which has been put onto the market by the owner of the medicine, or with his or her consent.

Medicines and Related Substances Control Amendment Act, No. 90, § 10(a) (1997) (S. Afr.).

44. Section 10 of the Act provides that the following be inserted into Section 15C(b) of South Africa's Act 101 of 1965:

> The Minister may . . . (b) prescribe the conditions on which any medicine which is identical in composition, meets the same quality standard and is intended to have the same proprietary name as that of another medicine already registered in the Republic, but which is imported by a person other than the person who is the holder of the registration certificate of the medicine already registered and which originates from any site of manufacture of the original manufacturer as approved by the council in the prescribed manner, may be imported.

Id.

45. The language of the Act is vague, restricting the Health Minister's choice of pharmaceuticals only by the phrase "The Minister of Health may prescribe conditions for the supply of more affordable medicines in certain circumstances so as to protect the health of the public." *Id.*

46. Even prior to the Act's passage through the South African Parliament, the governments of the United States, France, and Switzerland warned South Africa against the Act, arguing that it violated TRIPS. *See* Claire Bisseker, *Cheaper Medicines at a Price*, FIN. MAIL (S. Afr.), Oct. 17, 1997, at 36.

47. For example, the German drug manufacturer Merck, maker of the antiretroviral Indivanir Sulfate (marketed as "Crixivan"), warned the South African government that it

antiretroviral manufacturers.[48] The USTR, in particular, alleged that the Act potentially violated TRIPS, and threatened sanctions in response to the decreased revenue that the Act would cause American pharmaceutical interests.[49] Moreover, the forty-two members of the Pharmaceutical Manufacturers Association of South Africa, composed significantly of local licensees of western pharmaceutical firms,[50] quickly challenged the Act's legality in Pretoria High Court.

II. DISCUSSION

A. Is the South African Act Valid under TRIPS?

Given its status as a developing nation, South Africa was not required to comply fully with TRIPS until January 1, 2000. With the recent passage of this deadline, the Act's validity under TRIPS is ripe and can now jeopardize South Africa's WTO membership benefits.

1. Compulsory licensing

The Act's compulsory licensing provision is not invalid per se under TRIPS, and its validity is only jeopardized by the Act's ambiguity. This is because the Act's compulsory licensing provision is less restrictive than TRIPS, and it does not specifically address the conditions required under TRIPS' compulsory licensing provision.[51] So long as the Minister of

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was reconsidering a fifty million Rand investment in South Africa in light of the bill even before its passage, and that it would review all future investments upon the bill's passage. *See id.*

48. On May 5, 1999, guidelines were published for the use of antiretroviral agents for HIV infection by a panel convened by the Department of Health and Human Services and the Henry J. Kaiser Family Foundation. The guidelines were updated on January 28, 2000. *See* PANEL ON CLINICAL PRACTICES FOR TREATMENT OF HIV INFECTION, GUIDELINES FOR THE USE OF ANTIRETROVIRAL AGENTS IN HIV-INFECTED ADULTS AND ADOLESCENTS (2000), *available at* ⟨http://www.hivatis.org/guidelines/adult/pdf/A&ajani.pdf⟩. These guidelines list ten drugs, in various combinations of three or four at a time, as the preferred agents for the treatment of established HIV infection. The thirteen Pharmaceutical companies which market these preferred agents are all American or Western European corporations.

49. The USTR report dated April 30, 1999 included the following: "We call on the Government of South Africa to bring its [intellectual property rights] regime into full compliance with TRIPS before the January 1, 2000 deadline . . . and clarify that the powers granted in the Medicines Act are consistent with its international obligations and will not be used to weaken or abrogate patent protection." United States Trade Representative, *supra* note 12.

50. *See* Simon Barber, *Drugs Patent Wrangle Nears End*, BUSINESS DAY (S. Afr.), Aug. 12, 1999, at 1.

51. *See* discussion *supra* Part I.B.

Health interprets the Act within the context of TRIPS, and abides by the conditions described in Article 31, any activity taken under the Act's compulsory licensing provision is valid under international law.

The Act's ambiguous wording can be read to permit activity which is in violation of TRIPS, however. For example, the Minister of Health could enforce a compulsory licensing provision in the absence of any prior attempt to obtain the license on reasonable commercial terms, without a licensing fee, or without the possibility of judicial review. Although such a compulsory license is arguably valid under the Act, it is in clear violation of TRIPS.[52]

2. *Parallel importation*

Because of Article 6's failure to address the issue of exhaustion of patent rights, TRIPS offers no stance on parallel importation.[53] Thus, the Act does not violate TRIPS on this issue. As a matter of law, in the absence of an international treaty on this subject, parallel importation remains an entirely domestic legal concern and the South African government is free to enact any parallel importation scheme that it chooses.[54]

B. United States Response

Despite South Africa's valid claim of sovereignty over activity within its borders, the United States is not powerless to prevent either parallel importation or unfavorable compulsory licensing schemes abroad. First, a 1988 Amendment to section 301 of the Trade Act of 1974 permits the United States President to seek the elimination of "unjustifiable or unreasonable" trade practices.[55] Second, the 1984 Trade and Tariff Act makes intellectual property protection explicitly actionable under section 301 of the 1974 Trade Act.[56] Tariffs enacted under these statutes, or the mere threat of tariffs, have convinced several countries to develop and enforce stronger intellectual property protections.[57]

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52. *See* discussion *supra* Part I.A.1.

53. *See* TRIPS, *supra* note 1, at 593.

54. *See* discussion *supra* Part I.A.2.

55. *See* Omnibus Trade and Competitiveness Act of 1988 § 1301, 15 U.S.C. § 2006 (1994).

56. *See* Trade and Tariff Act of 1984 Title V, 15 U.S.C. § 2007.8 (1994).

57. [Action under section 301] was taken against the Republic of Korea in 1985, because of complaints about the limited scope of that country's patent, trademark and copyright laws and against Brazil in the same year because of concerns about its restrictive laws dealing with the protection of computer programmes and computer software. Brazil was also the target of action under section 301 in 1987, when the United

Moreover, the Omnibus Trade and Competitiveness Act of 1988 requires an annual review by the USTR of United States' trading partners.[58] The USTR is charged with identifying foreign countries which deny "adequate and effective protection of intellectual property rights" or which "deny fair and equitable market access" to United States traders.[59] These countries are placed on either a "watch list" or a "priority watch list," the latter of which may be followed by trade retaliation consisting of increased duties and or import restrictions.[60]

Under these statutes, the United States government has pressured South Africa to suspend or repeal the Act. In 1998 and 1999, the USTR placed South Africa on the "watch list" in response to the Act, citing violation of TRIPS.[61] Congress reiterated this stance, making future aid to

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> States increased tariffs on certain Brazilian exports to procure changes in Brazil's protection of pharmaceutical patents. The section 301 actions against the Republic of Korea and Brazil were successful in procuring the desired changes to the respective countries' intellectual property regimes.

MICHAEL BLAKENEY, TRADE RELATED ASPECTS OF INTELLECTUAL PROPERTY RIGHTS: A CONCISE GUIDE TO THE TRIPS AGREEMENT 4 (Sweet & Maxwell 1996); *see also* THE INTERNATIONAL INTELLECTUAL PROPERTY SYSTEM: PART ONE, *supra* note 8, at 331-32. In addition, during the mid to late 1980s, the U.S. pressured Thailand to provide patent protection for pharmaceuticals. Because of internal Thai politics and a desire not to capitulate to U.S. pressure, the Thai government failed to take any affirmative steps to strengthen its intellectual property regime. In 1991, the USTR identified Thailand as a "priority country" under section 301 because of Thailand's failure to enforce copyrights and its deficient protection of patented pharmaceuticals. On February 27, 1992, the Thai Legislative Assembly revised the Thai Patent Act to satisfy U.S. objections to the act as originally passed in 1979. Stefan Kirchanski, *Protection of US Patent Rights in Developing Countries: US Efforts to Enforce Pharmaceutical Patents in Thailand*, 16 LOY. L.A. INT'L & COMP. L.J. 569 (1993), *reprinted in* INTERNATIONAL INTELLECTUAL PROPERTY LAW, *supra* note 1, at 67-70. Finally,

> [i]t was also found that the threat of section 301 action could have the desired result. For example, the report of the IIPA on the copyright laws of 10 selected countries had identified Singapore as the largest producer of pirated records and tapes in the world, causing the loss to the United States of some $358 million. Following bilateral negotiations, Singapore in 1987 improved its copyright statute and manifested an intention to adhere to the principles of the UCC and to become a member of the WIPO.

BLAKENEY, *supra*, at 4.

58. *See* Omnibus Trade and Competitiveness Act of 1988 § 1301, 15 U.S.C. § 2006 (1994).

59. *See id.*

60. *See id.*

61. The United States Trade Representative Report released April 30, 1999 stated that:

South Africa dependent upon the Secretary of State's issuance of a report summarizing United States government efforts to work with South Africa to have the Act repealed.[62] The State Department's response to Congress, dated February 5, 1999, disclosed a "watch list" designation of South Africa for 1998 and 1999 and a June 30, 1998 White House Announcement withholding preferential tariff treatment for four South African export items.[63]

C. Settlement

Recent developments involving the United States and South Africa suggest a truce between the Act's supporters and its critics. Specifically, on September 9, 1999, the Pharmaceutical Manufacturers Association of South Africa announced that it would suspend litigation over the Act as a "goodwill gesture" while the Minister of Health considers legislative amendments that will make compliance with TRIPS unambiguous.[64] In response, the Minister of Health agreed to redraft the Act next year.[65] Eight days later, the USTR announced that the United States and South

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> South Africa's Medicines Act appears to grant the Health Minister ill defined authority to issue compulsory licenses, authorize parallel imports, and potentially otherwise abrogate patent rights. . . . We call on the government of South Africa to bring its IPR regime into full compliance with TRIPS before the January 1, 2000 deadline. . . . We will continue to address these issues with the South African Government and will conduct an out-of-cycle review of South Africa's progress towards addressing these concerns in September 1999.

