

# BERKELEY TECHNOLOGY LAW JOURNAL

VOLUME 18

NUMBER 1

ANNUAL REVIEW 2003

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## FOREWORD

By Patrick D. Kelley<sup>†</sup> & Raffi Zerounian<sup>‡</sup>

Since its inception, the *Berkeley Technology Law Journal* has sought to address “the novel legal issues posed by advancing technologies, mixing scholarly analysis with useful research tools for the practitioner.”<sup>1</sup> The *Berkeley Technology Law Journal* remains true to this goal in publishing the *Annual Review of Law & Technology* (“*Annual Review*”), which for the past five years has provided practitioners, judges, policymakers, scholars, and students, with detailed summaries and analyses of recent developments in technology law.

The Notes in the *Annual Review* reflect a six-month commitment by a select group of second and third year law students to first, develop and improve their research and writing skills, and second, delve into a particular area of law, and provide a concise, thorough update on significant developments in their chosen topic. The *Annual Review*, in its entirety, reflects the successful collaboration of the *Berkeley Technology Law Journal* editorial staff, with the student authors, student advisors, and Professor Peter Menell, Executive Director of the Berkeley Center for Law & Technology, in producing a comprehensive resource encompassing the most important developments of the prior year.

This year’s *Annual Review*, covering the period from August 31, 2001 to August 31, 2002, continues to adapt to the rapid expansion of technology law, beyond the traditional intellectual property law realm of patent, copyright, trademark, and trade secrets protection, to include antitrust, cyberlaw, telecommunications, entertainment law, business law, and international law.

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We would like to thank Professor Peter Menell for his exceptional efforts and vision in making this year’s *Annual Review* come together, and for his unwavering support and guidance in this venture. We would also like to thank this year’s student authors and advisors, as well as the editorial staff of the *Berkeley Technology Law Journal*, for their contributions towards the production of this issue.

1. Editors’ Page, 1 HIGH TECH L. J. 1 (1986).

## I. INTELLECTUAL PROPERTY LAW

### A. Copyright

This year, four Notes address how the Internet and digital media have substantially transformed the field of copyright law. One Note addresses the constitutionality of the Digital Millennium Copyright Act<sup>2</sup> (“DMCA”), and the availability of statutory defenses against alleged DMCA violations, by analyzing two recent federal cases: *Universal City Studios, Inc. v. Corley*<sup>3</sup> and *United States v. Elcom Ltd.*<sup>4</sup> In *Corley*, the Second Circuit rejected arguments that the district court’s application of the DMCA, in enjoining Corley from posting information about DeCSS and linking to other sites that provide DeCSS, violates the First Amendment and the Copyright Clause. Similarly, in *Elcom* the Northern District of California rejected First Amendment and due process challenges to criminal indictments brought under the DMCA, and held that Congress did not exceed its enumerated powers in enacting the DMCA.

A second Note focuses on the effectiveness of the DMCA’s safe harbor provision,<sup>5</sup> enacted to protect Internet Service Providers (“ISPs”) from copyright infringement liability. A series of recent federal court decisions have eroded the protection of the safe harbor, forcing ISPs to take significant responsibility for protecting digital copyrights.

Other Notes addressing the Internet and digital media discuss the copyright implications of posting thumbnail images, and the public nature of model codes. The Ninth Circuit held, in *Kelly v. Arriba Soft*,<sup>6</sup> that the posting of thumbnails of copyrighted images constituted fair use, but that the display of full-sized images violated the copyright owner’s exclusive right to public display. In *Veeck v. Southern Building Code Congress International, Inc.*,<sup>7</sup> an *en banc* Fifth Circuit court held that the Internet posting of legislatively adopted model codes did not violate the copyright of the private organization that created the codes. The majority reasoned that not only were the model codes, as adopted into the law, part of the public domain, but the model codes, as posted, were facts not protectable by copyright.

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2. Pub. L. No. 105-304, 112 Stat. 2860 (1998) (codified in scattered sections of 5, 17, 28, and 35 U.S.C.).

3. 273 F.3d 429 (2d Cir. 2001).

4. 203 F. Supp. 2d 1111 (N.D.Cal. 2002).

5. 17 U.S.C. § 512 (2000).

6. 280 F.3d 934 (9th Cir. 2002).

7. 293 F.3d 791 (5th Cir. 2002) (*en banc*).

## B. Patent

It has been a prolific year in patent law. This fast-growing field of IP law experienced a great number of significant developments, involving: (1) the interplay between the doctrine of equivalents and prosecution history estoppel; (2) the jurisdiction of the Federal Circuit over non-patent causes of action with patent law counterclaims; (3) the patent misuse implications of patent licensing agreements exacting post-expiration royalties; (4) the type of evidentiary support available to inform the nonobviousness requirement for patentability; (5) the strict application of the dedication rule; and (6) satisfying the written description requirement for patentability with deposits of genetic material.

As with last year, the most prominent patent case of this year involved the application of prosecution history estoppel to amended patent claims. This time, *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.* came before the United States Supreme Court,<sup>8</sup> which vacated the Federal Circuit's application of a complete bar to the application of the doctrine of equivalents to claims amended for reasons of patentability, and iterated a modified flexible bar approach to prosecution history estoppel that allows the assertion of equivalents for some narrowed claims.

This year, the Supreme Court also reined in the Federal Circuit's jurisdiction over non-patent cases with patent counterclaims, in *Holmes Group, Inc. v. Vornado Air Circulation Systems, Inc.*<sup>9</sup> The Court held that in order for a case or controversy to "arise under" the patent laws for Federal Circuit jurisdiction, the plaintiff's well-pleaded complaint must include a patent claim.

In *Scheiber v. Dolby Laboratories, Inc.*,<sup>10</sup> the Seventh Circuit questioned the Supreme Court's wisdom in previously holding that a patent licensing agreement extending royalty payments beyond the expiration date of the patent constitutes per se patent misuse.<sup>11</sup> Despite the views expressed in Judge Posner's opinion, the Seventh Circuit ruled in accordance with the Supreme Court precedent, *Brulotte v. Thys Co.*, leaving it to the Supreme Court to amend its own rule.

This *Annual Review* also includes a Note discussing the Federal Circuit's unpredictable line of cases applying the nonobviousness standard. The Note proposes that the courts and the U.S. Patent and Trademark Of-

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8. 122 S. Ct. 1831(2002).

9. 535 U.S. 826 (2002).

10. 293 F.3d 1014 (7th Cir. 2002).

11. *Brulotte v. Thys Co.*, 319 U.S. 29 (1964).

fice look to less traditional forms of evidence to help them determine whether an invention is obvious.

For more regarding Federal Circuit decisions, the Note on *Johnson & Johnson Associates Inc. v. R.E. Service Co., Inc.*,<sup>12</sup> discusses the court's ruling that a patentee cannot claim subject matter disclosed in the specification, but unclaimed by the patent, under the doctrine of equivalents, overruling *YBM Magnex v. International Trade Commission*.<sup>13</sup> The final patent Note discusses the court's holding that the written description requirement of 35 U.S.C. § 112 could be satisfied by a deposit of genetic material, in *Enzo Biochem, Inc. v. Gen-Probe, Inc.*<sup>14</sup>

### C. Trademark

This issue builds on the Internet-based developments in trademark law from last year's issue, by detailing significant developments to the Anti-cybersquatting Consumer Protection Act ("ACPA") and the Uniform Domain-Name Dispute-Resolution Policy ("UDRP").

The first trademark Note analyzes the *in rem* provision of the ACPA, which provides U.S. residents with a cause of action against foreign cybersquatters. The second trademark Note discusses the interaction between the UDRP and the ACPA, two major forums for domain-name dispute resolution. The Note analyzes two recent Federal Court decisions, *Sallen v. Corinthians Licenciamentos*<sup>15</sup> and *Barcelona.com, Inc. v. Excelentisimo Ayuntamiento de Barcelona*,<sup>16</sup> which are paving the way for the ACPA to become a de facto appellate process for UDRP decisions.

## II. CYBERLAW

Issues involving the Internet and digital technology continue to dominate new developments in technology law. Cyberlaw, therefore, remains one of the most dynamic areas of technology law. This year, the *Annual Review* highlights significant developments in the areas of cybercrime and privacy law.

The first cyberlaw Note explores the impact of the "digital revolution," and post-9/11 legislation on privacy law, analyzing the ability of current privacy law to adequately address growing privacy concerns. The current body of privacy law has not been revised to address developments in tech-

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12. 285 F.3d 1046 (Fed. Cir. 2002).

13. 145 F.3d 1317 (Fed. Cir. 1998).

14. 296 F.3d 1316 (Fed. Cir. 2002).

15. 273 F.3d 14 (1st Cir. 2001).

16. 189 F. Supp. 2d 367 (E.D. Va. 2002).

nology and legislation, enabling the government to increase their investigative and surveillance powers.

The Second Note discusses the use of “traditional” crimes to prosecute cybercrimes in the United States. It further discusses developments in the Counterfeit Access Device and Computer Fraud and Abuse Act of 1984,<sup>17</sup> the Economic Espionage Act,<sup>18</sup> and the application of the DMCA in *United States v. Elcom, Ltd.*<sup>19</sup>

### III. ENTERTAINMENT LAW

This year’s *Annual Review* also includes a Note addressing a significant development in the evolution of webcasting: The Copyright Royalty Arbitration Panel’s (“CARP’s”) determination of webcasting royalty rates. After record companies and webcasters failed to reach agreement on royalty rates for webcasting, a CARP was convened, which issued a report on February 20, 2002, recommending a two-tiered royalty that has been criticized by almost everyone involved. The Librarian of Congress, who must review all CARP recommendations, rejected the two-tiered royalty structure, and opted for a single-tier structure instead.

### IV. BUSINESS LAW

Several important developments occurred with the use of contracts and licenses to protect copyrighted works. One Note analyzes the legal, economic and public policy implications of two federal decisions addressing the interplay between copyright and contract laws: *SoftMan Products Co. v. Adobe Systems, Inc.*<sup>20</sup> and *Bowers v. Baystate Technologies, Inc.*<sup>21</sup> *Softman* held that the transfer of software was a sale and not a license; and *Bowers* held that federal copyright law did not preempt a breach of contract action involving the violation of a contractual prohibition on reverse engineering. The Ninth Circuit also resolved a copyright case involving the sublicensing and reselling of copyrights without consent from copyright owners. A second Note discusses the Ninth Circuit’s holding, in *Gardner v. Nike*,<sup>22</sup> that the Copyright Act of 1976 did not abolish the doc-

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17. Pub. L. No. 98-473, 98 Stat. 1837, 2190 (Oct. 12, 1984) (codified as amended at 18 U.S.C. § 1030 (2002)).

18. Pub. L. No. 104-294, 110 Stat. 3488 (Oct. 11, 1996) (codified at 18 U.S.C. §§ 1831-1839 (2002)).

19. 203 F. Supp. 2d 1111 (N.D. Cal. 2002).

20. 171 F. Supp. 2d 1075 (C.D. Cal. 2001).

21. 302 F.3d 1334 (Fed. Cir. 2002), *aff’d in part and rev’d in part*, 320 F.3d 1317 (Fed. Cir. 2003).

22. 279 F.3d 774 (9th Cir. 2002).

trine of indivisibility, and thus an exclusive licensee does not have the right to sublicense or re-sell a copyright without the consent of the copyright owner.

## V. FOREIGN & INTERNATIONAL LAW

This issue also includes a discussion of the Council of Europe's Convention on Cybercrime ("Convention"). This multilateral agreement represents an unprecedented attempt to create an international agreement facilitating the prosecution of crimes committed on the Internet or other computer networks. By providing procedural tools, the Convention resolves many jurisdictional difficulties in prosecuting cybercriminals whose acts impact the international community.

Finally, this year's Foreign & International Law section includes an update on developments regarding the 1996 European Community Directive on the Legal Protection of Databases<sup>23</sup> ("the Directive"). Recent European decisions have confirmed prior concerns about the use of the Directive's *sui generis* right to hold deep linkers liable to database creators for copyright infringement.

This year's compilation of Notes and Additional Developments illustrates the continued growth of technology law. The *Berkeley Technology Law Journal* and the Berkeley Center for Law and Technology strive to keep up with this growth in publishing the *Annual Review*.

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23. Directive 96/9/EC of the European Parliament and of the Council of 11 March 1996 on the Legal Protection of Databases, 1996 O.J. (L 78) 20.

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

**INTELLECTUAL PROPERTY**



## THE CONSTITUTIONALITY OF THE DMCA EXPLORED: UNIVERSAL CITY STUDIOS, INC. V. CORLEY & UNITED STATES V. ELCOM LTD.

*By Albert Sieber*

The rapid onset of the digital age both tantalized and terrified industries whose chief assets are copyrighted works—movie studios, book publishers, record labels, and other so-called “content industries.” On the one hand, they saw enormously lucrative new markets for their products. Consumers might, for example, be tempted to replace their outdated, outmoded, inferior analog cassette tapes and vinyl records with superior-sounding CDs, or to buy movies on DVDs boasting better audio and video, and a host of other features not available on videotape. The increasing availability of powerful yet affordable home computers<sup>1</sup> and high-speed Internet access in residential areas<sup>2</sup> also provided the content with new avenues of distribution. The staggering popularity of peer-to-peer (P2P) file-sharing services such as Napster demonstrated consumers’ willingness to download their entertainment, if not necessarily pay for it.<sup>3</sup>

Of course, the same technologies that enabled these new markets also enabled copyright infringement on an unprecedented scale. Content captured in digital format—essentially a string of 1’s and 0’s—may be easily copied with no (or minimal) loss of quality.<sup>4</sup> Any such copies may then be disseminated over the Internet, most famously through P2P services—what many consumers called “sharing” and the content industries dubbed

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1. See Peter S. Menell, *Envisioning Copyright Law’s Digital Future*, 46 N.Y.L. SCH. L. REV. 63 (2003) (manuscript at 34, available at <http://www.law.berkeley.edu/institutes/bclt/pubs/menell/newmansd.pdf> (last visited Feb. 23, 2003)).