United States Trade Representative, *supra* note 12.

62. Public Law 105-277 from the 105th Congress provides that:

> [N]one of the funds appropriated under this heading may be made available for assistance for the government of South Africa, until the Secretary of State reports in writing to the appropriate committees of the Congress on the steps being taken by the United States Government to work with the Government of the Republic of South Africa to negotiate the repeal, suspension, or termination of section 15(c) of South Africa's Medicines and Related Substances Control Amendment Act No. 90 of 1997.

Omnibus Consolidated and Emergency Supplemental Appropriations Act, 1999, Pub. L. No. 105-277, 112 Stat. 2681, 2681-155 (1998).

63. United States Department of State, *U.S. Government Efforts to Negotiate the Repeal, Termination or Withdrawal of Article 15(c) of the South African Medicines and Related Substances Act of 1965* (Feb. 5, 1999) ⟨http://www.cptech.org/ip/health/sa/stdept-feb51999.html⟩.

64. *See Drug Patents: Clash Averted for Now*, FIN. MAIL (S. Afr.), Sept. 24, 1999, at 14; Neil A. Lewis, *U.S. Industry to Drop AIDS Drug Lawsuit Against South Africa*, N.Y. TIMES, Sept. 10, 1999, at A3.

65. *See* Lewis, *supra* note 64, at A3.

Africa had resolved their differences.[66] The United States promised to drop threats of trade sanctions against South Africa.[67] In return, South Africa agreed to enforce the Act's compulsory licensing and parallel importation provisions in compliance with TRIPS. Further details are yet unavailable.

III. FUTURE IMPLICATIONS

A. South African Perspective

Despite the apparent truce between the United States and South Africa over the Act, future negative developments could prove disastrous for South Africa. Trade sanctions by the United States in response to intellectual property violations, or even perceived ones, pose a significant threat to South Africa's economy. In 1998, South Africa exported nearly $3.1 billion worth of goods to the United States,[68] which accounted for 11.9% of South Africa's total exports that year.[69] In comparison, U.S. exports to South Africa in 1998 accounted for only 0.39% of United States exports worldwide.[70]

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66. A press release from the Office of the USTR, dated September 17, 1999 included the following:

> The Governments of the United States and South Africa have come to an understanding with respect to South Africa's urgent need to provide better, more affordable health care while ensuring that intellectual property rights are protected. . . . [T]he two governments have identified common ground with respect to South Africa's implementation of its so-called 'Medicines Act.' 'The United States very much appreciates South Africa's assurances that, as it moves vigorously forward to bring improved health care to its citizens, it will do so in a manner consistent with international commitments and that fully protects intellectual property rights', continued Ambassador Barshefsky.

Office of the United States Trade Representative, *U.S.—South Africa Understanding on Intellectual Property* (Sept. 17, 1999) ⟨http://www.ustr.gov/releases/1999/09/99-76.html⟩.

67. *See id.*

68. Office of the United States Trade Representative, *National Trade Estimate Report on Foreign Trade Barriers for South Africa*, ⟨http://www.ustr.gov/reports/nte/1999/safrica.pdf⟩.

69. World Trade Organization, *World Trade Growth Slower in 1998 After Unusually Strong Growth in 1997* (Apr. 16, 1999) ⟨http://www.wto.org/wto/intltrad/internat.htm⟩.

70. The United States exported $3.6 billion worth of goods to South Africa in 1998. *See* OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE, 1999 NATIONAL TRADE ESTIMATE REPORT ON FOREIGN TRADE BARRIERS 379 (1999), *available at* ⟨http://www.ustr.gov/reports/nte/1999/safrica.pdf⟩. In comparison, total United States exports for 1998 were $933 billion. *See* OFFICE OF THE UNITED STATES TRADE REP-

The Act may also have deleterious effects on foreign investment in South Africa.[71] Given the close interactions among trade, foreign direct investment and technology transfer decisions, the general rule is that countries with stronger intellectual property rights regimes are in a better position to attract foreign investors.[72] This effect may or may not be particularly *apropos* to the pharmaceutical industry.[73] If it is, however, the Act may directly antagonize the developed nations' pharmaceutical concerns. Evidence suggests that the Act has been viewed as a "disturbing omen" by foreign investors even outside of the pharmaceutical industry.[74]

These risks must be considered in light of the fact that the Act is at best, only a partial solution to South Africa's AIDS epidemic. While adequate medical therapy is an obvious necessity in combating AIDS, given South Africa's poor living conditions and poorly educated population, a supply of antiretrovirals cannot be expected to address HIV infection on its own. For example, South Africa is currently experiencing 1600 new cases a day of an almost entirely preventable infection.[75] How compliant this population will be in following a rigid and often complex antiretrovi-

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RESENTATIVE, 1999 TRADE POLICY AGENDA AND 1998 ANNUAL REPORT OF THE PRESIDENT OF THE UNITED STATES ON THE TRADE AGREEMENTS PROGRAM 19 (1999), *available at* ⟨http://www.ustr.gov/reports/tpa/1999/iii.pdf⟩.

71. In 1997 South Africa experienced $1.7 billion in foreign direct investment. *See* OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE, A COMPREHENSIVE U.S. TRADE AND DEVELOPMENT POLICY TOWARD SUB-SAHARAN AFRICA, app. 1 at A1-2 (1998), *available at* ⟨http://www.ustr.gov/reports/africa/1999/99app1.pdf⟩.

72. *See* Carlos A. Primo Braga & Carsten Fink, *The Relationship Between Intellectual Property Rights and Foreign Direct Investment*, 9 DUKE J. COMP. & INT'L L. 163, 181 (1998).

73. Regarding the effect of intellectual property protection on foreign direct investment by the pharmaceutical industry:

> The success of a patented pharmaceutical product that cures a specific disease, for which there is no known substitute, and which is readily copied, may depend on strong patent protection, and in such case the presence of [intellectual property rights] protection may significantly affect a [foreign direct investment] decision based on market opportunity. Even in such a case, if the potential market size is sufficiently large and the pharmaceutical investor an efficient producer, [foreign direct investment] may be attractive even in the absence of strong patent protection.

Frederick M. Abbott, *The Enduring Enigma of TRIPS: a Challenge for the World Economic System*, 1 J. INT. ECON. L. 497, 507 (1998).

74. *See* Simon Barber, *Erwin Will Hear Tough Message at Business Talks*, BUS. DAY (S. Afr.), Aug. 3, 1998, at 4.

75. *See* CNN.com, *supra* note 41.

ral drug regimen is, at this point, only speculative.[76] In addition, as therapy currently prolongs life but is unable to eradicate the virus from an infected host, therapy will only increase the prevalence of those infected, albeit with lower viral loads and less infectious capacity.

Finally, a prior attempt at the parallel importation of drugs into Africa has already proved disastrous. On October 14, 1997, upon the Act's passage through the South African Parliament, the Director of the Kenyan National Quality Control Laboratory, Dr. Elizabeth Ominde-Ojaga, warned the South African Medicines Control Council Chairman, Peter Folb, of Kenya's failed experiment with the parallel importation of drugs.[77] Dr. Ominde-Ojaga reported Kenya's difficulty ensuring the quality of parallel imports along with an inability to recall unsafe products.[78] Moreover, Kenya found "alarming evidence" of substandard and counterfeit drugs, and experienced problems with customer confusion over multiple brands of the same product.[79] Kenya eventually outlawed the parallel importation of pharmaceuticals for safety reasons.[80]

B. United States Perspective

The most obvious and worrisome effect of the Act on U.S. interests is decreased revenue for American pharmaceutical manufacturers.[81] Although TRIPS requires that any compulsory licensing scheme be accompanied by "adequate remuneration," this will likely be less profitable than the contracts that the manufacturers would otherwise bargain for in a free market. Furthermore, while South Africa is a TRIPS signatory, the Act itself mentions nothing about remuneration, and it remains to be seen whether or not South Africa will actually comply with this provision.

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76. Such speculation is especially relevant, however, when considering that the consequences of poor compliance are not inconsequential. *See* Daniel Boden et al., *HIV-1 Drug Resistance in Newly Infected Individuals*, 282 J. AM. MED. ASS'N 1135 (1999); Susan J. Little et al., *Reduced Antiretroviral Drug Susceptibility Among Patients With Primary HIV Infection*, 282 J. AM. MED. ASS'N 1142 (1999).

77. *See* Claire Bisseker, *Beware of Counterfeit Medicines, Kenya Warns South Africa*, FIN. MAIL (S. Afr.), Oct. 24, 1997, at 40.

78. *See id.*

79. *See id.*

80. *See id.*

81. The pharmaceutical sector is among the most reliant of all industries on intellectual property protection for the discovery and development of new products. A survey showed that this sector is more than twice as dependent as the next—the chemical sector—in ranking of industries' reliance on patent protection for innovation.

Harvey J. Bale, Jr., *The conflicts between parallel trade and product access and innovation: the case for pharmaceuticals*, 1 J. INT. ECON. L. 637, 641 (1998).

To make matters worse, while TRIPS requires that any compulsory licensing scheme also be limited to domestic needs, the Act is silent on this condition as well. Pharmaceutical manufacturers could be forced into compulsory licensing schemes in South Africa at rock bottom prices, only to find that these drugs are then parallel imported into other nations where they undercut the prices of "authorized" suppliers.

In addition, the Act's own parallel importation provision is another threat to revenues. The South African Minister of Health could decide to avoid compulsory licensing and simply import antiretrovirals from other nations where they are sold more cheaply. This represents the least threatening option from the pharmaceutical manufacturers' perspective, however, as pharmaceutical manufacturers are not likely to sell antiretrovirals in other nations at prices significantly lower than the South African market would bear. As a result, parallel importation by itself may have very little appeal.

Finally, the Act may inspire other countries to enact similar legislation. Although TRIPS allows for compulsory licensing and does not preclude parallel importation, it remains to be seen how closely South Africa will comply with these provisions. Failure to comply, especially without serious repercussions, could prove contagious.

Other compelling candidates for similar legislation exist around the world. For example, while HIV infects an estimated 45 million persons worldwide, there are an estimated 1.86 billion cases of infection with *Mycobacterium tuberculosis*, the causative agent for tuberculosis ("TB").[82] This accounts for nearly one third of the human population. While TB is not as frequently fatal as AIDS, several factors make it a profound health threat, especially in the third world.[83] Other candidates include malaria and the treatable sexually transmitted diseases such as syphilis, gonorrhea and chlamydia.[84]

Ironically, the United States is considering adopting its own legislation similar to the Act. H.R. 2927 of the 106th United States Congress, which

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82. *See* Christopher Dye et al., *Global Burden of Tuberculosis: Estimated Incidence, Prevalence, and Mortality by Country*, 282 J. AM. MED. ASS'N 677 (1999).

83. First of all, although typically treatable with known agents, the incidence of drug resistant strains of *Mycobacterium tuberculosis* is on the rise. Secondly, while HIV infection usually can be prevented through safe sex, clean needles and universal precautions, TB is much more problematic because it is spread through the air by respiratory aerosol. As a result, prevention requires actual isolation which is often not practical or even feasible, especially prior to diagnosis. *See generally id.*

84. *See generally* WORLD HEALTH ORGANIZATION, THE WORLD HEALTH REPORT 1999, at 110 (1999), *available at* ⟨http://www.who.int/whr/1999/en/pdf/whr99.pdf⟩.

was presented on September 23, 1999, provides an amendment to Title 35 which would allow for compulsory licensing of pharmaceuticals by the United States government.[85] Unlike the Act, H.R. 2927 has no parallel importation provision and its compliance with TRIPS is unambiguous.[86] However, H.R. 2927's passage could effectively preclude future legal attacks to the Act's compulsory licensing provision. Moreover, passage of H.R. 2927 could paint the USTR's early attacks on the Act as ungrounded and premature at best, or unfair and manipulative at worst.

IV. CONCLUSION

Given its ambiguous wording, implementation of the Act may or may not comply with South Africa's obligations under TRIPS. While the situation appears to be at a stalemate, with South Africa assuring compliance and the United States no longer threatening sanctions, only time will tell.

If controversy does reignite, it will likely not center on the Act's parallel importation provision. First of all, parallel importation is permissible under TRIPS. Secondly, given Kenya's disastrous experience with parallel imported drugs and the fact that pharmaceutical manufacturers are unlikely to sell drugs cheaply enough elsewhere to make parallel importation into South Africa profitable, it is unlikely that South Africa will rely heavily on the Act's parallel importation provision.

The greatest threat to the pharmaceutical industry arises from the Act's, and even TRIPS's, compulsory licensing provisions. In one scenario, a compulsory license could be enforced granting remuneration "adequate" by South African standards,[87] but significantly less than the pharmaceutical manufacturers would otherwise bargain for in a free market. Even more threatening is the possibility that TRIPS's own compulsory licensing provision will inspire other nations to engage in widespread compulsory licensing of drugs at discount prices.

Another danger posed by the Act arises where drugs manufactured cheaply in South Africa are brought into other nations through parallel

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85. H.R. 2927, 106th Cong., § 2 (1999). As of October 4 and 8, 1999, respectively, H.R. 2927 was before the Subcommittee on Courts and Intellectual Property, and the Subcommittee on Health and Environment.

86. Section 2(d) of H.R. 2927 provides that: "Regulations adopted under subsection (a) shall be consistent with provisions of the Agreement on Trade-Related Aspects of Intellectual Property Rights referred to in Section 101(d)(15) of the Uruguay Round Agreements Act." H.R. 2927, 106th Cong. § 2(d) (1999).

87. However, adequate remuneration only results from compliance with TRIPS, since the Act itself does not explicitly require this. If TRIPS is not complied with, South Africa could choose to give "inadequate remuneration," or simply none at all.

importation, causing the pharmaceutical industry to lose revenue not only in South Africa, but elsewhere as well. However, given Kenya's bad experience with parallel imported drugs, it remains to be seen whether parallel importation actually poses a real threat to the pharmaceutical industry.

Meanwhile, from a public policy point of view, the Act has the potential for tremendous humanitarian benefit. The goal of section 15(c) of the Act is to increase the availability of drugs necessary to those who could not otherwise afford them. Implementation could save or at least prolong thousands, if not millions of lives in South Africa. Unfortunately, the complexities of HIV treatment and South Africa's poor record of HIV prevention will likely make this humanitarian benefit difficult to achieve with current therapeutic modalities.

Perhaps even more menacing to South Africa, and the world in general, is the threat that if drugs are less profitable to research, develop and market, fewer firms will make new ones in the future. A discussion of the market forces behind pharmaceutical research and development is beyond the scope of this paper. That point aside, it is important to note that the major advances in health care in the past century, excluding the effect of public sanitation, were not made by new medical or surgical techniques but instead by the discovery and marketing of new drugs.[88] This observation is especially relevant to those who endorse legislative methods to increase the availability of pharmaceuticals, since new research suggests that the development of entirely new drugs will be needed to ever cure HIV infection.[89]

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88. Personal knowledge of the author, a physician and surgeon. *See generally* ERWIN H. ACKERKNECHT, A SHORT HISTORY OF MEDICINE 227-40 (1982).

89. *See* Z. Q. Zhang, et al., *Sexual Transmission and Propagation of SIV and HIV in Resting and Activated CD4*$^{+}$ T *Cells*, 286 SCI. 1353 (Nov. 12, 1999). According to Dr. Haase, the article's co-author, we "are going to need some new therapeutic approaches altogether if we are going to talk about eradication [of HIV from an infected host]." *See* Rochelle Jones, *Scientists Discover A Curveball in Treating HIV Infection* (Nov. 11, 1999) ⟨http://www.cnn.com/HEALTH/AIDS/9911/11/hiv.hide.journal⟩.

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ADDITIONAL DEVELOPMENTS

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COPYRIGHT

CDN INC. V. KAPES

197 F.3d 1256 (9th Cir. 1999)

In a suit for copyright infringement, the Ninth Circuit held that the prices listed in a wholesale price guide comprise copyrightable subject matter. In its decision, the court focused on the manner in which the prices were derived, considering them expressions of the plaintiffs' ideas of wholesale coin prices.

CDN Inc. published wholesale price guides for collectible coins that are used extensively in the industry. The suit arose when Kapes began posting current retail prices on the Internet. Kapes had been using CDN's wholesale price lists as a baseline for determining his retail prices. CDN filed suit for copyright infringement. Relying on the doctrine of merger, Kapes argued that the price was an expression of an idea of the coins' prices and that the two were inseparable.

The sole issue on appeal was whether CDN's prices, rather than the collection of prices in the guide, were sufficiently original to merit copyright protection. Key to the court's decision was the manner in which the prices were determined—CDN used "considerable expertise and judgment" when deciding how a multitude of factors would affect a coin's estimated wholesale price. CDN did not simply employ one single and unchanging formula. The court rejected Kapes's argument incorporating the doctrine of merger and stated that, while the idea of a wholesale price guide would not merit protection, the expression of CDN's idea (i.e., the estimate) of the coins' wholesale prices would be protectable.

INTELLECTUAL RESERVE, INC. V. UTAH LIGHTHOUSE MINISTRY, INC.

75 F. Supp. 2d 1290 (D. Utah 1999)

In a case involving allegations of both direct and contributory copyright infringement, the District Court for the District of Utah held that a website operator can be held liable for contributory infringement by providing links to websites containing materials in violation of copyright laws, and by encouraging or assisting users in visiting these sites.

Intellectual Reserve, Inc. brought suit against Utah Lighthouse Ministry, Inc. for infringing the copyright they own in the Mormon *Church Handbook of Instructions* ("*Handbook*"). For purposes of the preliminary injunction proceedings, the defendants conceded that they had directly violated the plaintiff's copyright by posting substantial portions of the *Handbook* on their website. The contested issue of contributory infringement arose when the defendants placed links on their website to other websites that contained substantial portions of the *Handbook*. In addition to the links, the defendants encouraged users to visit the sites and offered assistance when users had difficulties viewing the *Handbook* materials.