2. See, e.g., Press Release, Federal Communications Commission, Federal Communications Commission Releases Data on High-Speed Services for Internet Access (July 23, 2002) (reporting a substantial increase in the number of high-speed connections during the second half of 2001), available at [http://hraunfoss.fcc.gov/edocs\\_public/attachmatch/DOC-224580A1.pdf](http://hraunfoss.fcc.gov/edocs_public/attachmatch/DOC-224580A1.pdf).

3. According to an estimate by Webnoize, a market research firm, three billion songs were downloaded using the Napster system in January 2001, the month before the Ninth Circuit Court of Appeals announced its decision in *A&M Records, Inc. v. Napster*, 239 F.3d 1004 (9th Cir. 2001). See Jefferson Graham, *Napster Handed Major Setback by Appeals Court*, USA TODAY, Feb. 13, 2001, available at <http://www.usatoday.com/life/cyber/tech/review/2001-02-12-napster-usat.htm> (last visited Feb. 23, 2003).

4. See Seth D. Greenstein, *The Consumer’s Right to Listen to Digital Music*, 640 PLI/PAT 349, 353 (2001).

“piracy.”<sup>5</sup> Although digital content may be encoded with technological measures to prevent unauthorized uses, including copying, it was recognized long ago that every new protection measure could eventually be overcome and defeated.<sup>6</sup>

To address these concerns, the content industries—aided by key Clinton Administration officials and with the eventual acquiescence of other major stakeholders, particularly Internet Service Providers (ISPs)—lobbied Congress for major changes to the Copyright Act to protect their interests.<sup>7</sup> The result was the Digital Millennium Copyright Act (“DMCA,” or “the Act”), enacted in late 1998.<sup>8</sup> Among the most important of the Act’s provisions were the legal sanctions it created for the use of and traffic in technology designed to circumvent piracy protections in copyrighted digital works—the so-called anti-circumvention provisions.<sup>9</sup>

This Note discusses two of the earliest cases brought under these provisions: *Universal City Studios, Inc. v. Corley*<sup>10</sup> and *United States v. Elcom Ltd.*<sup>11</sup> In each case, defendants unsuccessfully raised several statutory defenses provided for in the Act, and also challenged the anti-circumvention provisions as unconstitutional under a variety of theories. This Note begins by reviewing the DMCA itself before discussing its application to these cases. Finally, this Note examines one suggested refinement of the courts’ analyses in order to prevent a result inconsistent with the terms of the Act, and discusses the fate of the fair use doctrine under the DMCA.

## I. LEGAL BACKGROUND

Prior to the DMCA, courts analyzing a claim brought under the Copyright Act considered first whether there had been infringement of a valid copyright: that is, whether there had been a violation of one of the five ex-

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5. See JESSICA LITMAN, DIGITAL COPYRIGHT 85-86 (2001).

6. See, e.g., INTELLECTUAL PROPERTY AND THE NATIONAL INFORMATION INFRASTRUCTURE: A REPORT OF THE WORKING GROUP ON INTELLECTUAL PROPERTY RIGHTS 230 (Bruce A. Lehman chair, 1995) (“[I]t is clear that technology can be used to defeat any protection that technology may provide . . . . [T]echnological protection will not be effective unless the law also provides some protection . . . .”), available at <http://www.uspto.gov/web/offices/com/doc/ipnii>.

7. See *infra* Part III.B.1; see generally LITMAN, *supra* note 5, at 122-50 (describing the bargaining process leading to the Act’s passage).

8. Pub. L. No. 105-304, 112 Stat. 2860 (1998) (codified in scattered sections of 5, 17, 28, and 35 U.S.C.).

9. 17 U.S.C. § 1201 (2000).

10. 273 F.3d 429 (2d Cir. 2001).

11. 203 F. Supp. 2d 1111 (N.D. Cal. 2002).

clusive rights granted to copyright owners in the Copyright Act.<sup>12</sup> A claim of contributory or vicarious infringement, the two forms of secondary liability under traditional copyright law, tended to require proof of direct infringement by a third party.<sup>13</sup> At the same time, the manufacturers and distributors of a technology that may facilitate direct infringement (such as VCRs) were protected from secondary liability so long as the technology was “capable of substantial noninfringing uses”—the so-called “staple article of commerce” doctrine announced by the Supreme Court in *Sony Corp. of America v. Universal City Studios, Inc.*<sup>14</sup>

### A. The Digital Millennium Copyright Act

The DMCA, however, creates a new class of liability under American copyright law. In certain circumstances, courts may impose liability on parties who use or disseminate tools to circumvent technological measures designed to protect copyrighted works, regardless of whether such actions ultimately lead to an act of infringement by that person or another.<sup>15</sup> Traditional infringement analysis, therefore, becomes largely irrelevant in actions brought under the anti-circumvention provisions, leading some commentators to describe the law as “paracopyright.”<sup>16</sup> Additionally, the dissemination of circumvention tools implicated by the DMCA does not enjoy the same protection previously offered under the *Sony* doctrine.<sup>17</sup> At least one previous application of the *Sony* doctrine had upheld a defendant’s right to sell a software program that disabled copy controls, citing

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12. 17 U.S.C. § 106 (2000). The five exclusive rights are (1) the right to reproduce the copyrighted work, (2) the right to prepare derivative works based on the copyrighted work, (3) the right to distribute copies of the copyrighted work to the public, (4) the right to perform the copyrighted work publicly, and (5) the right to display the work publicly. *Id.*

13. 3 NIMMER ON COPYRIGHT § 12.04[A][3][a], at 12-90 (2002).

14. 464 U.S. 417, 434-42 (1984).

15. *See, e.g., Elcom*, 203 F. Supp. 2d at 1123.

16. *See, e.g., 3 NIMMER ON COPYRIGHT § 12A.18[B]*, at 12A-186 (2002) (“[Chapter 12] enshrines legal doctrine that ‘more closely resembles historic protection under the telecommunications law, or even more pointedly, the ‘Jesse James Act’ forbidding armed postal robbery, than it does the balance of Title 17.’ The interests that it vindicates may therefore be dubbed ‘paracopyright,’ as contrasted with traditional copyright protection.”) (internal citations omitted).

17. *See HOUSE COMM. ON THE JUDICIARY, SECTION-BY-SECTION ANALYSIS OF H.R. 2281 AS PASSED BY THE UNITED STATES HOUSE OF REPRESENTATIVES ON AUGUST 4, 1998*, at 10 (Comm. Print 1998) (“The *Sony* test of ‘capability of substantial noninfringing uses, while still operative in cases claiming contributory infringement of copyright, is not part of this legislation . . . .”); *see also Universal City Studios, Inc. v. Reimerdes*, 111 F. Supp. 2d 294, 323-24 (S.D.N.Y. 2000) (holding that the *Sony* decision has no application in cases under the anti-circumvention provisions).

end users' right to make backup copies of software they had lawfully purchased and holding that the Supreme Court's decision in *Sony* controlled.<sup>18</sup> Post-DMCA, that a circumvention tool may be capable of a substantial noninfringing use is no longer relevant.<sup>19</sup>

By its terms, the DMCA's anti-circumvention provisions apply whenever access to, or use of, a copyrighted work is restricted by a "technological measure."<sup>20</sup> For the purposes of the Act, a technological measure is a measure that "in the ordinary course of its operation, requires the application of information, or a process or a treatment, with the authority of the copyright owner, to gain access to the work,"<sup>21</sup> or "in the ordinary course of its operation, prevents, restricts, or otherwise limits the exercise of a right of a copyright owner under this title."<sup>22</sup> Probably the most commonly known "technological measure" implicated under the Act is Content Scramble System (CSS), an encryption system that allows the contents of DVDs to be viewed only on CSS-compliant DVD players.<sup>23</sup>

The Act implicates "circumvention" of such technological measures, although it does not ban circumvention of all types.<sup>24</sup> Under the DMCA, circumvention includes efforts "to descramble a scrambled work, to decrypt an encrypted work, or otherwise to avoid, bypass, remove, deactivate, or impair a technological measure, without the authority of the copyright owner,"<sup>25</sup> or to "avoid[], bypass[], remov[e], deactivat[e], or otherwise impair[] a technological measure."<sup>26</sup> To continue with the previous example, software known as DeCSS has been developed that allows own-

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18. *Vault Corp. v. Quaid Software, Ltd.*, 847 F.2d 255, 264-67 (5th Cir. 1988); see also Pamela Samuelson, *The Copyright Grab*, WIRED 4.01 (Jan. 1996), available at [http://www.wired.com/wired/archive/4.01/white.paper\\_pr.html](http://www.wired.com/wired/archive/4.01/white.paper_pr.html).

19. See *supra* note 17.

20. 17 U.S.C. § 1201 (2002).

21. *Id.* § 1201(a)(3)(B).

22. *Id.* § 1201(b)(2)(B).

23. For a more detailed explanation of DVD and CSS technologies, see *infra* Part II.B.1; *Universal City Studios, Inc. v. Reimerdes*, 111 F. Supp. 2d 294, 307-08 (S.D.N.Y. 2000). For an even more technical explanation, see generally Jeffrey A. Bloom et al., *Copy Protection for DVD Video*, 87 PROC. OF THE IEEE 7, 1267 (1999). Technological measures potentially implicated by the DMCA are quite common; they include, for example, password-protection schemes used by many website operators to control access to their content. See David A. Petteys, Note, *The Freedom to Link?: The Digital Millennium Copyright Act Implicates the First Amendment in Universal City Studios, Inc. v. Reimerdes*, 25 SEATTLE U. L. REV. 287, 317 (2001).

24. See *infra* Part I.A.1.

25. 17 U.S.C. § 1201(a)(3)(A).

26. *Id.* § 1201(b)(2)(A).

ers of a DVD disk to circumvent CSS in order to play the DVD on a non-compliant DVD player.<sup>27</sup>

The DMCA distinguishes between technology designed to control *access* to a work and technology that controls *use* of a work once the work has been accessed. In addition, the Act distinguishes between specific acts of circumvention and dissemination of tools that enable such circumvention.<sup>28</sup>

### 1. *Access vs. Use*

Section 1201(a), governing technological measures designed to limit *access* to a copyrighted work, prohibits both specific acts of circumvention<sup>29</sup> and trafficking in tools that enable such circumvention.<sup>30</sup> Section 1201(b), governing technological measures designed to limit the *use* of a copyrighted work, prohibits only trafficking in circumvention-enabling tools.<sup>31</sup> In both cases, it is a violation of the DMCA to “manufacture, import, offer to the public, provide, or otherwise traffic in any technology, product, service, device, component, or part thereof” that is primarily designed for the purpose of circumventing protections, has “limited commercially significant purpose” other than such circumvention, or is marketed for such use.<sup>32</sup> Penalties for violation of any of these provisions are substantial and include injunctive relief and actual and statutory damages.<sup>33</sup> Criminal penalties may be imposed where unlawful acts are committed with the purpose of “commercial advantage or private financial gain.”<sup>34</sup>

Significantly, the DMCA does not prohibit the act of circumventing a *use* control, even though it does prohibit the dissemination of tools that enable such circumvention.<sup>35</sup> Presumably, then, parties who circumvent *use* controls are subject only to penalties under traditional, infringement-

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27. The legality of posting DeCSS on an Internet website was litigated in *Universal City Studios, Inc. v. Corley*, 273 F.3d 429 (2d Cir. 2001). See *infra* Part II.A.

28. 17 U.S.C. § 1201(a)-(b).

29. *Id.* § 1201(a)(1)(A) (“No person shall circumvent a technological measure that effectively controls access to a work protected under this title.”).

30. *Id.* § 1201(a)(2).

31. *Id.* § 1201(b)(1).

32. *Id.* § 1201(a)(2)-(b)(1).

33. *Id.* § 1203.

34. *Id.* § 1204(a).

35. See *United States v. Elcom Ltd.*, 203 F. Supp. 2d 1111, 1120 (N.D. Cal. 2002).

oriented copyright law, and may make use of any of the defenses available therein, including the fair use defense.<sup>36</sup>

Although the distinction between a technological measure that controls *access* and one that controls *use* is crucial for determining whether liability attaches to an act of circumvention, the Act itself does not explain the difference. The legislative history of the Act is itself confused, at one point defining both access and use controls with two identically worded definitions.<sup>37</sup> Elsewhere, a report by the House Judiciary Committee explains that the access control provisions in § 1201(a) apply “when a person has not obtained authorized access to a copy . . . of a work,”<sup>38</sup> but do not apply to “the subsequent actions of a person once he or she has obtained authorized access to a copy of a work.”<sup>39</sup> This limited guidance still leaves courts to grapple with a question that in many instances may have far-reaching consequences: does “access” refer only to *initial* access, or to each individual act of accessing a protected work?<sup>40</sup>

## 2. *Exceptions to the Rule and Other Provisions*

Having established the extent of liability under the anti-circumvention provisions, more or less, Congress then peppered the Act with numerous narrowly tailored exceptions. Three protect scientific endeavors: the exceptions for encryption research,<sup>41</sup> security testing,<sup>42</sup> and reverse engineer-

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36. See *id.* at 1120-21 (citing H.R. REP. 105-551, pt. 1, at 18 (1998)). Cf. 17 U.S.C. § 1201(c)(1) (“Nothing in this section shall affect rights, remedies, limitations, or defenses to copyright infringement, including fair use, under this title.”).

37. See David Nimmer, *Appreciating Legislative History: The Sweet and Sour Spots of the DMCA’s Commentary*, 23 CARDOZO L. REV. 909, 939-40 (2002) (citing H.R. REP. NO. 105-551, pt. 2, at 39-40 (2d Sess. 1998)) [hereinafter Nimmer, *Appreciating Legislative History*].

38. H.R. REP. NO. 105-551, pt. 1, at 17 (1998). More colloquially, circumvention of access control was compared to breaking and entering a locked room. *Id.*

39. *Id.* at 18.

40. See LITMAN, *supra* note 5, at 153.

41. 17 U.S.C. § 1201(g) (subject to certain restrictions, this subsection exempts from liability those engaged in “activities necessary to identify and analyze flaws and vulnerabilities of encryption technologies applied to copyrighted works, if these activities are conducted to advance the state of knowledge in the field of encryption technology or to assist in the development of encryption products”).

42. *Id.* § 1201(j) (exempting from liability those who circumvent an access control measure in order to access “a computer, computer system, or computer network, solely for the purpose of good faith testing, investigating, or correcting, a security flaw or vulnerability, with the authorization of the owner or operator of such computer, computer system, or computer network”).

ing to achieve interoperability of computer hardware and software.<sup>43</sup> Two others might be labeled consumer protection exceptions: circumvention for the sole purpose of protecting minors from questionable material on the Internet<sup>44</sup> and circumvention for the sole purpose of preventing the collection or dissemination of personally identifying information.<sup>45</sup> There are further exceptions for libraries<sup>46</sup> and acts of circumvention done in the course of law enforcement activities.<sup>47</sup> Finally, the Act directs the Library of Congress to conduct periodic rulemaking proceedings to address the adverse effects on users of the anti-circumvention provision contained in § 1201(a)(1)(A), but not on either of the anti-trafficking provisions.<sup>48</sup>

## II. THE CASES

These myriad provisions were the subject of two recent decisions by federal courts, *Universal City Studios, Inc. v. Corley*<sup>49</sup> and *United States v. Elcom Ltd.*<sup>50</sup> This Note first explains the facts and particular holdings of each case before discussing the more general issues raised in each, particularly the courts' rejection of defendants' claimed fair use defense and First Amendment challenge to the DMCA.

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43. *Id.* § 1201(f). Reverse engineering, broadly defined as “the process of extracting know-how and knowledge from a human-made artifact,” has long been an accepted practice. Pamela Samuelson & Suzanne Scotchmer, *The Law and Economics of Reverse Engineering*, 111 YALE L.J. 1575, 1577 (2002). Its use in the computer software industry, through decompilation or disassembly of object code, in order to achieve interoperability was found to be a fair use in *Sega Enters. Ltd. v. Accolade, Inc.*, 977 F.2d 1510 (9th Cir. 1992).

44. 17 U.S.C. § 1201(h).

45. *Id.* § 1201(i).

46. *Id.* § 1201(d).

47. *Id.* § 1201(e).

48. *Id.* § 1201(a)(1)(C). Following notice and a period for public comment, the Library of Congress announced the results of the first such rulemaking procedure on October 27, 2000. Exemptions were created for circumvention of access controls to two classes of works: “(1) Compilations consisting of lists of websites blocked by filtering software applications; and (2) Literary works, including computer programs and databases, protected by access control mechanisms that fail to permit access because of malfunction, damage or obsolescence.” See Rulemaking on Exemptions from Prohibition on Circumvention of Technological Measures that Control Access to Copyrighted Works, at <http://www.copyright.gov/1201/anticirc.html> (last visited Feb. 23, 2003).

49. 273 F.3d 429 (2d Cir. 2001).

50. 203 F. Supp. 2d 1111 (N.D. Cal. 2002)

### A. Universal City Studios, Inc. v. Corley

In *Corley*, the Second Circuit affirmed a District Court opinion enjoining defendant Eric Corley and others from posting a decryption program known as DeCSS on any Internet website, and from knowingly linking to other websites on which DeCSS is posted.<sup>51</sup> The court agreed that such conduct violated § 1201(a)(2) of the DMCA, which prohibits trafficking in tools that enable circumvention of *access* controls.<sup>52</sup>

#### 1. Background

In the early 1990s, the major motion picture studios began development of a new technology to allow distribution of movies and other video content to the home market in digital format.<sup>53</sup> The result—the “digital versatile disc,” or DVD—allowed for higher quality audio and video, greater longevity, and other special features not available on the old analog VCR tapes.<sup>54</sup> At the same time, the movie studios worried that the release of the movies in digital format would spur heretofore unseen piracy of motion pictures, because digital files, unlike their analog counterparts, could be copied repeatedly without degradation of quality.<sup>55</sup>

In response, the studios adopted a technological protection standard called Content Scramble System (“CSS”) to protect the contents of DVDs from unauthorized copying.<sup>56</sup> CSS uses an encryption algorithm that scrambles the sound and graphics files contained on DVDs, and thus renders DVDs unwatchable unless played on CSS-compliant DVD players that have the necessary “keys” to decrypt the files.<sup>57</sup> The studios then licensed the technology necessary to make CSS-compliant DVD players to consumer electronics manufacturers on the condition that the players they produce not allow users to copy DVDs or supply the digital output that could be used to copy their content.<sup>58</sup>

In September 1999, a Norwegian teenager named Jon Johansen and two unknown individuals jointly developed a software program called

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51. See *Corley*, 273 F.3d 429; *Universal City Studios, Inc. v. Reimerdes*, 111 F. Supp. 2d 294 (S.D.N.Y. 2000).

52. *Corley*, 273 F.3d at 440 (“Subsection 1201(a)(2) [is] the provision at issue in this case.”).

53. See *id.* at 436.

54. *Id.*

55. *Id.*

56. *Id.*

57. *Corley*, at 436-37.

58. *Id.* at 437. But see *Corley*, *id.* at 438 n.5 (examining defendants’ contention that DVDs may be copied without DeCSS).

DeCSS. The program is capable of decrypting encrypted DVDs, allowing the sound and video files to be played on non-compliant players or copied to a computer hard drive.<sup>59</sup> Johansen posted the code on his personal website and announced its development on an Internet mailing list.<sup>60</sup> Johansen allowed and encouraged dissemination of the program over the Internet and it soon became available on hundreds of websites.<sup>61</sup>

## 2. Procedural History

In January 2000, eight major United States motion picture studios brought suit against Eric Corley and two other website operators for posting the DeCSS program. Corley is the publisher of 2600, a print magazine delivering news of interest to “hackers,”<sup>62</sup> as well as an affiliated website on which he had posted the DeCSS code and links to other websites that did so.<sup>63</sup> Following a brief initial hearing, the district court granted plaintiff’s request for a preliminary injunction barring defendants from posting the DeCSS code.<sup>64</sup> A subsequent motion to expand the scope of the preliminary injunction to bar defendants from linking to the program was consolidated into the trial on the merits.<sup>65</sup>

At trial, the court found that the defendants’ posting of DeCSS on their website was a *prima facie* violation of § 1201(a)(2), the anti-trafficking

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59. *Reimerdes*, 111 F. Supp. 2d at 311. The process of decrypting DVDs using DeCSS is not simple; it requires some time and technical acumen. The result of the process is a large, cumbersome computer file that may be compressed with little loss of quality using a compression utility; this second step takes several hours. *Id.*

60. *Id.* Johansen developed the program by reverse engineering a licensed DVD player and discovering the encryption algorithm and the keys needed to unlock it. *Id.*

61. *Id.* Notwithstanding the Second Circuit’s decision in *Corley*, DeCSS and other next-generation descramblers can still be found, quite easily, by using an Internet search engine. *See, e.g.*, <http://www.google.com/search?hl=en&ie=UTF8&oe=UTF8&q=DeCSS+download> (last visited Feb. 23, 2003).

62. *See Corley*, 273 F.3d at 435 (defining hacker as “a digital-era term often applied to those interested in techniques for circumventing protections of computers and computer data from unauthorized access”). Despite the term’s somewhat negative connotations, the Second Circuit recognized that the “hacker community includes serious computer-science scholars conducting research on protection techniques [and] computer buffs intrigued by the challenge of trying to circumvent access-limiting devices or perhaps hoping to promote security by exposing flaws in protection techniques,” in addition to “mischief-makers” and “thieves . . . who want to acquire copyrighted material . . . without paying for it.” *Id.*

63. *Id.*; *see generally* <http://www.2600.com> (last visited Feb. 23, 2003).

64. *Universal City Studios, Inc. v. Reimerdes*, 82 F. Supp. 2d 211, 227 (S.D.N.Y. 2000).

65. *Universal City Studios, Inc. v. Reimerdes*, 111 F. Supp. 2d 294, 304 n.2 (S.D.N.Y. 2000).

provision relating to access-circumvention tools.<sup>66</sup> It held that CSS, despite its relative technological weakness, “effectively controls access” to plaintiffs’ copyrighted works within the meaning of § 1201(a)(2)(A), and that DeCSS was “created solely for the purpose of decrypting CSS.”<sup>67</sup> The court then rejected out of hand defendants’ contention that their conduct falls under one of three statutory exceptions in the DMCA—circumvention for purposes of reverse engineering,<sup>68</sup> encryption research,<sup>69</sup> and security testing.<sup>70</sup>

Similarly unpersuasive to the court was the defendants’ contention that their conduct be protected under the fair use doctrine<sup>71</sup> or under the First Amendment.<sup>72</sup> Defendants pressed two theories under the First Amendment: either that the DMCA effected an unconstitutional restraint on speech, or that the DMCA is overbroad in denying third parties the circumvention tools they need to make fair use of plaintiffs’ encrypted works.<sup>73</sup> After rejecting defendants’ myriad objections, the district court found that the DMCA as applied to posting and linking did not contravene the First Amendment and issued a permanent injunction barring defendants from posting the DeCSS code on their website and from linking to other websites that do so.<sup>74</sup>

### 3. *The Second Circuit Opinion*

At that point, two of the three defendants dropped out of the litigation, leaving only Eric Corley (and his company, 2600 Enterprises, Inc.) to ap-

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66. *Id.* at 317-19.

67. *Id.* at 316-19. Defendants’ claim that DeCSS was created for the purpose of creating a DVD player compatible with the Linux operating system did not sway the court. The program developers’ ultimate purpose is irrelevant where the program meets any of the three prongs of the standard set out in 17 U.S.C. § 1201(a)(2)(A), (B), or (C). *Id.* at 319 (“The offering or provision of the program is the prohibited conduct—and it is prohibited irrespective of why the program was written . . .”).

68. 17 U.S.C. § 1201(f) (2000).

69. *Id.* § 1201(g)(4).

70. *Id.* § 1201(j).

71. Very generally, the doctrine “limits the exclusive rights of a copyright holder by permitting others to make limited use of portions of the copyrighted work, for appropriate purposes, free of liability for copyright infringement.” *Reimerdes*, 111 F. Supp. 2d at 321. Originally a judicially created doctrine, the fair use defense is now codified at 17 U.S.C. § 107. The fate of the fair use doctrine under the DMCA will be discussed in greater detail in Part II.A.3 *infra*.

72. *Reimerdes*, 111 F. Supp. 2d at 325-36.

73. *Id.* at 325-41. Both arguments will be discussed in greater detail in Part II.A.3.a-f *infra*.

74. *Reimerdes*, 111 F. Supp. 2d at 343-45.

peal his case to the Second Circuit.<sup>75</sup> His appeal relied on two constitutional theories: (1) as applied, the DMCA violates the First Amendment because computer code is speech entitled to First Amendment protection and the DMCA fails to survive the appropriate level of scrutiny, and (2) the DMCA violates both the First Amendment and the Copyright Clause by unduly restricting fair use of copyrighted works.<sup>76</sup> This Note will address each of these theories in turn.

a) Claimed Violation of the First Amendment

The First Amendment provides that “Congress shall make no law . . . abridging the freedom of speech . . . .”<sup>77</sup> Corley argued that the DMCA violates this provision by unduly restricting protected speech—in this case, both the computer program he offered directly through his website and the hyperlinks he offered to other websites that offered DeCSS.<sup>78</sup> Such a constitutional claim requires a multi-step analysis: (1) whether computer programs, in object code or source code, are protected speech under the First Amendment; (2) what level of protection such code enjoys if it does in fact qualify as protected speech; and (3) whether the challenged law is sufficiently narrow to meet the corresponding level of judicial scrutiny.<sup>79</sup>

Despite its seemingly absolute language, the First Amendment has never been interpreted to disallow any restriction on any speech.<sup>80</sup> Certain types of speech—such as speech found to be obscene—are afforded no First Amendment protection whatsoever.<sup>81</sup> Other types of speech may be subject to time, place, or manner restrictions, so long as their regulation is

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75. *Universal City Studios, Inc. v. Corley*, 273 F.3d 429, 434 (2d Cir. 2001).

76. *Id.* at 436. The Second Circuit declined to address a third constitutional challenge: that the DMCA violates the Copyright Clause by empowering copyright owners to use technological measures to “lock up” copyrighted materials in perpetuity, beyond the “limited time” allowed by the Constitution for copyright protection. *Id.* at 445 (citing Brief for Appellants at 42 n.30, *Universal City Studios, Inc. v. Corley*, 273 F.3d 429 (2d Cir. 2001) (No. 00-9185) [hereinafter Brief for Appellants], available at [http://www.eff.org/IP/Video/MPAA\\_DVD\\_cases/20010119\\_ny\\_eff\\_appeal\\_brief.html](http://www.eff.org/IP/Video/MPAA_DVD_cases/20010119_ny_eff_appeal_brief.html) (last visited Feb. 23, 2003)). It did so for two reasons: the claim appeared in only a footnote in appellant’s brief, and the claim was at that point entirely speculative, although both the Circuit Court and the district court acknowledged that it may emerge as a problem in the future. *Id.*

77. U.S. CONST. amend. I.

78. *Corley*, 273 F.3d at 436.

79. *See id.* at 445-58.

80. *See, e.g., R.A.V. v. City of St. Paul, Minn.*, 505 U.S. 377, 399 (1992) (White, J., concurring) (“[T]his Court has long held certain discrete categories of expression to be proscribable on the basis of their content.”).

81. *Id.*

content-neutral.<sup>82</sup> Content-based regulation of speech—that which “distinguish[es] favored speech from disfavored speech on the basis of the ideas or views expressed”<sup>83</sup>—is presumptively invalid.<sup>84</sup> In order to be upheld, such laws must be enacted to effect a compelling state government interest and do so by “the least restrictive means.”<sup>85</sup> On the other hand, regulations deemed content-neutral, with only an incidental effect on speech, are judged under a less exacting standard.<sup>86</sup> Such regulations must serve an “important or substantial government interest” unrelated to the suppression of free expression and must not burden substantially more speech than necessary to further that interest.<sup>87</sup> In light of the markedly different standards applied to different types of regulations, how a court conceives of a particular restriction has a tremendous effect on whether it is upheld.