The court first discussed whether the conduct that the defendants allegedly encouraged or aided resulted in copyright infringement. The court determined that although the websites posting the *Handbook* materials likely were infringing the plaintiff's copyright,

there was no indication that the defendants provided the operators with the materials or that the defendants received compensation for providing a link to the websites. Next, the court addressed whether those who browsed the websites infringed the plaintiff's copyright. The court concluded that any visitors who simply viewed the *Handbook* materials automatically placed a copy of the materials on their computers' RAM, thereby infringing the plaintiff's copyright under *MAI Systems Corp. v. Peak Computer, Inc.*, 991 F.2d 511 (9th Cir. 1993). Concluding that the visitors were infringing the plaintiff's copyrights, the court then determined that by encouraging users to visit the websites and by providing instructions on how to do so, the plaintiff had shown a likelihood of success in establishing contributory infringement on the part of defendants. After concluding that the other requirements for a preliminary injunction were met, the court ordered injunctive relief.

KORMAN V. HBC FLORIDA, INC.

182 F.3d 1291 (11th Cir. 1999)

In a case for copyright infringement, the Eleventh Circuit held that where no termination date has been specified in an express or implied contract or license for copyright use, the termination provision of the Copyright Act, 17 U.S.C. § 203, does not create a minimum term if such an interpretation would preempt state contract law. Thus, *Korman* may have the effect of giving authors more creative protection over the use of their work in artistic relationships where implied licenses of indeterminate duration are made. Moreover, the *Korman* decision serves to further split the circuits on this issue.

Mimi Korman sued HBC Florida, Inc. for copyright infringement when a radio station that HBC owns continued to play a jingle she had written for it after the business relationship she had with the station ended.

The court first determined that because Korman allowed the radio station to play her jingles, she implicitly granted the station a nonexclusive license; consequently, section 203 applies to the license. The court then addressed the issue of whether section 203 prevents the termination of licenses of indefinite duration before the default term of thirty-five years has lapsed, when imposing such a term would preempt state law.

The court looked at the language of section 203 and determined that the language of subsection (a)(3) permits termination to be effected either within the five-year period at the end of thirty-five years or at some earlier date. The court discussed congressional intent and emphasized that section 203 is meant to help authors reap the rewards from their creations. The court dismissed the Ninth Circuit's interpretation of section 203(b)(6) in *Rano v. Sipa Press, Inc.*, 987 F.2d 580 (9th Cir. 1993), which held that state contract law was preempted. Instead, the court followed the Seventh Circuit's reasoning in *Walthal v. Rusk*, 172 F.3d 481 (7th Cir. 1999), adopting the view that state contract law must be read into every contract, and therefore, if state law provides for a termination date, such date must be read into the license. Thus, if state law provides that a license can be terminated before thirty-five years, state law—rather than section 203—governs.

MARTIN V. CITY OF INDIANAPOLIS

192 F.3d 608 (7th Cir. 1999)

In *Martin v. City of Indianapolis*, the Seventh Circuit examined the protection afforded to artists by the Visual Arts Right Act of 1990, Pub. L. No. 101-650, 104 Stat. 5128 ("VARA"). In affirming the decision of the District Court for the Southern District

of Indiana, the court adopted the Southern District of New York's two-part test for determining whether a work merits protection under VARA.

At issue was the destruction of Martin's metal sculpture that he had created and erected on privately owned property. The property owner and the City of Indianapolis had entered into a contract agreeing that the structure could be removed by the city if ninety days' notice was given to the owners of the land and sculpture. The city failed to give proper notice of the sculpture's destruction and a lawsuit ensued.

The court relied upon the test set forth in *Carter v. Helmsley-Spear, Inc.*, 861 F. Supp. 303, 325 (S.D.N.Y. 1994), to determine whether Martin's sculpture had the requisite "recognized stature" to warrant protection under VARA. Under *Carter*, requisite stature is obtained if the work "(1) . . . is viewed as meritorious, and (2) . . . this stature is 'recognized' by art experts, other members of the artistic community, or by some cross-section of society." *Carter*, 861 F. Supp. at 325. Although the test suggests that these requirements should be satisfied through the testimony of expert witnesses, the *Martin* court found that the test was met with the presentation of newspaper articles and letters regarding the piece. The court affirmed the district court's findings that the city had breached its contract with Martin and that Martin's sculpture was protected under VARA. Because the city's actions were not "willful" within the meaning of VARA, however, Martin was not entitled to enhanced damages.

Justice Manion dissented from the judgment, arguing that Martin did not provide sufficient evidence to demonstrate that his sculpture had obtained "recognized stature." He suggested that a more definite and stringent test is needed to determine whether or not a piece of art is protected under VARA.

O.P. SOLUTIONS, INC. V. INTELLECTUAL PROPERTY NETWORK, LTD.

50 U.S.P.Q.2d. (BNA) 1399 (S.D.N.Y. 1999)

In *O.P. Solutions, Inc. v. Intellectual Property Network, Ltd.*, the District Court for the Southern District of New York held that copyright protection extends to non-literal elements of computer programs such as screen displays and "user interfaces." This protection is limited, however, as non-literal elements are protected as compilations of unprotectable material.

The plaintiff and the defendant are both companies that design and produce computer programs aimed at law firms that practice intellectual property law. These programs guide the user through the patent and trademark prosecution processes. The plaintiff claimed that the defendant's programs infringed on the plaintiff's copyright. The court denied both parties' Motions for Summary Judgment, deciding that while much of what the plaintiff claimed was infringed was not protected material, some of the program qualified for limited protection as a compilation. According to the court, a reasonable juror could decide that there was actionable infringement.

The court stated that computer programs, like other literary works, contain both literal and non-literal elements, both of which are protectable under copyright law. The literal elements of a computer program are the programming codes; the non-literal elements are everything else. Courts have interpreted "non-literal" to encompass both the conceptual scheme behind the program as well as the program's output. The court noted that screen displays and user interfaces, such as those in question here, have been held to be such output, citing *MiTek Holdings, Inc. v. Arce Engineering Co.*, 89 F.3d 1548 (11th

Cir. 1996) and *Computer Associates International, Inc. v. Altai, Inc.*, 982 F.2d 693 (2d Cir. 1992).

The court held that only limited protection is available for these non-literal elements because they are compilations of nonprotectable material. The Copyright Act affords protection to the "selection, coordination, or arrangement" of nonprotectable material, not to the material itself, and requires that there be some minimal amount of creativity or originality involved in such selection and arrangement. A defendant may be able to escape liability if he can show that his work varies from the plaintiff's by more than a "trivial degree." The court held that, because it was possible for a reasonable juror to decide that the defendant's program did not vary by more than a trivial degree, summary judgment was inappropriate.

TASINI V. NEW YORK TIMES CO.

*192 F.3d 356 (2d Cir. 1999), withdrawn from bound volume**

In *Tasini v. New York Times Co.*, the Second Circuit held that republishing a collective work electronically with other works does not constitute a revision of the collective work under 17 U.S.C. § 201(c). Rather, the republishing acts as a republication of each of the individual works in the collection. As a result of the litigation, at least one of the defendant publishers, the New York Times, has updated its policy to require freelance writers to transfer their electronic republication rights to the newspaper.

Freelance writers brought an infringement suit against various newspaper and magazine publishers for relicensing articles originally published in the newspapers and magazines to various electronic databases. The defendant publishers argued that placing the works in electronic form merely constituted a revision of the collective works over which they held the copyright.

The court evaluated the term "revision" based on the plain language of section 201(c) of the Copyright Act. The court found that a "revision" of a compilation includes later editions of a particular issue of a periodical, but not the use of the individual works in a different compilation. According to the court, if "revision" were construed more broadly to include new compilations, the language in the statute giving rights to a "later collective work in the same series" would be superfluous. The court reasoned that a narrow reading of the term comports with the general rule giving exclusive rights to authors and better maintains Congress's intent that authors be able to transfer their copyrights in part without losing all of their rights in a particular work.

The court concluded that the very nature of databases, and their failure to maintain the separately copyrightable features of the original compilation, suggests that the electronic versions of the articles are not revisions, but publications in a new form. The databases included articles from several publications. The articles could be accessed individually, without reference to other articles of the original compilation, and the databases failed to maintain the arrangement of the compilation. Even in instances where the database maintained some features from the original compilation or was limited to compilations from a single publisher, the court found that the database was too distinct from the original compilation to be considered a mere revision.

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* As this issue went to press, the Second Circuit withdrew its *Tasini* decision from the bound volume for undisclosed reasons.

PATENT

AMERICAN INVENTORS PROTECTION ACT OF 1999

S. 1948, 106th Cong., §§ 4001 – 4808

On November 29, 1999, President Clinton signed the American Inventors Protection Act of 1999 ("AIPA"), attached to the Consolidated Appropriations Act, 2000 (Pub. L. No. 106-113), into law. While originally intended to embark on a substantial overhaul of the entire patent system, the final version of the AIPA made six changes to the patent law and United States Patent and Trademark Office ("PTO"), each as part of a different title of the AIPA.

The first title regulates "invention promotion" services. Under these regulations, any registered patent attorney who evaluates an invention to determine its commercial potential for any purpose other than soliciting venture capital becomes an "invention promoter." The regulations seek to provide inexperienced inventors with protection against fraudulent invention promoters. They place contract term disclosure and reporting requirements upon invention promoters and subject them to penalties for violations.

The second title of the AIPA creates a new defense to patent infringement, entitled the "First Inventor Defense." While originally drafted as a broad prior-user rights defense, the final text limits the defense to infringements of methods for conducting business. The defense, now section 273(b)(1) of the Patent Act, provides that if an alleged infringer of a patented business method, acting in good faith, had actually reduced the subject matter of the patent to practice at least one year before the effective filing date of the patent's application and commercially used the method at any time before the filing date, there can be no finding of infringement. To successfully assert the defense, the defendant must establish these facts by clear and convincing evidence. If found to infringe and unable to prove first invention, a defendant asserting the defense without a "reasonable basis" is subject to a mandatory finding that the case is "exceptional" for purposes of awarding attorney's fees to the plaintiff. The defense is not available to alleged infringers who were in privity with the patentee or who subsequently abandoned their use of the invention.