Following the lead of many other jurisdictions,<sup>88</sup> the court in *Corley* held that computer code and the resultant software programs merit First Amendment protection so long as they convey information.<sup>89</sup> In doing so, the Second Circuit distinguished its previous decision in *Commodity Futures Trading Commission v. Vartuli*.<sup>90</sup> Defendants there sold software that told users when to buy or sell currency futures contracts.<sup>91</sup> The court held that such activities did not merit First Amendment protection because “as marketed, *i.e.*, as an automatic trading system,”<sup>92</sup> the cues generated by the program did not convey information but rather were intended “to be used in an entirely mechanical way.”<sup>93</sup> DeCSS, on the other hand, serves a potentially valuable communicative function: high-level computer programmers may read and understand object code.<sup>94</sup> The source code of

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82. *Id.* at 386.

83. *Turner Broad. Sys., Inc. v. FCC*, 512 U.S. 622, 643 (1994).

84. *R.A.V.*, 505 U.S. at 382.

85. *See, e.g.*, *Sable Communications of Cal., Inc. v. FCC*, 492 U.S. 115, 126 (1989).

86. *Turner*, 512 U.S. at 642 (“[R]egulations that are unrelated to the content of speech are subject to an intermediate level of scrutiny because in most cases they pose a less substantial risk of excising certain ideas or viewpoints from the public dialogue.”) (internal citations omitted).

87. *Id.* at 662 (citing *United States v. O’Brien*, 391 U.S. 367, 377 (1968); *Ward v. Rock Against Racism*, 491 U.S. 781, 799 (1989)).

88. *See, e.g.*, *Junger v. Dailey*, 209 F.3d 481, 484 (6th Cir. 2000); *Karn v. U.S. Dept. of State*, 925 F. Supp. 1, 9-10 (D.D.C. 1996); *Bernstein v. U.S. Dep’t. of State*, 922 F. Supp. 1426, 1434-36 (N.D. Cal. 1996).

89. *Universal City Studios, Inc. v. Corley*, 273 F.3d 429, 447 (2d Cir. 2001).

90. *Id.* at 448-49. 228 F.3d 94 (2d Cir. 2000); *see Corley*, 273 F.3d at 448-49.

91. *Corley*, 273 F.3d at 448.

92. *Id.* at 449 (internal quotation marks omitted).

93. *Vartuli*, 228 F.3d at 111.

94. *Corley*, 273 F.3d at 446.

computer programs (whether written in C, Perl, or other programming languages) may be understood readily by a much larger population.<sup>95</sup> As noted by the court in *Corley*, such an exchange is valuable and not uncommon: “A programmer reading a program learns information about instructing a computer, and might use this information to improve personal programming skills and perhaps the craft of programming. Moreover, programmers communicating ideas to one another almost inevitably communicate in code.”<sup>96</sup> In this way, computer programs and code serve the goal of scientific progress, a goal at the heart of the First Amendment. That computer code to the layman is indecipherable and conveys nothing does not create a serious obstacle to First Amendment protection.<sup>97</sup>

Such an inclusive approach is entirely consistent with First Amendment jurisprudence. Though minimalists may make the case for a more narrow definition of “speech,”<sup>98</sup> the court noted that the historical approach has been much more generous in defining the limits of protected speech.<sup>99</sup> “Even dry information, devoid of advocacy, political relevance, or artistic expression, has been accorded First Amendment protection.”<sup>100</sup> The Supreme Court itself has interpreted the First Amendment to encompass “[a]ll ideas having the slightest redeeming social importance” and particularly those supporting the “advancement of truth, science, morality, and arts in general.”<sup>101</sup>

Having concluded that computer code merits at least some First Amendment protection, the Second Circuit asked whether the DMCA is a content-specific regulation of speech and thus subject to strict judicial scrutiny, or a content-neutral regulation subject to the lesser standard of intermediate scrutiny. The court’s analysis was guided by recent Supreme Court decisions outlining the distinction: “[G]overnment regulation of expressive activity is ‘content neutral’ if it is justified without reference to the content of regulated speech....The government’s purpose is the controlling consideration. A regulation that serves purposes unrelated to the

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95. *Id.*

96. *Id.* at 448.

97. *See id.* at 445-46.

98. *See, e.g.,* Robert Bork, *Neutral Principles and Some First Amendment Problems*, 47 IND. L.J. 1 (1971) (arguing that First Amendment protection should be limited to political speech).

99. *Corley*, 273 F.3d at 446.

100. *Id.*

101. *Roth v. United States*, 354 U.S. 476, 484 (1957) (internal quotation marks omitted). *See also* *Miller v. California*, 413 U.S. 15, 34 (1973) (including within the scope of the First Amendment “works which, taken as a whole, have serious literary, artistic, political or scientific value”).

content of the expression is deemed neutral, even if it has an incidental effect on some speakers.”<sup>102</sup>

The Second Circuit then noted that computer code such as DeCSS has both a speech element (conveying information and expression to other computer programmers) and a non-speech, functional element (in this case, allowing circumvention of CSS).<sup>103</sup> It is the latter element that the government sought to regulate; the DMCA is not interested in the particular ways software developers choose to express themselves in developing circumvention tools.<sup>104</sup> The court in *Corley* compared DeCSS to a skeleton key bearing a legend or slogan and able to unlock jail cells; a restriction on the dissemination of such a tool would be content-neutral because the intent is not to suppress the content of the expression but rather to safeguard a legitimate government interest.<sup>105</sup> The incidental effect on speech in such situations is tolerable if the regulation “furthers an important or substantial government interest; if the governmental interest is unrelated to the suppression of free expression; and if the incidental restriction on alleged First Amendment freedoms is no greater than is essential to the furtherance of that interest.”<sup>106</sup>

Of course, code by itself is just a series of characters; without human intervention, it can achieve no function. On those grounds, defendants urged that code—a series of instructions to a computer—should be treated no differently than a recipe or a set of blueprints, which merit full First Amendment protection.<sup>107</sup> In responding to this argument, the Second Circuit took its cue from a Supreme Court decision suggesting that “differences in the characteristics of new media justify differences in the First Amendment standards applied to them.”<sup>108</sup> Quoting at length Judge Kaplan’s decision in the district court, the Second Circuit held that in an interconnected digital world “the causal link between the dissemination of circumvention computer programs and their improper use is more than suffi-

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102. *Corley*, 273 F.3d at 450 (citing *Hill v. Colorado*, 530 U.S. 703, 720 (2000); *Ward v. Rock Against Racism*, 491 U.S. 781, 791 (1989)) (internal quotation marks omitted).

103. *Corley*, 273 F.3d at 454.

104. *Id.*

105. *Id.*; see also *Universal City Studios, Inc. v. Reimerdes*, 111 F. Supp. 2d 294, 329 (S.D.N.Y. 2000) (analogizing DMCA to a law prohibiting the possession of burglary tools).

106. *Reimerdes*, 111 F. Supp. 2d at 329-30 (internal quotations and citations omitted).

107. *Corley*, 273 F.3d at 451 (citing Brief for Appellants, *supra* note 76, at 2, 3).

108. *Corley*, 273 F.3d at 453 (citing *Red Lion Broadcasting Co. v. FCC*, 395 U.S. 367, 386 (1969) (internal quotation marks omitted)).

ciently close to warrant...scrutiny based on the programs' functionality."<sup>109</sup> In other words, the relationship between computer code and the function to which it may be put to use are so closely related as to be indistinguishable.

Regulations on speech subject to intermediate scrutiny must serve a substantial government interest, that interest must be unrelated to the suppression of free expression, and the incidental regulation on speech must be no more than necessary to further that interest (the "narrowly tailored" requirement).<sup>110</sup> The Second Circuit found that the DMCA met these conditions and thus survives any First Amendment challenge, at least as applied to the *posting* of DeCSS.<sup>111</sup>

First, the court affirmed in conclusory fashion the district court's determination that the DMCA served a substantial government interest—"preventing unauthorized access to encrypted copyrighted material."<sup>112</sup> Next the court held, in an equally conclusory manner, that the government interest was unrelated to the suppression of free expression.<sup>113</sup> Revisiting its content-neutral/content-specific analysis, the court noted that "[t]he injunction regulates the posting of DeCSS, regardless of whether DeCSS code contains any information comprehensible by human beings that would qualify as speech."<sup>114</sup> Finally, the court addressed whether the DMCA burdens substantially more speech than is necessary to further the government's interest. Defendants had suggested two alternative means by which Congress could have served its interest in preventing unauthorized access to copyrighted material without prohibiting the dissemination of circumvention tools like DeCSS: requiring more technical protections against serial copying like those mandated for digital audio tape (DAT) recorders in the Audio Home Recording Act of 1992 (AHRA),<sup>115</sup> or simply creating civil and criminal liability for acts of unauthorized access (as it did).<sup>116</sup> The court rejected the former by noting that defendants had

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109. *Corley*, 273 F.3d at 452 (quoting *Reimerdes*, 111 F. Supp. 2d at 331-32). Two recent law review articles discussing code as speech informed the court's discussion. See Robert Post, *Encryption Source Code and the First Amendment*, 15 BERKELEY TECH L.J. 713 (2000); Lee Tien, *Publishing Software as a Speech Act*, 15 BERKELEY TECH L.J. 629 (2000).

110. *Corley*, 273 F.3d at 454.

111. *Id.* at 454-55.

112. *Id.* at 454; see also *Reimerdes*, 111 F. Supp. 2d at 330.

113. *Corley*, 273 F.3d at 454.

114. *Id.*

115. Pub. L. No. 102-563, 106 Stat. 4242 (codified at 17 U.S.C. §§ 1001-1010 (1994)).

116. *Corley*, 273 F.3d at 455.

failed to produce evidence that a technological measure to prevent serial copying of DVDs over the Internet was feasible and rejected the latter by noting that a content-neutral regulation need not employ the *least* restrictive means of furthering the government's legitimate interest.<sup>117</sup>

In addition to enjoining defendants from posting the DeCSS program on their website directly, the injunction issued by the district court also prohibited defendants from knowingly providing hyperlinks to other websites that posted the program.<sup>118</sup> Such a restriction creates special First Amendment problems, as both the district court and Second Circuit acknowledged.<sup>119</sup> Like computer code, hyperlinks both convey information (the Internet address of the linked website) and serve a function (to allow the user to access the content of the linked website).<sup>120</sup> Application of the DMCA to hyperlinks in this case targets only their function—facilitating the dissemination of DeCSS—and thus is content-neutral under the analyses of both courts.<sup>121</sup> Under this framework, the substantial government interest at stake and its unrelatedness to the suppression of free expression remain the same as for hyperlinking as for posting DeCSS.<sup>122</sup>

What proved more troubling to both courts, however, was whether the prohibition on linking is sufficiently narrowly tailored to withstand intermediate scrutiny.<sup>123</sup> The district court had noted that strict liability for linking might be unconstitutionally overbroad.<sup>124</sup> Website operators might be less willing to provide links to other sites out of concern that a linked

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117. *Id.*

118. *Reimerdes*, 111 F. Supp. 2d at 339-41; see *Corley*, 273 F.3d at 455 (“A hyperlink is a cross-reference . . . appearing on one web page that, when activated by the point-and-click of a mouse, brings onto the computer screen another web page . . . . With a hyperlink on a web page, the linked web site is just one click away.”). For a more detailed explanation of hyperlinking, see Eugene R. Quinn, Jr., *Web Surfing 101: The Evolving Law of Hyperlinking*, 2 BARRY L. REV. 37, 43-47 (2001). Curiously, Judge Newman’s opinion for the Second Circuit suggests that the injunction on linking does not enjoin defendants from providing an “indirect link”—simply posting the Internet address (URL) of other websites that contain DeCSS and forcing web users who wish to access this content to copy and paste this address in the URL locator. “[I]t is evident from the District Court’s opinion that it is concerned with ‘hyperlinks[]’ . . . . ‘Linking’ *not* accomplished by a hyperlink would simply involve the posting of the Internet address . . . of another web page.” *Corley*, 273 F.3d at 455, 455 n.31 (emphasis added).

119. *Corley*, 273 F.3d at 456; *Reimerdes*, 111 F. Supp. 2d at 340 (“The possible chilling effect of a rule permitting liability for or injunctions against Internet hyperlinks is a genuine concern.”).

120. *Corley*, 273 F.3d at 456.

121. *Id.* at 455-56; *Reimerdes*, 111 F. Supp. 2d at 339.

122. *Corley*, 273 F.3d at 456.

123. *Id.*; *Reimerdes*, 111 F. Supp. 2d at 340-41.

124. *Reimerdes*, 111 F. Supp. 2d at 341.

page may contain the forbidden code.<sup>125</sup> Furthermore, a prohibition on linking would “curtail access to whatever other information was contained at the accessed site.”<sup>126</sup> In response to these concerns, Judge Kaplan crafted a three-part test to determine liability for linking under the DMCA: plaintiffs must prove by clear and convincing evidence that those responsible for the link “(a) know at the relevant time that the offending material is on the linked site, (b) know that the circumvention technology may not lawfully be offered, and (c) create or maintain the link for the purpose of disseminating that technology.”<sup>127</sup> The court then held that defendants’ behavior satisfied these requirements.<sup>128</sup>

The Second Circuit approved of Kaplan’s test, though with some trepidation.<sup>129</sup> The court rejected defendants’ arguments that the test should include an “intent to cause, or aid or abet, harm” requirement, and that the rules generally applicable to print media should apply to hyperlinks as well, citing again the functional capability of the DeCSS code and the instantaneous worldwide access to online materials.<sup>130</sup> In the opinion of the Second Circuit, courts in this situation are forced “to choose between two unattractive alternatives: either tolerate some impairment of communication in order to permit Congress to prohibit decryption that may lawfully be prevented, or tolerate some decryption in order to avoid some impairment of communication.”<sup>131</sup> Satisfied that the “impairment of communication” in this case was not unconstitutionally overbroad, the court left the public policy implications of this choice for Congress to address.<sup>132</sup>

#### b) Restrictions on Fair Use as a Basis for Constitutional Challenge

The Second Circuit also ruled against Corley on his second constitutional challenge: that the DMCA, by prohibiting the dissemination of circumvention tools, unduly restricts fair use of encrypted copyrighted

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125. *Id.*

126. *Corley*, 273 F.3d at 456 (citing *Reimerdes*, 111 F. Supp. 2d at 340).

127. *Reimerdes*, 111 F. Supp. 2d at 341. Judge Kaplan adapted his test from the three-part test fashioned by the Supreme Court to protect news sources from the possible chilling effects of defamation law. *See id.* at 340-41; *see generally* *New York Times Co. v. Sullivan*, 376 U.S. 254 (1964).

128. *Reimerdes*, 111 F. Supp. 2d at 341.

129. *Corley*, 273 F.3d at 456-58.

130. *Id.* at 456.

131. *Id.* at 457-58.

132. *Id.* at 458.

works, in violation of both the Copyright Clause and the First Amendment.<sup>133</sup>

Citing mixed precedent, the Second Circuit began its analysis by noting that the Supreme Court has never held that fair use is a constitutional requirement.<sup>134</sup> The court declined, however, to explore fully the issue in this case for three reasons: (1) defendants in this case do not claim to be making fair use of any copyrighted material and are not in a position to challenge the DMCA on behalf of would-be fair users stymied by the Act, (2) the record contained insufficient evidence to gauge the impact of the DMCA on people wishing to make fair use of copyrighted material on DVDs, and (3) defendants failed to provide any authority for their contention that the fair use doctrine required users to be able to make copies of works in an identical (i.e., digital) format.<sup>135</sup> The court notes that many traditional fair uses, such as commenting on the copyrighted works or quoting excerpts, are in no way affected by the DMCA; where users wish to make fair use of the audio or video contained on a DVD, they may still “point[] a camera, a camcorder, or a microphone at a monitor as it displays the DVD movie.”<sup>136</sup> This is not necessarily inconsistent with fair use, which “has never been held to be a guarantee of access...by the fair user’s preferred technique or in the format of the original.”<sup>137</sup> With that statement, the Second Circuit concluded its analysis, saving a more in-depth discussion for a later day.<sup>138</sup>

#### **B. United States v. Elcom Ltd.**

The content industries and other proponents of the DMCA scored a major victory when the Second Circuit rejected Corley’s constitutional challenges to the Act.<sup>139</sup> A second victory soon followed in *United States*

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133. *Id.* (citing Brief for Appellants, *supra* note 76, at 42).

134. *Corley*, 273 F.3d at 458.

135. *Id.* at 459.

136. *Id.*

137. *Id.*

138. The Second Circuit fully anticipated that a constitutional challenge to the DMCA by fair users would be forthcoming. *See Associated Press, Federal Appeals Panel Takes Up DVD-Copying Software Case*, May 2, 2001, available at <http://www.freedomforum.org/templates/document.asp?documentID=13826> (last visited Feb. 23, 2003) (“There’s nothing in the record to suggest they are fair users . . . . That’s the next case.”) (quoting Panel Judge Jose Cabranes).

139. Most news coverage of the Second Circuit’s decision called it a clear victory for the motion picture industry. *See, e.g., Ron Harris, Free Speech, or Free Ride?*, CBSNEWS.COM (Nov. 29, 2001), available at <http://www.cbsnews.com/stories/2001/11/29/tech/printable319462.shtml>.

*v. Elcom Ltd.*,<sup>140</sup> when a district court denied a software company's motion to dismiss on constitutional and due process grounds the criminal indictments brought against it under the DMCA's anti-trafficking provisions.<sup>141</sup>

### 1. Background

Adobe Systems is a software company that developed the Acrobat eBook Reader, the now-standard technology for reading books in digital format ("electronic books," or "ebooks").<sup>142</sup> Adobe's technology allows publishers of electronic books to impose a variety of limitations on the use of their product by consumers, including restrictions on copying, printing to paper, moving the ebook file to multiple computers, and inputting the file into a speech synthesizer program.<sup>143</sup>

Defendant Elcom Ltd. ("Elcomsoft"), a privately owned software company headquartered in Moscow, develops and distributes various utility applications internationally.<sup>144</sup> One of its products is the Advanced eBook Processor ("AEBPR"), a software program that allows users to remove the use restrictions on Adobe Acrobat PDF and ebook-formatted files.<sup>145</sup> The resulting file—in so-called "naked PDF" format—may then be copied, printed, distributed electronically, and generally used at will.<sup>146</sup> As the court noted, this enables both various fair uses of the ebooks, such as allowing the lawful owner to make a backup copy, and potentially massive copyright infringement.<sup>147</sup> At Adobe's urging, the United States issued a criminal indictment against Elcomsoft and one of its employees, Dmitry Sklyarov, on July 7, 2001.<sup>148</sup> In relevant part, the complaint al-

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140. 203 F. Supp. 2d 1111 (N.D. Cal. 2002).

141. On December 10, 2002, a jury found Elcomsoft not guilty on all charges. See Howard Mintz, *Russian Firm Acquitted in Digital Copyright Case*, SAN JOSE MERCURY NEWS, Dec. 17, 2002, available <http://www.siliconvalley.com/mld/siliconvalley/4762260.htm?template=contentModules/printstory.jsp>.

142. *Elcom*, F. Supp. 2d at 1118.

143. *Id.* A speech synthesizer program, which "translates" written words into voice, allows the visually handicapped to "read" digital text. See <http://polio.dyndns.org/chip/vss.html> for a list of currently available speech synthesizer programs (last visited Feb. 23, 2003).

144. See <http://www.elcomsoft.com/company.html> (last visited Nov. 24, 2002).

145. *Elcom*, 203 F. Supp. 2d at 1118. See also *Elcomsoft.com: Products/Password Recovery Software*, at <http://www.elcomsoft.com/apdfpr.html> (last visited Nov. 24, 2002).

146. *Elcom*, 203 F. Supp. 2d at 1118-19.

147. *Id.* at 1118-19.

148. See Criminal Complaint, United States v. Sklyarov, No. 5 01 257 (July 7, 2001), available at [http://www.eff.org/IP/DMCA/US\\_v\\_Elcomsoft/20010707\\_complaint.pdf](http://www.eff.org/IP/DMCA/US_v_Elcomsoft/20010707_complaint.pdf).

leged that the company's conduct violated the DMCA's anti-trafficking provisions pertaining to tools "primarily designed" or "marketed" to circumvent *use* controls.<sup>149</sup> On January 29, 2002, defendant moved to dismiss the charges on constitutional grounds.<sup>150</sup>

## 2. Claimed Violation of Due Process

Elcomsoft first alleged that § 1201(b) violates the Due Process Clause of the Fifth Amendment because the conduct it prohibits is not clearly defined.<sup>151</sup> Specifically, Elcomsoft argued that despite the broad language of § 1201(b)(1) ("any technology, product, service, device, component, or part thereof"<sup>152</sup>), Congress intended only to ban dissemination of tools "that are intended to circumvent usage control technologies for the purpose of copyright infringement."<sup>153</sup> Such an interpretation, if accurate, would lead to "inherent vagueness . . . . [T]he language of the statute renders it impossible to determine which tools it in fact bans."<sup>154</sup> To support its interpretation of the statute, Elcomsoft cited legislative history and statutory language evincing Congressional intent to allow users to circumvent *use* controls in order to make fair use of the copyrighted material contained therein.<sup>155</sup> By its terms, the DMCA did not prohibit circumvention of use controls, ostensibly to allow fair use.<sup>156</sup> Therefore, Elcomsoft ar-

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Sklyarov was arrested when he entered the United States to present a talk on ebook encryption methods and jailed for three weeks before his release on \$500,000 bail. Charges against him were dropped in December 2001 on condition that he testify against his employer Elcomsoft in the ongoing case against the company. See Robyn Weisman, *U.S. Frees Russian Programmer*, NEWSFACTOR NETWORK (Dec. 14, 2001), at <http://www.newsfactor.com/perl/story/15322.html>.

149. *Elcom*, 203 F. Supp. 2d at 1120 (citing 17 U.S.C. § 1201(a)(2)(A), (C)).

150. See Motion to Dismiss Indictment for Violation of Due Process, *United States v. Elcom Ltd.*, 203 F. Supp. 2d 1111 (N.D. Cal. 2002) (No. CR 01-20138), available at [http://www.eff.org/IP/DMCA/US\\_v\\_Elcomsoft/20020129\\_elcom\\_dismiss\\_motion.html](http://www.eff.org/IP/DMCA/US_v_Elcomsoft/20020129_elcom_dismiss_motion.html) (last visited Feb. 23, 2003).

151. *Elcom*, 203 F. Supp. 2d at 1122. See also U.S. CONST. amend. V ("No person shall be . . . deprived of life, liberty, or property without due process of law."). A statute may be invalidated for vagueness under either one of two conditions: (1) it fails to provide adequate notice of prohibited conduct to people of ordinary intelligence, or (2) it authorizes or encourages "arbitrary and discriminatory enforcement." *Elcom*, 203 F. Supp. 2d at 1122 (citations omitted).

152. 17 U.S.C. § 1201(b)(1) (2000) (emphasis added).

153. *Elcom*, 203 F. Supp. 2d at 1122 (emphasis added).

154. *Elcom*, 203 F. Supp. 2d at 1123 (citing Due Process Motion at 15).

155. *Elcom*, 203 F. Supp. 2d at 1122 (citing Due Process Motion at 14).

156. *Elcom*, 203 F. Supp. 2d at 1122; see also *supra* Part I.A.1.

gued, it did not prohibit dissemination of tools that circumvent use controls and enable fair use.<sup>157</sup>

The district court agreed with the first premise but disagreed with the second: the statute had in fact banned the dissemination of all circumvention tools, whether or not they enabled fair use.<sup>158</sup> The court began with the proposition that where the language of the statute is clear, courts need not consider legislative history to ascertain its meaning.<sup>159</sup> The court found no ambiguity in any of the various phrases and subsections of § 1201(b) and nothing within the express language to suggest that some use control circumvention tools might be exempted from its prohibition.<sup>160</sup> “The statute does not distinguish between devices based on the uses to which the device will be put. Instead, all tools that enable circumvention of use restrictions are banned.”<sup>161</sup> Even though its statutory analysis did not require it, the court also pointed to statements within the legislative history to support its position that Congress intended to ban all circumvention technologies while still preserving the right of fair use.<sup>162</sup> The court’s rejection of Elcomsoft’s interpretation of the statute led directly to rejection of its Due Process claim: a blanket ban on dissemination of tools expressed in unambiguous language cannot be struck down for vagueness.<sup>163</sup>

### 3. *Claimed Violation of the First Amendment*

As in *Corley*, defendant Elcom claimed its conduct was protected under the First Amendment and that as applied the DMCA was unconstitutional.<sup>164</sup> *Elcom*, however, raised a different threshold question: while the

157. *Elcom*, 203 F. Supp. 2d at 1122.

158. *Id.* at 1120, 1123-24. The court noted that “[n]othing within the express language would permit trafficking in devices designed to bypass use restrictions in order to enable a fair use, as opposed to an infringing use.” *Id.* at 1124.

159. *Id.* at 1123 (citing *Recording Indus. Ass’n of Am. v. Diamond Multimedia Sys., Inc.*, 180 F.3d 1072, 1076 (9th Cir. 1999)). *See also* *United States v. Gonzalez*, 520 U.S. 1, 6 (1997) (“Given [a] straightforward statutory command, there is no reason to resort to legislative history.”). For a thoughtful discussion of various approaches to statutory interpretation, see William N. Eskridge, Jr. & Philip P. Frickey, *Statutory Interpretation as Practical Reasoning*, 42 STAN. L. REV. 321 (1990).

160. *Elcom*, 203 F. Supp. 2d at 1124.

161. *Id.*

162. *Id.* at 1124-25 (citing S. REP. 105-190, at 8 (1998)). The court recognized, but was unswayed by, the fact that its interpretation means “engaging in certain fair uses of digital works may be made more difficult if tools to circumvent use restrictions cannot be readily obtained.” *Id.* at 1125.

163. *Id.* at 1125 (“The law, as written, allows a person to conform his or her conduct to a comprehensible standard and is thus not unconstitutionally vague.”).

164. *Elcom*, 203 F. Supp. 2d at 1125.

defendants in *Corley* freely distributed the DeCSS code, Elcomsoft sold its software through its website.<sup>165</sup> The government argued that Elcomsoft's conduct—sale of AEBPR—was not speech.<sup>166</sup> The district court, however, held that the First Amendment applied in this case: “scrutiny is triggered because the statute bans the sale of something that at some level contains protected expression.”<sup>167</sup>

Quoting Judge Kaplan's decision in *Reimerdes* at length, the district court next held that computer code does indeed contain protected expression for First Amendment purposes.<sup>168</sup> In only slightly different terms, the *Elcom* court also agreed with Judge Kaplan in *Reimerdes* and the Second Circuit in *Corley* that the DMCA is a content-neutral regulation.<sup>169</sup> The court reasoned that neither the express language nor the legislative history of the Act evince any intent by Congress to regulate speech.<sup>170</sup> Rather, Congress sought to ban technologies, including computer code, that may impinge on the rights of copyright holders—in short, only the functional capabilities of such technologies.<sup>171</sup> The court also noted the dangers of applying a greater level of scrutiny to computer code: continuing development of computer technologies may allow software and other forms of code to enable acts Congress should be free to regulate or prohibit.<sup>172</sup> “[M]ore and more conduct occurs through ‘speech’...implemented through the use of computer code when the object code commands computers to perform certain functions . . . . The mere fact that this conduct occurs at some level through expression does not elevate all such conduct to the highest levels of First Amendment protection.”<sup>173</sup>

Applying intermediate scrutiny, the district court noted that the claimed government interests—preventing the unauthorized copying of copyrighted works and promotion of electronic commerce—were both legitimate and substantial.<sup>174</sup> As in *Corley*, the defendants argued that the DMCA burdens substantially more speech than is necessary to effect the

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165. Elcomsoft also allowed users to download a free trial version of its software with limited functionality. See *Elcomsoft.com: Products/Password Recovery Software*, at <http://www.elcomsoft.com/apdfpr.html> (last visited Feb. 23, 2003).

166. *Elcom*, 203 F. Supp. 2d at 1126.

167. *Id.* (noting that “the government could not ban the sale of newspapers without implicating the First Amendment, even if newspapers themselves were not banned”).