The third title of the AIPA attempts to guarantee patentees at least a seventeen year term by granting extensions to the term upon a showing of undue delay within the PTO. The AIPA calls for two separate extensions. One extends the term for up to ten years for administrative delays of the PTO. The other gives a diligent applicant a day-for-day extension for patents issued by the PTO more than three years from the date of the filing of the application for the period over three years it took for the patent to issue. Thus, the AIPA guarantees, in effect, a minimum patent term of seventeen years for diligent applicants (twenty-year term less three-year PTO delay).

The fourth title of the AIPA addresses the issue of publishing patent applications. For applications that will also be filed in foreign countries that require publication after eighteen months, the PTO must publish the application within eighteen months of the effective filing date. For applications that are filed only in the U.S., publication is optional.

The fifth title of the AIPA gives third parties greater opportunities to participate in patent reexamination procedures. Before the AIPA, an interested party could request that the PTO reexamine an issued patent in light of newly provided prior art references. After the initial request, however, reexamination proceeded on an ex parte basis. The AIPA

retains these same procedures but also includes a new optional inter partes procedure for those who want to contest a patent without a lawsuit. Under this procedure, the contesting party files written comments with the patent examiner. The examiner's decision can be appealed to the PTO Board of Patent Appeals and Interferences. Although offered as a means for resolving validity issues without the expense of district court litigation, the new procedure also carries significant risks. While a patent owner can appeal an adverse decision of the Board to the Federal Circuit, a third-party requester is barred from doing so. Moreover, requesters cannot raise in a lawsuit any issue they raised or could have raised in re-examination.

The sixth title slightly reorganizes the PTO as part of the executive branch. The Act establishes two new top management positions and promotes the PTO Commission from Assistant Secretary of Commerce to an Under Secretary of Commerce position, enabling him or her to directly and regularly advise the White House and Congress on intellectual property policy.

ENZO BIOCHEM, INC. V. CALGENE, INC.

188 F.3d 1362 (Fed. Cir. 1999)

In a case examining the scope of genetic technology patents, the Federal Circuit held that a patent for genetic antisense technology was invalid as nonenabled where it did not allow the claimed invention to be made and used without excessive experimentation.

Genetic antisense technology provides a means of controlling gene expression by blocking the translation of proteins from messenger RNA. Enzo Biochem, Inc. held license to patents for the practice of antisense technology in certain genes of the prokaryotic organism *E. coli*. Enzo sued Calgene, Inc., claiming that Calgene's FLAVR SAVR tomato infringed various claims of those patents. In response, Calgene relied on *In re Wands*, 858 F.2d 731 (Fed. Cir. 1988), to assert that the claims at issue were invalid as not enabled because the technology could not be applied to cells other than *E. coli* without undue experimentation by a qualified person.

Some claims in Enzo's patents attempted to cover eukaryotic cells as well as prokaryotic cells such as *E. coli*. The court held that these claims were unjustifiably broad, as the record indicated that antisense technology was unpredictable. In fact, the inventor himself was unable to apply the technology to any cells other than *E. coli*. Thus, anyone attempting to apply the teachings of the claims to organisms other than *E. coli* would be required to perform an excessive amount of experimentation. The court concluded that the mere suggestion that antisense technology might be applied to other cells was not sufficient to enable the disclosure; therefore, the claims at issue were invalid.

JUICY WHIP, INC. V. ORANGE BANG, INC.

185 F.3d 1364 (Fed. Cir. 1999)

The Federal Circuit ruled on the application of the utility requirement to patented inventions that deceive the public by imitating other products.

Juicy Whip, Inc. owned U.S. Patent No. 5,575,405, which claimed a post-mix beverage dispenser designed to resemble a pre-mix beverage dispenser. A post-mix dispenser stores syrup concentrate and water in separate locations until the beverage is ordered; in contrast, a pre-mix dispenser stores a mixture of syrup concentrate and water in a display reservoir bowl until it is ready to be dispensed. According to the patent, the advantage of the post-mix dispenser was that it deceived consumers into believing the beverage was

pre-mixed while actually delaying mixture until after the beverage was ordered by the customer. Such a deception eliminated the need for retailers to clean their display bowls because the displayed mixture was never actually dispensed. The district court invalidated the patent on the ground that despite this "secret" utility, the public would not perceive any benefit from the post-mix dispenser over the pre-mix dispenser. Stating that the patent lacked utility, the court held it invalid under 35 U.S.C. § 101.

Juicy Whip appealed. The Federal Circuit reversed, stating that the principle that a patent is invalid if the covered invention serves immoral or illegal purposes has not been applied broadly in recent years. The court noted, for example, that while various gambling device patents were invalidated in the late 1800s and 1920s, such patents have been upheld as useful, and thus valid, since 1977. The Federal Circuit also noted that the two Second Circuit cases which the district court primarily relied upon were similarly antiquated, having been decided in 1900 and 1925. Notwithstanding their antiquity, the Federal Circuit also held that these cases lacked precedential value because the doctrine of utility was revised by the Patent Act of 1952. Under the modern standard for utility, altering one product to make it look like another is itself a benefit sufficient to satisfy the utility requirement. The Federal Circuit also noted that Congress is free to declare certain types of inventions unpatentable for a variety of reasons, including deceptiveness, if it so pleases.

PROCESS CONTROL CORP. V. HYDRECLAIM CORP.

190 F.3d 1350 (Fed. Cir. 1999)

The Federal Circuit recently placed further limitations on the use of a patent's written description in claims construction.

Process Control Corp., a competitor of HydReclaim Corp., used three methods that HydReclaim alleged infringed its Patent No. 5,148,943. The district court found the patent valid and infringed. In interpreting the claims of the patent, the district court relied on an explicit definition in the written description of the invention to construe part of the claim meaning, even the same word had a different meaning in a separate part of the claim. Process Control appealed.

The Federal Circuit reversed. The court noted that in many situations a patentee can act as her own lexicographer by using the written description to define terms of a claim that differ from their ordinary meaning; however, when language used more than once in a claim can have more than one meaning, that meaning must be internally consistent. Thus, the first definition of the disputed term was controlling on the second, notwithstanding a separate and specific definition listed in the specification. The Federal Circuit therefore reversed the district court's determination that the patent is valid and vacated the finding of infringement.

U.S. VALVES, INC. V. DRAY

190 F.3d 811 (7th Cir. 1999)

The Seventh Circuit recently continued the expansion of the Federal Circuit's jurisdiction to cover breach of contract cases involving patent licenses.

Robert Dray invented an "internal piston valve" which he patented and then later exclusively licensed to U.S. Valves, Inc. After a deterioration of the business relationship between Dray and U.S. Valves, Dray began to manufacture and sell the valves himself, and he also began producing and selling a "sliding ring valve" which serves the same

purpose as the internal piston valve. U.S. Valves brought suit against Dray for breach of contract, alleging that Dray sold valves covered by the exclusive license agreement (which in their view included both types of valves). The District Court for the Southern District of Indiana found a breach of contract after Dray conceded that his company produced and sold some internal piston valves covered by his patent. However, in calculating damages, the district court did not address any of the patent issues in the case or distinguish between the two valves sold by Dray.

On appeal, Dray argued that since the question of whether the sliding ring valve was covered by the agreement rested on federal patent law, the Federal Circuit should hear the appeal instead of the Seventh Circuit. U.S. Valves argued that since the district court had only rested its ruling on contract law and not patent law, the appeal was properly before the Seventh Circuit. The Seventh Circuit agreed with Dray. It held that jurisdiction did not depend on the subject matter of the district court holding, but rather on the well-pleaded complaint in the case. Since determining the scope of the agreement depended on an examination of the patent, the valves at issue, and an infringement analysis, the Seventh Circuit held that federal patent law was a "necessary element" of the breach of contract action and therefore the Federal Circuit has proper jurisdiction over the appeal.

TRADEMARK

ANTICYBERSQUATTING CONSUMER PROTECTION ACT

S. 1948, 106th Cong., §§ 3001 – 3010

On November 29, 1999, President Clinton signed the Anticybersquatting Consumer Protection Act ("ACPA"), attached to the Consolidated Appropriations Act, 2000 (Pub. L. No. 106-113), into law. The ACPA creates an explicit trademark remedy for cybersquatting. It also grants district courts in rem jurisdiction over domain names when the owner of the domain name is not locatable or is not subject to personal jurisdiction.

While many trademark holders have used the Federal Trademark Dilution Act to successfully defeat cybersquatters, *see, e.g.*, *Panavision L.P. v. Toeppen*, 945 F. Supp. 1296 (C.D. Cal. 1996), the ACPA adds an explicit anticybersquatting provision to the Lanham Act at 15 U.S.C. § 1127(d)(1). This provision makes it illegal to register, traffic in, or use a domain name that is identical or confusingly similar to a distinctive mark. There is a similar prohibition for domain names that are dilutive of a famous mark. In both instances, the person who registers the domain name is liable only if she has "bad faith intent to profit from that mark." The ACPA provides nine factors a court "may consider" in its determination of bad faith intent, but such intent may not be found if the court determines that the person reasonably believed the use of the domain name was a fair use or otherwise lawful.