168. *Id.* (citing *Reimerdes*, 111 F. Supp. 2d at 326-27).

169. *Elcom*, 203 F. Supp. 2d at 1127-29.

170. *Id.* at 1128-29.

171. *Id.* at 1128.

172. *Id.*

173. *Id.*

174. *Id.* at 1129-30.

government's interests, and suggest two more narrowly tailored approaches to reach the same outcome: increasing the penalties for direct infringement or criminalizing the use of the Internet to distribute infringing copies.<sup>175</sup> Further, Elcomsoft argued that by "effectively eliminat[ing] fair use, limit[ing] noninfringing uses and prevent[ing] access to material in the public domain," the DMCA's prohibitions are not narrowly tailored at all, but rather implicate a broad range of noninfringing uses, many of which would qualify as speech themselves.<sup>176</sup>

Neither argument persuaded the court. In rejecting Elcomsoft's suggested alternatives, the court noted that neither would likely be as effective in combating piracy of "epidemic proportions" as the path Congress ultimately chose: to target those who traffic in the tools that enable such infringement in the first place.<sup>177</sup> Intermediate scrutiny does not require Congress to choose the least restrictive means of achieving its purpose.<sup>178</sup> The court also disagreed with Elcomsoft's overbreadth claims. First, it found Elcomsoft's claim that the DMCA "effectively eliminates" fair use to be grossly exaggerated; no fair use had in fact been eliminated, although some fair uses might become more difficult.<sup>179</sup> In the case of ebooks, for example, quoting for purposes of criticism or comparison "may have to occur in the old-fashioned way, by hand or by re-typing, rather than by 'cutting and pasting' from existing digital media."<sup>180</sup> Neither Elcomsoft nor the court found authority for the proposition that fair users are entitled to use the most convenient means to their end.<sup>181</sup> Second, the court rejected Elcomsoft's argument that the DMCA unduly restricted access to public domain works.<sup>182</sup> As the court noted, public domain works in electronic format remain in the public domain even when subjected to use restrictions; publishers of electronic copies of public domain works can claim no intellectual property right in the content of the ebook, only control over that particular copy.<sup>183</sup> Other book publishers, electronic

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175. *Id.* at 1130 (quoting First Amendment Motion at 12).

176. *Elcom*, 203 F. Supp. 2d at 1130 (quoting First Amendment Motion at 12).

177. *Elcom*, 203 F. Supp. 2d at 1132.

178. *Id.* (citing *United States v. O'Brien*, 391 U.S. 367 (1968)).

179. *Elcom*, 203 F. Supp. 2d at 1130-31.

180. *Id.* at 1131.

181. *Id.* (citing *Universal City Studios, Inc. v. Corley*, 273 F.3d 429, 459 ("We know of no authority for the proposition that fair use . . . guarantees copying by the optimum method . . .")).

182. *Elcom*, 203 F. Supp. 2d at 1131.

183. *Id.* at 1131-32.

or traditional, may publish freely their own versions, with or without such protections.<sup>184</sup>

#### 4. *Other First Amendment Challenges and Remaining Constitutional Claims*

After concluding that the DMCA as applied to Elcom survived intermediate scrutiny, the court rejected the company's remaining constitutional challenges: (1) that the DMCA substantially burdens the First Amendment rights of others and thus is unconstitutionally overbroad on its face, (2) that the DMCA is unconstitutionally vague under the First Amendment, and (3) that Congress lacked the authority to enact the DMCA.<sup>185</sup> Each argument will be discussed in turn.

Elcomsoft argued that the DMCA compromises the First Amendment rights of third parties in two ways: (1) by limiting third parties' rights to access public domain works, and (2) by limiting their right to make fair use of copyrighted works.<sup>186</sup> In the first instance, the district court doubted that a facial challenge on overbreadth grounds could be applied in the present case.<sup>187</sup> According to Ninth Circuit precedent, a facial challenge is only appropriate where the statute or regulation is directed "narrowly and specifically at expression or conduct commonly associated with expression."<sup>188</sup> The court held that the DMCA's anti-trafficking provisions, which target hardware, software, or any other technologies or devices that enable circumvention, are not sufficiently directed at expression or expressive conduct to allow a facial overbreadth challenge.<sup>189</sup> Regardless, the court found that the claimed harms to third parties were largely illusory. The DMCA did not limit fair use rights or extend intellectual property protection to public domain works.<sup>190</sup> It was the court's view that Elcomsoft's reliance on two judicially accepted fair uses—the right to make an electronic copy of a work for personal use and the right to make an archival copy of electronic media—was misplaced; both rights stemmed from specific statutory sources, not from the First Amendment.<sup>191</sup>

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184. *Id.*

185. *Elcom*, 203 F. Supp. 2d at 1132-42.

186. *Id.* at 1132-33.

187. *Id.* at 1133.

188. *Id.* (citing *Roulette v. City of Seattle*, 97 F.3d 300, 303, 305 (9th Cir. 1996)) (internal quotation marks omitted).

189. *Elcom*, 203 F. Supp. 2d at 1133..

190. *Id.* at 1134.

191. *Id.* at 1135 (citing *Recording Industry Association of America v. Diamond Multimedia Systems*, 180 F.3d 1072 (9th Cir. 1999); *Vault Corp. v. Quaid Software Ltd.*, 847 F.2d 255 (5th Cir. 1988)).

Elcomsoft next charged that the DMCA is unconstitutionally vague under the First Amendment in that “it provokes uncertainty among speakers about precisely what speech is prohibited.”<sup>192</sup> Elcomsoft points to two phrases in particular: its prohibition on devices that are “primarily designed” for the purpose of circumventing access controls or have only “a limited commercially significant purpose” other than such circumvention.<sup>193</sup> Such language, Elcomsoft argued, forced sellers of circumvention tools to undergo a necessarily imprecise assessment of all possible uses of the technology and to determine its primary design and significant purpose.<sup>194</sup> The court rejected this argument, citing adverse Supreme Court precedent upholding a similarly worded statute.<sup>195</sup>

Finally, Elcomsoft claimed that the DMCA was unconstitutional because Congress exceeded its enumerated powers when it passed the DMCA.<sup>196</sup> The two enumerated powers implicated in the present case are the Commerce Clause—a broad power enabling Congress to regulate interstate commerce<sup>197</sup>—and the Intellectual Property Clause—a similarly broad power “to promote the Progress of Science and the useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.”<sup>198</sup> As the court noted, the DMCA prohibits conduct that has a substantial effect on commerce between the states and internationally and thus its enactment is entirely consistent with the Commerce Clause.<sup>199</sup> A more difficult question is whether the DMCA exceeds Congress’ power under the Intellectual Property Clause, and if so, whether that invalidates Congress’ power under the Commerce Clause?

The district court, however, never reached the second question, holding instead that the DMCA is not inconsistent with the Intellectual Prop-

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192. *Elcom*, 203 F. Supp. 2d at 1135 (quoting *Reno v ACLU*, 521 U.S. 844, 871 (1997)) (internal quotation marks omitted).

193. *Elcom*, 203 F. Supp. 2d at 1135-36; *see also* 17 U.S.C. §§ 1201(a)(2)(A), (B); 1201(b)(1)(A), (B).

194. *Elcom*, 203 F. Supp. 2d at 1136.

195. *Id.* at 1137 (citing *Village of Hoffman Estates, v. The Flipside*, 455 U.S. 489 (1982) (rejecting vagueness challenge to statute outlawing paraphernalia “designed for” and “marketed primarily for use” with drugs); *Posters ‘N’ Things, Ltd. v. United States*, 511 U.S. 513 (1994) (upholding validity of statute outlawing paraphernalia “primarily intended . . . for use” with drugs)).

196. *Elcom*, 203 F. Supp. 2d at 1137.

197. U.S. CONST. art. I, § 8 cl. 3.

198. U.S. CONST. art. I, § 8, cl. 8.

199. *Elcom*, 203 F. Supp. 2d at 1138.

erty clause.<sup>200</sup> Congress' intent, clear from the legislative history, was to promote the progress of the arts and sciences through greater protection of intellectual property rights.<sup>201</sup> Without such protection, content providers would be hesitant to release works in digital formats.<sup>202</sup> Nor does, in the court's opinion, the DMCA violate the limitation on this Congressional power ("for limited Times").<sup>203</sup> In support of this proposition, Elcomsoft and various *amici* claimed the Act allowed publishers to "recapture" works from the public domain and effectively secure perpetual copyrights in new works. These arguments, however, had already been rejected by the district court elsewhere, and they were not persuasive in this context either.<sup>204</sup>

### III. ANALYSIS

*Corley* and *Elcom* represented major victories for the content industries and proponents of the DMCA by upholding the constitutionality of copyright protection measures that focused not on infringement, but on the circumvention of access and use controls and the dissemination of tools that enable such circumvention. This Part examines two significant issues implicated in the courts' decisions. First, this Note suggests that courts begin any future analysis of cases brought under the DMCA with due consideration for the nature of the anti-circumvention tool at issue (if any) as well as the nature of the protected content. Tools capable of circumvention may not be capable of infringing copyright or any other intellectual property rights. Without engaging in this sort of analysis, courts may create expansive new rights not previously envisioned and facilitate anti-competitive practices.

Second, this Note turns to the most problematic issue of all: the fate of the fair use doctrine under the DMCA. Directly or indirectly, fair use is implicated in many (if not most) of the major holdings in *Corley* and *Elcom*. Neither decision, however, was particularly sympathetic to fair use claims. This Note concludes by examining whether the shrunken scope of the fair use of digital works created by the courts' decision is consistent with congressional intent in passing the DMCA or with the First Amendment generally.

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200. *Id.* at 1140-42.

201. *Id.* at 1140.

202. *Id.*

203. *Id.* at 1141.

204. *Id.* at 1141-42.

### A. Limiting the Application of the DMCA's Anti-Circumvention Provisions

Fundamentally, the anti-circumvention provisions of the DMCA are intended to apply to “work[s] protected under *this title*” and to technologies or devices that “protect[] a right of a copyright owner under *this title*.”<sup>205</sup> “This title” refers to the Copyright Act, codified in Title 17 of the United States Code. These provisions, in short, were designed to protect the exclusive rights of copyright owners who release copyrighted works in digital format.

The courts in *Corley* and *Elcom* hardly considered the limitation, nor did they need to: it was evident that both DeCSS and AEBPR enabled acts of infringement of copyrighted works.<sup>206</sup> However, some of the courts’ blunter statements leave little room for consideration of the purpose for which technological protection measures were employed or the capabilities of a particular circumvention tool—see, for example, the statement in *Elcom* that “*all* tools that enable circumvention of use restrictions are banned, not merely those use restrictions that prohibit infringement.”<sup>207</sup> The court in *Elcom* also appeared to discard the DMCA’s requirement that a copyrighted work be implicated by suggesting that the DMCA would apply in cases where public domain works were re-released in digital format.<sup>208</sup> But any suggestion that the scope of the anti-circumvention provisions goes beyond protecting copyrighted material from infringement opens the door for companies or individuals to shield from scrutiny material that cannot be copyrighted, or to use technological protection measures for an anti-competitive purpose unrelated to their rights as copyright owners.

This point is not entirely academic. The case of *Sony Computer Entertainment Am., Inc. v. GameMasters*<sup>209</sup> is a good example. Defendant Ga-

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205. See 17 U.S.C. § 1201(a)(1)(A), (a)(2)(A)-(C) (2000); § 1201(b)(1)(A)-(C) (emphases added).

206. For example, both technologies allow users to make unauthorized copies of the protected work, as well as distribute these copies, functions that are not otherwise permitted.

207. *Elcom*, 203 F. Supp. 2d at 1124 (emphasis added).

208. See *id.* at 1131-32. I make this point only to show the court’s seeming willingness at times to extend the scope of DMCA’s protections beyond copyright, and not to suggest that public domain works re-released in digital format should *not* be protected by the DMCA. Without such protection, there would be little incentive for anyone to re-release works in the public domain in digital format. Regardless, this problem could be avoided by including additional content (bonus features, etc.) that is copyrighted within the digital file.

209. 87 F. Supp. 2d 976 (N.D. Cal. 1999).

meMasters, Inc. sold a product (the “Game Enhancer”) that allows video games for the PlayStation 2 console produced in Japan to be played on American machines.<sup>210</sup> It does not, however, allow users to copy the games or otherwise infringe any of Sony’s exclusive rights as copyright owners.<sup>211</sup> The court noted that “the Game Enhancer’s distinguishing feature appears to be its ability to allow consumers to play import or nonterritorial SCEA video games.”<sup>212</sup> Nevertheless, the court found the Game Enhancer to be a device “whose primary function is to circumvent a technological measure...that effectively controls access to a system” within the meaning of § 1201(a)(2)(A) and issued a preliminary injunction enjoining defendants from continuing to sell the product.<sup>213</sup>

Such results—uses of the DMCA to create rights far beyond those enumerated in the Copyright Act—have led one commentator to suggest that courts develop an “anticircumvention misuse” doctrine modeled after the current patent and copyright misuse doctrines.<sup>214</sup> A recent Australian case, brought under similarly worded anti-circumvention laws, took such an approach in rejecting Sony Australia’s claim against a retailer of so-called “mod chips” that allowed users to play PlayStation games purchased abroad.<sup>215</sup> The judge held that Sony failed to prove that the PlayStation’s technological protection measure had the effect of protecting Sony from infringement of any of its rights under Australian copyright law.<sup>216</sup>

## B. Fair Use under the DMCA

The fate of the fair use doctrine underpins much of the analysis in both *Corley* and *Elcom*. Both courts agreed generally with the proposition that fair use is a defense only to an act of copyright infringement, not to the acts of circumvention or trafficking in circumvention tools.<sup>217</sup> As several

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210. *Sony Computer*, 87 F. Supp. 2d at 981-82.

211. *Id.* at 981-82, 987.

212. *Id.* at 987.

213. *Id.* at 990.

214. See Dan L. Burk, *Anti-Circumvention Misuse*, 50 UCLA L. REV. (forthcoming June 2003) (manuscript available at [http://papers.ssrn.com/abstract\\_id=320961](http://papers.ssrn.com/abstract_id=320961) (July 31, 2002)).