If a domain name holder is found liable, the court may order forfeiture or cancellation of the domain name or the transfer of the domain name to the owner of the mark. The defendant may also be liable for actual damages and lost profits or owner-elected statutory damages of no less than $1,000 and no more than $100,000 per domain name, as the court considers just. Domain name registrars, registries, or other domain name authorities are not liable for injunctive or monetary relief, except "in the case of bad faith or reckless disregard, which includes a willful failure to comply with any . . . court order."

In addition to the new cybersquatting cause of action, the ACPA grants in rem jurisdiction over domain names when the domain name owner is not subject in personam jurisdiction or cannot be located. Any infringement of a trademark right, including cybersquatting, can be alleged in an in rem action. To file an in rem case, the trademark holder must have exercised due diligence in attempting to find the owner of the domain name, including sending notice to the postal and e-mail addresses on file at the registrar. As the in rem action may be filed in the district in which the domain name registrar or registry is located, it is likely that most in rem actions will be filed in the Eastern District of Virginia, where Network Solutions, Inc., currently the sole registry for the <.com>, <.net> and <.org> top-level domains, is located.

Remedies available in an in rem action are limited to cancellation or forfeiture of the domain name or the transfer of the domain name to the trademark owner. Damages and profits are not available in an in rem action.

HASBRO, INC. V. CLUE COMPUTING, INC.

66 F. Supp. 2d 117 (1999)

As part of a recent trend by federal courts to rein in federal dilution law, the District Court for the District of Massachusetts recently held that the defendant's use of the domain name <clue.com> did not constitute infringement or dilution of plaintiff's trademark corresponding to the board game, Clue.

Clue Computing is a computer consulting corporation, based in Colorado, which operates a web site at <clue.com> to advertise its business. The domain name was registered in 1994 and was chosen for reasons unrelated to plaintiff's well-known game. In 1996, Hasbro attempted to register the domain name <clue.com>, but discovered that it was in use. Hasbro sought to have the web site "frozen" until the dispute was resolved. Clue Computing, however, won an injunction against the "freezing." Hasbro then brought claims of federal trademark infringement, as well as state and federal trademark dilution claims. The defendants sought summary judgment on all three claims; the plaintiffs sought summary judgment on the dilution claims.

The court held for the defendants on all three claims. It noted that the key to the infringement claim was the likelihood that the defendant's use of the mark would confuse the public and thereby harm the plaintiff's interest in the Clue mark. The court, citing eight factors that the First Circuit has used to determine the likelihood of confusion (*Star Financial Services v. Aastar Mortgage*, 89 F.3d 5, 10 (1st Cir. 1996)) ruled that the plaintiff had failed to produce evidence sufficient to establish confusion. The court next looked to the federal dilution claim, which was brought under the Federal Trademark Dilution Act of 1996. While it declined to dismiss the claim as being impermissibly retroactive, the court noted that the word "clue" is a common word that numerous third parties use, a fact which weighed against a finding of dilution. In determining if the defendant's use of the name had caused "blurring" such that the public no longer associated the plaintiff's game with the mark, the court turned to factors cited by the Second Circuit in *Mead Data Central v. Toyota Motor Sales*, 875 F.2d 1026 (2d Cir. 1989). The court ruled that plaintiff's evidence was insufficient to show blurring for the federal claim and that the same reasoning carried over to the state trademark dilution claim.

HOT WAX, INC. V. TURTLE WAX, INC.

191 F.3d 813 (7th Cir. 1999)

The Seventh Circuit recently held that the equitable doctrine of laches applied to false advertising claims brought under section 43(a) of the Lanham Act (15 U.S.C. § 1125(a)) and barred recovery even though the suit was filed within the analogous Illinois statute of limitations period.

In its 1993 Lanham Act suit, Hot Wax, Inc. claimed that it had suffered significant losses as a result of false advertising by Turtle Wax, Inc., a competitor in the automated car wash/car wax industry since 1976. According to Hot Wax, it has marketed genuine carnauba wax products whereas Turtle Wax has promoted less expensive non-wax spray products as "wax." The disparity in production costs has led to Turtle Wax's dominance in the automatic car wash market and declining sales for Hot Wax. However, the district court concluded that, given the nearly twenty-year delay in filing suit, the doctrine of laches applied, and it granted Turtle Wax's motion for summary judgment.

On appeal, the Seventh Circuit rejected Hot Wax's threshold contention that the doctrine of laches should not apply because the company sought damages as well as injunctive relief. The court confirmed that the Lanham Act specifically contemplates that both forms of relief would be subject to principles of equity, which include the doctrine of laches. Moreover, the court recognized that courts have increasingly invoked laches in cases at law for damages.

The court then concluded that whether a Lanham Act claim has been brought within the analogous state statute of limitations is not the sole indicator of whether laches may be applied. Recognizing that the Lanham Act does not prescribe a limitations period, the court explained that federal courts have referred to analogous state statutes of limitations to establish a baseline for determining whether a presumption of laches exists. The court emphasized that in the absence of laches, however, a Lanham Act claim arising from a "continuing wrong" could be delayed nearly indefinitely, since only the last infringing act would need to fall within the statutory period. The court concluded that it would be inequitable to reward such dilatory tactics, and therefore Hot Wax's seventeen year delay in filing suit warranted the application of laches.

IN RE AMERICAN FERTILITY SOCIETY

188 F.3d 1341 (Fed. Cir. 1999)

The Federal Circuit recently defined the proper test for trademark genericness when applied to phrases.

On February 13, 1995, the PTO refused to register the mark "American Society for Reproductive Medicine" (hereinafter "Society") on the primary register because it was only geographically descriptive, violating section 2(e)(2) of the Lanham Act (15 U.S.C. § 1052(e)(2)), and because it was so highly descriptive that "no thought, imagination or perception is required to understand the exact nature of the applicant's services when confronted with [the term]."

Subsequently, the PTO rejected supplemental registration of the mark. Although supplemental registration does not proscribe geographically distinct marks, the rejection was based on inclusion of the phrase "Society for Reproductive Medicine," which the PTO deemed generic. The PTO based its decisions on the test outlined in *In re Gould Paper Corp.*, 834 F.2d 1017 (Fed. Cir. 1987), which deems a term generic if it has "no more meaning than the sum of the meanings of each of its constituent parts." The PTO

provided as evidence Lexis-Nexis search results reflecting common uses of the term "reproductive medicine," dictionary definitions of the term "society," and third-party applications and registrations for marks disclaiming the term "society." This decision was upheld by the Trademark Trial and Appeal Board. The society appealed the Board's decision to the Federal Circuit.

The court held that the PTO applied the wrong legal test to evaluate the generic nature of the phrase. The correct test was established by *H. Marvin Ginn Corp. v. International Ass'n of Fire Chiefs, Inc.*, 782 F.2d 987 (Fed. Cir. 1986), which in this matter requires the PTO to prove 1) the genus of services the Society provides; and 2) that the general public's understanding of "Society for Reproductive Medicine" refers to this genus of services. The court found that, because the *Marvin Ginn* decision was binding on *Gould*, the *Gould* test should only be used to evaluate the genericness of compound words, such as "Screenwipe," and not for the uniqueness of phrases. The court thereby distinguished the current case's facts from those in *Gould*.

Since the PTO failed to apply the *Marvin Ginn* test on the whole phrase, had not presenting any evidence that the phrase as a whole had "acquired no additional meaning to the relevant public than the terms 'society' and 'reproductive medicine' have individually," and had not found even one example of generic usage of this "apt or common name," the PTO failed to satisfy its burden in proving the "generic-ness" of the phrase. Consequently, the court remanded the case for determination based on the proper legal test outlined in its decision.

SYNDICATE SALES, INC. V. HAMPSHIRE PAPER CORP.

192 F.3d 633 (7th Cir. 1999)

The Seventh Circuit addressed the issues of predatory intent to copy a competitor's trade dress and whether famousness could be established in a niche market for an actionable federal dilution claim.

Since 1960, Syndicate Sales, Inc. has been selling plastic baskets used for floral banquets at funerals. In 1994, Hampshire Paper Corp. entered the market and began selling plastic baskets similar in style to those produced by Syndicate Sales. Each company then shipped the products in distinctive boxes to wholesalers, who then sold the baskets to retailers. Syndicate Sales's boxes were white with green lettering, while the boxes of Hampshire Paper were brown with its name displayed prominently.

The Seventh Circuit held that the actions of Hampshire Paper did not constitute a trade dress infringement in violation of section 43(a) of the Lanham Act (15 U.S.C. § 1125(a)). The distinctive labeling and packaging of the boxes in which the baskets were shipped served as a strong indicator that there was no likelihood of confusion by the wholesalers or retailers who purchased the goods. Even though Hampshire Paper might have intended to make baskets similar to those produced by Syndicate Sales, the court viewed the distinct labeling and packaging of the baskets to be of greater importance than any similarities in the product itself. If a difference in the floral baskets were of significance to either the wholesalers or retailers, they would be expected to utilize ordinary care to distinguish between the different packaging of the two companies.

Furthermore, the Seventh Circuit held that fame in a niche market is sufficient for a federal trade dress dilution claim under the Federal Trademark Dilution Act, 15 U.S.C. § 1125(c). It reasoned that even though a mark may be highly distinctive only to a specific class, the mark may be protected from diluting uses aimed at that particular class. Additionally, a factor used in section 1125(c) to determine whether a mark is famous indicates

that "fame" may be constrained to a particular market. The court remanded the claim for determination of whether Syndicate Sales's trade dress was sufficiently famous within its limited niche market.

ANTITRUST

INTERGRAPH CORP. V. INTEL CORP.

195 F.3d 1346 (Fed. Cir. 1999)

The Federal Circuit vacated the United States District Court for the Northern District of Alabama's preliminary injunction preventing chip-maker Intel Corporation from withholding special information from Intergraph Corporation. The Federal Circuit repudiated each of the district court's favorable rulings which were based on six theories of monopoly power advanced by Intergraph. The court ruled that the district court had abused its discretion by granting the preliminary injunction. Through its ruling, the court effectively made existing, head-to-head competition a prerequisite to violations of the Sherman Act, potentially limiting the use of monopoly theories in future cases to disputes between actual competitors.

Over the course of a long-standing dispute between Intel and Intergraph, which began in 1996 with Intergraph's allegation that Intel had infringed its Clipper Chip patent, Intel decided to withhold the technical assistance and special benefits it had been providing to Intergraph as one of its "strategic customers." The district court's decision to grant an injunction preventing Intel from withholding these benefits was based on its belief in the substantial likelihood of Intergraph's success on the merits of its antitrust claims. In overturning the district court's ruling, the Federal Circuit found that the district court had failed to show this likelihood. In reaching its decision, the Federal Circuit overturned all six of the district court's findings that Sherman Act violations could be found under the following theories: 1) the essential facility theory and the corollary theory of refusal to deal; 2) leveraging and tying; 3) coercive reciprocity; 4) improper use of intellectual property; 5) conspiracy and other acts in restraint of trade; and 6) retaliatory enforcement of non-disclosure agreements.

With respect to the lower court's treatment of the essential facilities theory, the Federal Circuit found that a basic element of this theory—that the parties compete for sales in a "relevant market"—was not satisfied, noting that a patent is a mere legal right to exclude, not a commercial product in a competitive market. Next, the Federal Circuit curtailed the district court's extension of leveraging and tying theory to potential *future* violations of the Sherman Act, holding that Intel's intention to enter the graphics workstation market did not amount to its possession of competitive advantage in that market, a prerequisite to punishable activity. With respect to the third theory, coercive reciprocity, the Federal Circuit ruled that Intel's decision to withhold preferred treatment from Intergraph when negotiations between the two failed did not amount to illegal coercion because Intel never demanded that Intergraph buy its products. The court went on to deem the district court's finding on the theory of illegal use of intellectual property to restrain trade simply "devoid of evidence or elaboration or authority." As to the conspiracy theory endorsed by the district court, the Federal Circuit deemed that Intel's joint marketing with Intergraph's competitors did not amount to an illegal campaign to boycott Intergraph's products.

Finally, with respect to two theories rooted in contract law—the retaliatory enforcement theory, and the district court's alternative ground for granting the injunction, a standard breach of contract theory—the Federal Circuit essentially upheld the enforceability of the at-will feature of the parties' non-disclosure agreements, dismissing the district court's characterizations of these agreements as unconscionable or illusory.

CONSTITUTIONAL LAW

BERNSTEIN V. UNITED STATES DEPARTMENT OF JUSTICE

176 F.3d 1132, withdrawn and reh'g granted, 192 F.3d 1308 (9th Cir. 1999)

In a suit challenging the constitutionality of the Export Administration Regulations ("EAR"), the Ninth Circuit held that encryption source code is expression for First Amendment purposes and that the prepublication licensing regime of EAR is unconstitutional. The opinion was subsequently withdrawn and en banc rehearing was granted; however, the case was remanded to the Ninth Circuit panel for reconsideration in light of new encryption export regulations promulgated by the government in December 1999.

Bernstein developed an encryption method he called "Snuffle." After being told by the State Department that Snuffle was a "munition" under relevant regulations and that he would need a license to "export" (or deliver over the Internet) his paper, source code, and instructions pertaining to Snuffle, Bernstein filed suit challenging the constitutionality of the regulations that are now entitled EAR.

The issue before the court was whether the EAR restrictions on the export of encryption software in source code form violated the First Amendment insofar as it constituted a prior restraint on expression. First, the court determined that Bernstein was entitled to bring a facial attack on the regulations. After concluding that the licensing regime gave government officials "substantial power to discriminate based on the content or viewpoint of speech," the court then addressed whether source code is expression for First Amendment purposes. The court emphasized that source code is an essential means of expression for scientists and that communication in the form of "layman's English" would render the exchange of ideas almost impossible in many fields. The government argued that although source code may be used for expressive purposes, the code essentially directs the operation of a computer without conveying information to users. Therefore, the government argued, source code is not a form of "expression." The court rejected this argument, however, and emphasized that source code has both "functional" and "expressive" purposes.

After determining that Bernstein properly could bring a facial challenge against the regulations, the court turned to the merits of his argument that the regulations are an impermissible prior restraint. The court followed the *Freedman v. Maryland*, 380 U.S. 51 (1965) three-part test for licensing schemes that impose prior restraints: "(1) any restraint must be for a specified brief period of time; (2) there must be expeditious judicial review; and (3) the censor must bear the burden of going to court to suppress the speech in question and must bear the burden of proof." The court found that EAR did not have a time limit on reviews or appeals and that there was no opportunity for judicial review if the applicant was denied a license. Because EAR failed the *Freedman* test, the Ninth Circuit held that the regulations' prepublication licensing regime is unconstitutional.

The court emphasized that not all software is expressive and was careful to limit its holding: "because the prepublication licensing regime challenged here applies directly to

scientific expression, vests boundless discretion in government officials, and lacks adequate procedural safeguards, it constitutes an impermissible prior restraint on speech."

In dissent, Judge Nelson argued that, because encryption source code is only a set of instructions and is valued by its function, the code contains no expression for First Amendment purposes. Judge Nelson acknowledged that source code can be used as expression in some cases, but concluded that its main purpose is to perform the function of encryption.

ELDRED V. RENO

74 F. Supp. 2d 1 (D.D.C. 1999)

In *Eldred v. Reno*, the District Court for the District of Columbia ruled that section 102(d)(1)(B) of the Sonny Bono Copyright Term Extension Act of 1998, Pub. L. No. 105-298, 112 Stat. 2827 (1998) ("CTEA") is constitutional. This section amended 17 U.S.C. § 304 to grant twenty additional years of copyright protection to both new and preexisting copyrighted works, raising the term of copyright to life of the author plus 70 years, or 95 years for a corporate or anonymous author.

The plaintiffs alleged that they were prepared to use certain works that, but for the CTEA, would have had their copyright term expire and have entered the public domain. They challenged the constitutionality of the CTEA on three grounds: (1) CTEA violates the First Amendment; (2) the retrospective extension of copyright protection is beyond Congress's power under the Copyright Clause; and (3) the CTEA violates the public trust doctrine.

In its decision, the court stated that there are no additional First Amendment rights to use copyrighted works beyond those already present under the well-established doctrines of fair use and merger. The court further ruled that Congress has the power to define the scope of the grant of copyrights—including the length of such rights and the retroactivity of laws passed under the Copyright Clause. In fact, the court noted, such retroactive extensions had been granted during the first several Congresses, clearly implying that the Founding Fathers intended such extensions to be constitutional. The court also ruled that there was no evidence that the "to authors" term of the Copyright Clause was meant to limit Congress's power to grant retroactive term extensions, even if the authors are deceased or no longer own the copyright. Finally, the court held that the public trust doctrine, under which states hold title to navigable waters within their territories in trust for the public, applies only to the limited area of navigable waters and not to copyrights.

NEW STAR LASERS, INC. V. REGENTS OF THE UNIVERSITY OF CALIFORNIA

63 F. Supp. 2d 1240 (E.D. Cal. 1999)

In *New Star Lasers, Inc. v. Regents of the University of California*, the District Court for the Eastern District of California held that states do not enjoy Eleventh Amendment immunity from prosecution in federal court in suits challenging the validity of state-owned patents. In its decision, the court distinguished the state action of owning a patent from actions that merely serve to engage the state in interstate commerce.

New Star Lasers sought a declaratory judgment on the validity of a patent owned by the Regents of the University of California. The Regents argued that under the Eleventh

Amendment and *Florida Prepaid Postsecondary Education Expense Board v. College Savings Bank*, 527 U.S. 627 (1999), they, as an arm of the state, were immune from suit.

Under *Florida Prepaid*, the Patent Remedy Act of 1992 does not validly abrogate immunity of the states from suit for patent infringement. However, the court distinguished the case at bar from *Florida Prepaid*. The court first came to the conclusion that the Patent Remedy Act conditions the receipt of a patent by a state on a waiver of Eleventh Amendment immunity to a declaratory suit. In discussing the validity of the waiver provision, the court noted that Congress can compel a waiver of immunity when a state seeks not merely to engage in "otherwise legal activity," but rather when the state receives a "'gift or gratuity' or 'federal beneficence' that Congress may rightfully withhold." In the court's opinion, a patent constitutes such a "gift or gratuity." Because the Regents own a patent and because the court found a valid waiver to immunity from suit in the Remedy Act, the Regents' motion to dismiss for lack of jurisdiction under the Eleventh Amendment was denied.

UNITED STATES V. MOGHADAM

175 F.3d 1269 (11th Cir. 1999)

In a case challenging the constitutionality of a federal anti-bootlegging statute, 18 U.S.C. § 2319A, the Eleventh Circuit held that the Copyright Clause of the Constitution did not prevent Congress from granting copyright-like protection under the Commerce Clause. This case could potentially broaden the scope of Congress's power to protect ideas, giving Congress the ability to legislate around any limitations in the Copyright (and Patent) Clause by using the broad power of the Commerce Clause.