215. *Kabushiki Kaisha Sony Computer Entm’t v. Stevens*, (2002) F.C.A. 906 (Austl.).

216. *Id.* ¶ 92 (“Running the computer program on the console did not involve an infringement of copyright. Moreover, there was no evidence that the devices were ‘effective’ in indirectly inhibiting infringing conduct in the manner suggested by the applicants.”).

217. See *Reimerdes*, 111 F. Supp. 2d at 320; *Elcom*, 203 F. Supp. 2d at 1121. David Nimmer agrees. See 3 NIMMER ON COPYRIGHT § 12A.06 (“On the one hand, the Act for-

commentators have suggested, the proper role of fair use under the DMCA is not entirely settled. Determining its status under the DMCA's anti-circumvention provisions requires a two-step analysis. First, this section discusses the legislative history of the Act in order to determine what role Congress actually intended for fair use. This analysis leads to a second discussion: to what extent is the First Amendment implicated under a law that restricts users' ability to make fair use of digital copyrighted works?

### 1. *Legislative Intent*

Legislative analysis is often a difficult and imprecise art. As Eskridge and Frickey argue, each of the so-called "foundational theories" of statutory interpretation—"intentionalism," "purposivism," and "textualism"—present serious problems for ascertaining the "true" meaning of a piece of legislation.<sup>218</sup> Statements in the record reflect the speaker's interpretation of the bill, as then written, and not necessarily the interpretation of all voting in favor of the final version of a particular bill.<sup>219</sup> Those voting for the bill may do so with imperfect information on the bill's meaning and or for various unknown reasons.<sup>220</sup> There may be a further disconnect between the intent of the Senate and that of the House that is not adequately addressed in hammering out textual differences at conference.<sup>221</sup> Statutory language is often the result of endless compromise and suffers from an inherent inability to reflect properly the meaning of a diverse body of legislators.<sup>222</sup>

When it comes to copyright law, it becomes even more difficult to gauge the intent of legislators, who have long preferred to let special interests decide among themselves the content of revisions to the Copyright Act.<sup>223</sup> Jessica Litman argues that Congress, lacking the necessary "interest, expertise, and institutional memory,"<sup>224</sup> has abdicated its role in representing the public interest in deliberations on amendments to the Copy-

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bids copyright infringement subject to a fair use defense. On the other hand, the [DMCA] adds a wholly separate tort of unauthorized circumvention, to which the fair use defense is inapplicable.").

218. See generally Eskridge & Frickey, *supra* note 159.

219. *Id.* at 327; see also Nimmer, *Appreciating Legislative History*, *supra* note 37, at 933 ("If one draws at random any particular floor commentary concerning the copyright amendments passed in October 1998, the odds are high that it completely misstates the law as it actually appears on the books today.").

220. Eskridge & Frickey, *supra* note 159, at 326.

221. *Id.* at 327.

222. *Id.* at 341-43.

223. LITMAN, *supra* note 5, at 74.

224. *Id.*

right Act, preferring to allow interested parties to negotiate a compromise that would be enacted, wholesale, into law.<sup>225</sup> The result, typically, is a law that bestows the broadest possible rights to copyright holders, subject only to the narrowly worded exceptions that protect the entrenched interests of current users.<sup>226</sup> Not only does such an approach fail to consider the public interest in the terms of copyright law, but it may also ignore, or directly contravene, a host of other noncopyright concerns. "In addition to free speech concerns, information policy takes account of issues related to equity, competition, ensuring a diversity of viewpoints, securing ready and affordable access to important sources of information, privacy—all issues that are at best tangential to copyright law and in some cases wholly alien."<sup>227</sup>

If the DMCA's anti-circumvention provisions as enacted by Congress reflect the position of their original proponents, it is clear that the DMCA creates a digital copyright scheme with a very limited fair use exception. The anti-circumvention provisions first made an appearance in a draft "Green Paper" report released in July 1994 by the Working Group on Intellectual Property.<sup>228</sup> Without such protection, the argument went, copyright owners would be reluctant to make digital content available and the Internet would be unable to develop fully, ignoring the fact that by 1995 the Internet was an already flourishing medium.<sup>229</sup>

The group's final draft, the so-called White Paper, did not retreat from its original recommendations but advocated that its conclusions could be reached through interpretation of existing law rather than through new legislation.<sup>230</sup> All ambiguities in the current law would be resolved in favor of copyright holders, most notably by defining any temporary reproduction of a digital work in a computer's memory as a statutory "reproduction" over which the copyright owner had exclusive control.<sup>231</sup> Any user who wished to experience this digital work would need the owner's permission

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225. *See generally id.* at 35-76.

226. *Id.* at 55-56.

227. *Id.* at 30.

228. *Id.* at 90-93. The Working Group, headed by Patent Commissioner Bruce Lehman and itself a division of the Information Infrastructure Task Force, was appointed by President Bill Clinton to formulate policy related to the development of the so-called Information Superhighway. *Id.*

229. *Id.* at 93-94.

230. *Id.* at 94.

231. *Id.* at 95.

or be liable for infringement, each time she wished to see, hear, read, or reread a work.<sup>232</sup>

This position is consistent with the increased propertization of intellectual property over time. Litman notes that the dominant metaphor for copyright has changed over the last one hundred years, from a quid pro quo exchange between authors and the public to an “economic analysis” model that seeks to maximize incentives for creation and exploitation of new works by maximizing copyright protection.<sup>233</sup> Originally, copyright was conceived as a bargain between authors and the public.<sup>234</sup> In exchange for limited exclusive rights that would provide enough economic incentive for authors to create and distribute their works, the public was free to “enjoy, consume, learn from, and reuse the works” in any way outside of copyright owner’s enumerated rights.<sup>235</sup> The last thirty years, however, have seen the propertization of copyright, resulting in “broader, longer, or stronger copyright protection” and greater control over the use of copyrighted materials.<sup>236</sup> “We now talk of copyright as property that the owner is entitled to control—to sell to the public (or refuse to sell) on whatever terms the owner chooses.”<sup>237</sup>

The applicability and availability of the fair use doctrine under this conception of copyright is sharply curtailed. Under one theory, fair use was traditionally applied where the public interest was advanced by the use without harming copyright owners too badly.<sup>238</sup> It arose under two conditions: (1) “implied consent,” where the owner would be likely to authorize the use but getting permission would be too difficult (such as use of a few selections in a subsequent scholarly article), or (2) what Professor

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232. *Id.* This, Litman argues, is an interpretation of statutory language that could not mean what the Working Group insisted it did, because reproduction of this sort could not have been envisioned when the 1976 Copyright Act was passed. “From the public’s vantage point, the fact that copyright owners are now in a position to claim exclusive ‘reading,’ ‘listening,’ and ‘viewing’ rights is an accident of drafting: when Congress awarded authors an exclusive reproduction right, it did not then mean what it may mean today.” *Id.*

233. *Id.* at 77-88.

234. *Id.* at 78-79.

235. *Id.*

236. *Id.* at 81-86.

237. *Id.* at 81. Copyright holders have tried to restrict use of their products in other ways, such as the use of shrinkwrap licenses to prohibit otherwise lawful uses of copyrighted material. *See Bowers v. Baystate Technologies, Inc.*, 302 F.3d 1334 (Fed. Cir. 2002) (enforcing contract provision that prohibited reverse engineering of plaintiff’s software product); Mark A. Lemley, *Intellectual Property and Shrinkwrap Licenses*, 68 S. CAL. L. REV. 1239 (1995).

238. LITMAN, *supra* note 5, at 84.

Alan Latman described as “enforced consent,” wherein the author was unlikely to authorize the use but the social utility of the use outweighed this reluctance (such as use of quotations in an unflattering book review).<sup>239</sup> Under the White Paper’s rationale, neither justification for fair use makes sense.<sup>240</sup> In the digital world, the difficulty in getting actual permission for a particular use is minimized. If one ascribes the “economic analysis” model of copyright law, enforced uses are a violation of one’s inviolate property rights.

Congress did not, however, accept the proposals of the White Paper wholesale.<sup>241</sup> In at least one significant way, they allowed for fair use of digital content, by allowing users to circumvent use controls, presumably in materials they had already lawfully acquired and to which they had gained lawful access.<sup>242</sup> This gap in the DMCA’s coverage, as the court in *Elcom* noted, provided an opportunity for users to make fair use of materials, even if the means to do this might be hard to come by.<sup>243</sup> More generally, various congressional committees evinced concern for consumers’ rights in a post-DMCA world. In their Report, members of the House Commerce Committee rejected the “property-maximizing” approach to copyright protection urged by Lehman and to which other committees had acquiesced.<sup>244</sup> “Copyrights traditionally have permitted public access while protecting intellectual property. The U.S. approach—known as ‘fair use’—benefits consumers and creators....The Committee considers it particularly important to ensure that the concept of fair use remains firmly entrenched in the law.”<sup>245</sup> At the bill’s final enactment, dozens of lawmakers rose in support of the continued vitality of the fair use defense.<sup>246</sup>

Although the Committee rejected the proposals of two of its members to specifically include a general fair use defense to the circumvention of

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239. *See id.*

240. *Id.*

241. *See, e.g.,* David Nimmer, *A Riff on Fair Use in the Digital Millennium Copyright Act*, 148 U. PA. L. REV. 673, 679-80 (2002) [hereinafter Nimmer, *A Riff on Fair Use*].

242. *See* United States v. Elcom Ltd., 203 F. Supp. 2d 1111, 1120-21, and citations therein.

243. *Id.*

244. *See* Nimmer, *A Riff on Fair Use*, *supra* note 241, at 718-20 (“The Commerce Committee views public access to works of authorship as an independent good deserving of recognition.”).

245. H.R. REP. NO. 105-551, pt. 2, at 25-26 (1998).

246. *See* Nimmer, *A Riff on Fair Use*, *supra* note 241, at 725 n.280 (listing the statements of several congresspeople in the Congressional Record supporting fair use).

access,<sup>247</sup> it has been suggested that the language of the Act does in fact leave room for such a defense.<sup>248</sup> Section 1201(c) reads: “Nothing in this section shall affect rights, remedies, limitations, or defenses to copyright infringement, including fair use, under this title.”<sup>249</sup> Although courts interpreting this section have understood this section to mean only that the fair use defense continues to apply in cases alleging copyright infringement, commentator Jane C. Ginsburg interprets the text differently.<sup>250</sup> In her view, the syntax of this provision suggests the phrase “including fair use” modifies not “defenses available to copyright infringement” but the phrase “limitations . . . under this title”—this title referring to all of the Copyright Act, not just the portions relating to infringement.<sup>251</sup> Others have advanced this broad interpretation of § 1201(c) as well,<sup>252</sup> and at least one Congresswoman who voted for the Act, Zoe Lofgren, believed the DMCA was intended to allow consumers to circumvent any technological measure in order to make fair use of the material.<sup>253</sup>

This is not the approach taken by either the *Corley* or the *Elcom* court, which held that both the language and history of the DMCA support a nar-

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247. *Id.* at 721.

248. *See, e.g.*, Jane C. Ginsburg, *Copyright Use and Excuse on the Internet*, 24 COLUM.-VLA J.L. & ARTS 1, 8-9 (2000) [hereinafter Ginsburg, *Copyright Use*].

249. 17 U.S.C. § 1201(c).

250. *See* Ginsburg, *Copyright Use*, *supra* note 248, at 8-9. *See also* JANE C. GINSBURG, FROM HAVING COPIES TO EXPERIENCING WORKS: THE DEVELOPMENT OF AN ACCESS RIGHT IN U.S. COPYRIGHT LAW 14-16 (Columbia Law School Public Law & Legal Theory Working Paper Group, Paper Number 8, 2000), available at <http://papers.ssrn.com/sol3/delivery.cfm/000421651.pdf?abstractid=222493>.

251. Ginsburg, *Copyright Use*, *supra* note 248, at 8-9.

252. *See, e.g.*, Pamela Samuelson, *Intellectual Property and the Digital Economy: Why the Anti-Circumvention Regulations Need to Be Revised*, 14 BERKELEY TECH. L.J. 519, 538-40 (1999) [hereinafter Samuelson, *Regulations Need to Be Revised*]; Brief of Amici Curiae American Civil Liberties Union et al. at 14-15, *Universal City Studios, Inc. v. Corley*, 273 F.3d 429 (2d Cir. 2001) (No. 00-9185), available at [http://www.eff.org/IP/Video/MPAA\\_DVD\\_cases/20010126\\_ny\\_lib\\_amicus.pdf](http://www.eff.org/IP/Video/MPAA_DVD_cases/20010126_ny_lib_amicus.pdf).

253. *See* Zoe Lofgren, *Section by Section Analysis of “The Digital Choice and Freedom Act of 2002”*, available at [http://zoelofgren.house.gov/news/2002/021002\\_detail.htm](http://zoelofgren.house.gov/news/2002/021002_detail.htm) (last visited Feb. 23, 2003). Lofgren has introduced legislation to make explicit the right of lawful users to circumvent technological protection measures in order to make fair use of digital works, as has Congressman Rick Boucher. *See* The Digital Choice and Freedom Act, available at [http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=107\\_cong\\_bills&docid=f:h5522ih.txt.pdf](http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=107_cong_bills&docid=f:h5522ih.txt.pdf) (last visited Feb. 23, 2003); Digital Media Consumers’ Rights Act, available at [http://www.house.gov/boucher/docs/BOUCHE\\_025.pdf](http://www.house.gov/boucher/docs/BOUCHE_025.pdf) (last visited Feb. 23, 2003). Boucher’s proposal would also amend the anti-trafficking provisions to exempt technological devices capable of significant noninfringing uses—a return to the *Sony* standard discussed *supra* note 17. *See id.*

row interpretation of § 1201(c).<sup>254</sup> In his analysis of the Act's legislative history, David Nimmer concurred.<sup>255</sup> Under this approach, "balance" between consumers and copyright holders apparently intended by the Commerce Committee and various other legislators was accomplished by the inclusion of the various exceptions included in the Act, as well as the Library of Congress' rule-making procedure to exempt certain classes of works from the reach of the prohibition on circumvention of access controls.<sup>256</sup> So, for example, the *Elcom* court found clear from the language of § 1201(b) that Congress has banned the dissemination of all tools that circumvent use controls, even though AEBPR was capable of allowing fair uses of digital books.<sup>257</sup>

## 2. *Fair Use under the First Amendment*

Without any clear-cut legislative intent to allow fair use as a defense to the three classes of liability under the DMCA, the *Corley* and *Elcom* courts understandably followed the seemingly absolute language of the Act to disallow defendants any fair use defense.<sup>258</sup> In doing so, however, they failed to confront adequately whether the expansion of the rights of copyright owners (in the DMCA and elsewhere) is consistent with the First Amendment, particularly in cases where they agree protected speech is implicated.<sup>259</sup>

Judges and commentators have long noted a tension between the First Amendment, which outside of narrow exceptions protects the dissemination of all manners of "speech," and copyright law, which cloaks certain types of speech behind a host of exclusive rights.<sup>260</sup> At the same time, courts were generally satisfied that the "safety valves" within copyright—such as the fair use doctrine, the idea-expression dichotomy, and the "limited Times" provision—effectively resolved this tension.<sup>261</sup> At least one commentator has suggested, however, that these limitations on copyright

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254. See *Corley*, 273 F.3d at 443-44; *Elcom*, 203 F. Supp. 2d at 1125.