Moghadam was convicted of violating a federal statute prohibiting the trafficking in unauthorized recordings of live musical performances. Congress passed this statute pursuant to its Copyright Clause power. Moghadam challenged the constitutionality of the statute, arguing that the Copyright Clause did not extend to protect live musical performances because they are not fixed in a tangible medium. The Eleventh Circuit assumed, but did not decide, that fixation is required of anything protected under the Copyright Clause, and held that the lack of fixation in live musical performances prevented Congress from protecting them under its Copyright Clause powers.

The court then proceeded to examine whether the anti-bootlegging statute could be justified through the Commerce Clause. As it was clear to the court that the statute satisfied the "substantial effects" test of *United States v. Lopez*, 514 U.S. 549 (1995), the court went on to examine whether the Commerce Clause can be used to pass legislation which may not be permissible under the Copyright Clause. The court held that in certain instances, such as this one, the Commerce Clause may be used, as the Copyright Clause does not positively forbid Congress from extending copyright-like protection to works which, for instance, are not fixed. The court did not reach the question of what limits the Copyright Clause does impose on Congress, such as the "limited times" requirement, as those issues were not before it.

TELECOMMUNICATIONS

SATELLITE HOME VIEWER IMPROVEMENT ACT OF 1999

S. 1948, 106th Cong., §§ 1001 – 1012

On November 29, 1999, President Clinton signed the Satellite Home Viewer Act of 1999 ("Act"), attached to the Consolidated Appropriations Act, 2000 (Pub. L. No. 106-113), into law. The primary effect of the Act is to permit satellite carrier companies, such as DIRECTV and Echostar (owner of The Dish Network), to transmit the feeds of local network affiliates to satellite dish owners in the markets served by those stations. Prior to the passage of the Act, under 17 U.S.C. § 119, satellite carrier companies were permitted to transmit network feeds under statutory licenses only to those subscribers who were not capable of receiving "Grade B" quality feeds of their local affiliates with a rooftop antenna and who had not received the feeds of local affiliates via cable within the past ninety days. The Act added a new 17 U.S.C. § 122, which allows satellite carrier companies to transmit the feeds of local affiliates to residents of the statutorily defined local area by expanding the scope of statutory licenses to explicitly include such transmissions. In addition, the Act modifies section 119 in several ways, including eliminating the requirement that subscribers not have received the feeds of local affiliates via cable within the last ninety days in order for carriers to transmit the feeds to them. Because the carriers have limited bandwidth, they will initially transmit only the feeds of a limited number of local affiliates (ABC, NBC, CBS, and FOX) in a limited number of markets. Under the Act, however, the carriers are required to abide by the FCC's "must-carry" regulations by January 1, 2002.

The Act was passed in November after months of intense lobbying that followed a Fourth Circuit decision concerning the transmission of network feeds by satellite carriers. In *ABC, Inc. v. Primetime 24*, 184 F.3d 348 (4th Cir. 1999), the court upheld an injunction against Primetime 24, a satellite carrier that had been transmitting network feeds. The court found that Primetime 24 had been violating 17 U.S.C. § 119 by not ensuring that its subscribers met the eligibility requirements of § 119. Specifically, Primetime 24 had many subscribers who should have been ineligible because they could in fact receive "Grade B" quality feeds of their local affiliates with a rooftop antenna. Within a few months of the *Primetime 24* decision, Primetime 24 was forced to cut off service to subscribers who lived in zip codes where residents were able to obtain "Grade B" quality feeds with rooftop antennas. As a result, satellite carriers and former subscribers alike began lobbying efforts so that subscribers could regain access to network programs over satellite dishes.

CYBERLAW

COLT STUDIO, INC. V. BADPUPPY ENTERPRISE

75 F. Supp. 2d 1104 (C.D. Cal 1999)

In *Colt Studio, Inc. v. Badpuppy Enterprise*, the District Court for the Central District of California held that an out-of-state entity engaging in e-commerce with California residents had sufficient contacts with California to establish personal jurisdiction. The defendant, a Florida corporation who provided nude photographs on its website, moved to dismiss the case, for copyright infringement, for lack of personal jurisdiction.

Traditionally, personal jurisdiction can be established through minimum business contacts with a state. Based on the 3-prong test established in *Burger King Corp. v. Rudzewicz*, 471 U.S. 462, 477-78 (1985), the court found personal jurisdiction over the defendant corporation for three reasons. First, Badpuppy deliberately bound itself to California law by selling membership subscriptions on its website to California residents. Second, the lawsuit arose out of the defendant's business relationship with citizens of the state. Finally, it was sufficiently reasonable for the court to exercise personal jurisdiction over the defendant since, among other reasons, its business with California residents was substantial, the exercise of personal jurisdiction would not deprive Badpuppy of due process, and it would be most efficient to litigate the case in California.

EARTHWEB, INC. V. SCHLACK

71 F. Supp. 2d 299 (S.D.N.Y. 1999)

In *EarthWeb, Inc. v. Schlack*, the District Court for the Southern District of New York held that "Internet Time" was a relevant factor in determining the reasonable length of Internet employee non-compete agreements.

Schlack, a sixteen year veteran of the publishing industry, resigned after eleven months as EarthWeb's Vice President of Worldwide Content to accept a position with International Data Group's ("IDG") subsidiary, ITWorld.com. EarthWeb sought to enjoin Schlack from commencing employment with ITWorld.com, arguing that he possesses trade secrets that he was likely to use and inevitably disclose to ITWorld.com. EarthWeb alleged that ITWorld.com would be a future competitor, and therefore its employment of Schlack would be in direct violation of the employee non-compete agreement that Schlack had signed stating that he would not compete with EarthWeb for one year after leaving the company.

The district court invalidated the agreement. It held that one year is too long for a non-compete covenant in the Internet's information technology industry. Analogizing a year to "several generations, if not an eternity" on the Internet, the court held that six months would have been a more reasonable time. Despite this limited construction, the court invalidated the entire agreement instead of rewriting it because the employment agreement was too restrictive as a whole.

The court also held that, because of the difficulty in assessing ITWorld.com's future characteristics given the evolving nature of the Internet, ITWorld.com was not a direct competitor of the plaintiff. Finally, the court rejected the plaintiff's argument for using the doctrine of "inevitable disclosure," a doctrine which limits employee mobility among key corporate officials due to the high probability of trade secrecy disclosure. It held that where an express agreement exists and there is no actual theft of proprietary information, such an argument is unpersuasive.

MINK V. AAAA DEVELOPMENT LLC

190 F.3d 333 (5th Cir. 1999)

In *Mink v. AAAA Development LLC*, the Fifth Circuit affirmed the existence of a "passive/active" distinction in Internet jurisdiction caselaw.

The sole issue on appeal in *Mink* was whether the United States District Court for the Southern District of Texas erred in dismissing a copyright and patent infringement action for lack of personal jurisdiction over the defendants, who maintained a "passive" website accessible to Texas residents. In settling this jurisdiction question, the Fifth Circuit

adopted the approach taken in *Zippo Manufacturing Co. v. Zippo Dot Com, Inc.*, 952 F. Supp. 1119 (W.D. Pa. 1997), for determining the constitutionality of personal jurisdiction over defendants engaged in Internet business activity.

The *Zippo* court categorized Internet business use as a spectrum of three areas. In the first area, for which personal jurisdiction is clearly proper, the defendant runs an "active" website, which undertakes business transactions involving the knowing and repeated transmission of computer files to remote users. In the middle of the spectrum are websites that allow the defendant and users to exchange some information with a host computer. In these cases, personal jurisdiction is less clear and depends on the facts of each case. At the other end of the spectrum are "passive" websites which do no more than advertise, and for which defendants should not be subject to personal jurisdiction.

The Fifth Circuit found the AAAA website to be in this last category and upheld the dismissal for lack of jurisdiction. The AAAA website contained only product information, downloadable order forms, the company mailing address, a phone and fax number, and the company's e-mail address. There was no evidence AAAA could do anything but reply to e-mail initiated by visitors to its website. Without going outside the existing trial court record, the court was unable to determine whether the AAAA website contained an e-mail link to the company. The court further noted that even an e-mail link, without any other ability to conduct business, would not alter the court's conclusion regarding personal jurisdiction.

UNITED STATES V. WILSON

182 F.3d 737 (10th Cir. 1999)

In *United States v. Wilson*, the Tenth Circuit upheld the United States District Court for the District of Colorado's finding that information stored on computer diskettes can constitute "materials" for the purpose of convicting a defendant of possessing illegal materials shipped or transported in interstate commerce.

The defendant appealed a conviction for possession of illegal materials shipped or transported in interstate commerce, based on the contention that computer disks containing graphic images of child pornography are not the type of materials that fall within the scope of 18 U.S.C. § 2252 (a)(4)(b). The appellant claimed that "materials" refers to "ingredients or components of a visual depiction," not "tools or equipment or storage items (such as computer or floppy disks) used to hold, mold, or manipulate 'materials' into a visual depiction." The Tenth Circuit rejected this argument, and held that, because the scope of the statute was intended to include both tangible matters that are part of the visual depiction and tangible matters that are used to *create* the visual depiction, the defendant's interpretation of "materials" was too narrow to fulfill the statute's purpose. This position has also been adopted by the First and Eighth Circuits.

BERKELEY TECHNOLOGY LAW JOURNAL
ANNUAL REVIEW OF LAW AND TECHNOLOGY

CUMULATIVE INDEX

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CUMULATIVE INDEX

The following index lists all cases, statutes, and other topics which were the subject of notes published in the Annual Review of Law and Technology from 1998 to 2000.

CASES

STATUTES AND OTHER TOPICS