255. See Nimmer, *A Riff on Fair Use*, *supra* note 241, at 698-99.

256. See *supra* Part I.A.

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

258. *Corley*, 273 F.3d at 459; *Elcom*, 203 F. Supp. 2d at 1124.

259. See *supra* Part II.A.3.

260. See, e.g., *Harper & Row Publishers, Inc. v. Nation Enters.*, 471 U.S. 539, 560 (1985); Robert C. Denicola, *Copyright and Free Speech: Constitutional Limitations on the Protection of Expression*, 67 CAL. L. REV. 283 (1979); Melville Nimmer, *Does Copyright Abridge the First Amendment Guarantees of Free Speech and Press?*, 17 UCLA L. REV. 1180 (1970) [hereinafter M. Nimmer, *First Amendment Guarantees*]; see generally Neil Weinstock Netanel, *Locating Copyright within the First Amendment Skein*, 54 STAN. L. REV. 1 (2001).

261. Netanel, *supra* note 260, at 7-12.

are no longer robust enough to satisfy the demands of the First Amendment, which itself has been interpreted more expansively over the last 20 years to include protection for a much wider variety of speech.<sup>262</sup>

Many of the so-called safety valves within copyright law are not what they once were: Congress has repeatedly extended the duration of copyright protection, the DMCA (interpreted correctly or not) has made fair use of digital copyrighted works more difficult, and technology generally has made the control over copyrighted materials much tighter. In light of these developments, it may no longer be the case—as was argued by Melville Nimmer in a seminal article in 1970—that copyright poses no First Amendment concerns except in the rarest cases.<sup>263</sup> Legal developments of the last three decades may require courts to reconsider this proposition, which was based in part on the robustness of the fair use doctrine,<sup>264</sup> and test anew whether the principles underlying the First Amendment are sufficiently served under the new, broad copyright scheme. No court has yet answered directly the question of whether the availability of fair use is required to satisfy the demands of the First Amendment, or whether it has become so in light of recent developments. An answer in the affirmative would suggest that the DMCA need be interpreted in a way to allow greater fair use by consumers and thus avoid the constitutional issue, perhaps by interpreting § 1201(c) as Ginsburg would—to allow fair use as a defense under the DMCA.<sup>265</sup> An intermediate approach would be to reconsider the meaning of what the term “access control” means, and whether a technology like CSS should be more appropriately categorized as a “use control.” The lawful owner of a DVD presumably has the right to access its contents; CSS then acts to restrict the range of uses available to the owner.<sup>266</sup> There is support for this approach in the Act’s legislative history. “[A]n individual would not be able to circumvent in order to gain

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262. *Id.*

263. *Id.* at 8 (citing M. Nimmer, *First Amendment Guarantees*, *supra* note 260, at 1193-200 (1970)).

264. *See, e.g., Harper & Row*, 471 U.S. at 560 (rejecting respondent’s argument for a “public figure exception to copyright . . . in view of the First Amendment protections already embodied in the . . . distinction between copyrightable expression and uncopyrightable facts and ideas, and the latitude for scholarship and comment traditionally afforded by fair use”).

265. *See supra* Part C.1; Ginsburg, *Copyright Use*, *supra* note 248, at 8-9.

266. At the preliminary injunction stage, the court in *Reimerdes* held that CSS was an access control within the meaning of the DMCA, *Universal City Studios, Inc. v. Reimerdes*, 82 F. Supp. 2d 211, 216-17 (S.D.N.Y. 2000), but this issue may have been underlitigated because defendants in that case were charged with trafficking in a circumvention tool and would therefore be liable whether CSS was adjudged an access or a use control.

unauthorized access to a work, *but would be able to do so in order to make fair use of a work which he or she has acquired lawfully.*"<sup>267</sup> Either of these alternatives would expand fair use of digital works and help restore the now shaky balance between First Amendment principles and copyright law.

#### IV. CONCLUSION

Two courts asked to explore the issue have upheld the constitutionality of the DMCA while holding that by its terms the Act does not allow fair use as a defense to the trafficking in circumvention-enabling tools. The matter has not been entirely resolved, however, as neither court had occasion to consider the application of the DMCA to individuals seeking to make fair use of copyrighted materials. When that time comes, it may be entirely appropriate to reconsider the role of fair use, both as Congress originally intended and as the First Amendment demands.

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267. H.R. REP. 105-551, pt. 1, at 18 (1998) (emphasis added). *See also* Samuelson, *Regulations Need to Be Revised*, *supra* note 252, at 539-40.

## HARBORING DOUBTS ABOUT THE EFFICACY OF § 512 IMMUNITY UNDER THE DMCA

By Jennifer Bretan

Even as the Internet continues to evolve, Internet Service Providers (“ISPs”) largely remain the gateway through which end users access the vast flow of digital content traveling throughout cyberspace. ISPs also host web pages, forward and process listserv messages, newsgroups and email, provide online chat venues, and link users to the infinite array of sites and services which, together, comprise the Internet.<sup>1</sup> End users themselves, however, do not uniformly comply with copyright laws. Users can make and post digital reproductions of copyrighted works with ease, and access to those infringing materials acts as a magnet, drawing traffic to specific sites and service providers.<sup>2</sup> In hosting, routing, and linking to such sites or services, ISPs themselves become vulnerable to charges of copyright infringement, whether direct, contributory or vicarious.<sup>3</sup>

Without some measure of protection against potentially crushing liability, ISPs could no longer afford to provide the technological backbone that now supports the Internet.<sup>4</sup> Rather than continue its progression, absent structured immunity, the growth of the Internet might falter as bankrupted ISPs slowly disappear from the digital landscape.<sup>5</sup> In § 512 of the

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1. *WIPO Copyright Treaties Implementation Act and Online Copyright Liability Limitation Act: Hearing on H.R. 2281 and H.R. 2180 Before the Subcomm. on Courts and Intellectual Prop., House Comm. on the Judiciary*, 104th Cong. (1997) (statement of Roy Neel, President and Chief Executive Officer, United States Telephone Association) (discussing access and content provided by Telco ISPs).

2. See *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1022 (9th Cir. 2001); See also 3 MELVILLE B. NIMMER & DAVID NIMMER, *NIMMER ON COPYRIGHT* § 12B.01[C] (2002) (discussing the ease with which works can be pirated and distributed on the internet).

3. See NIMMER, *supra* note 2, § 12B.01[A] (discussing the difficulty in determining which party should be liable for copyright infringement on the internet: the poster, the user accessing the material, or the service provider making access possible).

4. Neel, *supra* note 1 (“[W]hile USTA members are committed to the Internet, the threat of copyright lawsuits is becoming an increasingly salient consideration in offering the service at all.”).

5. See NIMMER, *supra* note 2, § 12B.01[C] (“[H]aving a profusion of copyrighted works available will not serve anyone’s interest if the Internet’s backbone and infrastructure are sued out of existence for involvement in purportedly aiding copyright infringe-

Digital Millennium Copyright Act (“DMCA”), Congress explicitly carves out a number of safe harbors to shield ISPs from such liability.<sup>6</sup> The intent was to strike an appropriate balance between “securing copyright in the global, digital environment,” and the need to provide protective limitations on liability for ISPs “in order to attract the substantial investments necessary to continue the expansion . . . of the Internet.”<sup>7</sup>

Part I of this Note briefly describes how the pre-DMCA case law necessitated ISP immunity and how the decision in *Religious Technology Center v. Netcom On-Line Communication Service, Inc.*<sup>8</sup> ultimately provided the basis for structuring such immunity under the DMCA. Part II discusses the basic framework of § 512, as enacted, and how courts have begun to erode the intended protections of its safe harbors. Part III analyzes recent judicial decisions applying the § 512 provisions and uses them to illustrate what seem to be fast-developing statutory reinterpretations of the ISPs’ responsibilities under the DMCA.<sup>9</sup> Lastly, Part IV attempts to reconcile the decisional erosion of the safe harbors and provide some guidance for ISPs who still hope to garner the valuable, but perhaps fleeting, protections of § 512.

## I. THE HISTORICAL NEED FOR ISP IMMUNITY

### A. The Ease of Copyright Infringement in the Digital Age Necessitates Legislative Intervention

The Internet opened a digital floodgate through which millions of reproductions of “movies, music, software, video games and literary and graphic works that are as good as the originals” travel daily from end user to end user.<sup>10</sup> Given the sheer volume of this information, traditional notions of policing copyright became outmoded. ISPs cannot monitor or judge copyright validity with even a modicum of efficacy given the “explosion of new ways to use wires, cables or other communication chan-

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ment. Without clarification of their liability, service providers may hesitate to make the necessary investment in the expansion of the speed and capacity of the Internet.”).

6. 17 U.S.C. § 512 (2000).

7. 144 CONG. REC. S11,887-92 (daily ed. Oct. 8, 1998) [hereinafter CONG. REC. S11,887-92] (statement of Sen. Hatch) (discussing the need for clarification and limitation on liability for ISPs in the DMCA).

8. 907 F. Supp. 1361 (N.D. Cal. 1995).

9. See *Perfect 10, Inc. v. Cybernet Ventures, Inc.*, 213 F. Supp. 2d 1146 (C.D. Cal. 2002); *Ellison v. Robertson*, 189 F. Supp. 2d 1051 (C.D. Cal. 2002); *Hendrickson v. Ebay, Inc.*, 165 F. Supp. 2d 1082 (C.D. Cal. 2001).

10. CONG. REC. S11,887-92, *supra* note 7.

nels.”<sup>11</sup> Moreover, although ISPs built the infrastructure of the Internet, they still function in large part as mere conduits for content originating with and driven by users.<sup>12</sup> Unable to police effectively and, by design, likely unaware of the infringing nature of the great balance of content, ISPs would face unlimited liability if courts decided to impute the infringing acts of users to the ISP.<sup>13</sup>

### **B. The *Netcom* Decision: A New Direction on Liability Analysis and a Move Toward Safe Harbors for ISPs**

In a prescient opinion, the district court in *Netcom*<sup>14</sup> recognized that “carried to its natural extreme,” imputing acts of direct infringement to ISPs based on third party conduct “would lead to unreasonable liability.”<sup>15</sup> In *Netcom*, a user posted copyrighted material of the Church of Scientology on a Usenet newsgroup that was connected to the Internet through the ISP.<sup>16</sup> The *Netcom* court rejected the liability analysis previously undertaken by courts in *Playboy Enterprises, Inc. v. Frena*<sup>17</sup> and *Sega Enterprises, Ltd. v. Maphia*<sup>18</sup> that found ISPs responsible for the infringing conduct of their users. *Frena* installed a strict liability regime and held a computer bulletin board (BBS) operator guilty of direct infringement where users had uploaded and downloaded copyrighted photographs without its knowledge.<sup>19</sup> Similarly, in *Sega*, liability attached where a BBS operator provided the venue for trading copyrighted computer games.<sup>20</sup> The deci-

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11. See NIMMER, *supra* note 2, § 12B.01[A] (analogizing the liability of Internet ISPs to that previously feared by telephone companies as passive conduits).

12. See *generally id.* § 12B.01[C][1] (discussing how ISP fear of liability for user driven piracy over the Internet infrastructure drove the need for immunity).

13. See *generally id.* § 12B.01[B][2] (discussing ISP concern over duty to police the Internet for infringement and how “it would be unreasonable to expect the ISPs to act as the ‘Internet Police’ with respect to the copyright materials owned by everyone on earth”).

14. 907 F. Supp. 1361 (N.D. Cal. 1995).

15. *Id.* at 1369.

16. *Id.* at 1365-66.

17. 839 F. Supp. 1552 (M.D. Fla. 1993).

18. 857 F. Supp. 679 (N.D. Cal. 1994).

19. 839 F. Supp. at 1554. The court held that the BBS engaged in public distribution and display of the infringing photos and, in denying a fair use defense, noted that *Frena*, the BBS provider, derived a commercial benefit from the subscription based service. Even though takedown was immediate, a monitoring policy to prevent future abuses was implemented, and the ISP was wholly unaware of the offending conduct and content. *Id.* at 1556-59.

20. 857 F. Supp. 679, 686-87 (N.D. Cal. 1994). Direct infringement was established under a strict liability scheme akin to that discussed in *Frena*. In *Sega*, the court additionally held that “even if Defendants do not know exactly when games will be uploaded to

sions were illustrative of the need for some measure of ISP protection in the new digital paradigm. Although the ISP in *Sega* was arguably more culpable than in *Frena*, appearing to have actively encouraged users to share copyrighted material, the larger implication of the decision caused alarm for ISPs. Carried to its logical conclusion, any ISP providing services capable of significant infringing use could be found liable.<sup>21</sup>

Despite *Frena* and *Sega*'s portent of debilitating liability for ISPs, *Netcom*'s policy reasoning and analysis of legal accountability created a significant limit on ISP liability.<sup>22</sup> Because a finding of direct infringement would "result in liability for every single Usenet server in the worldwide link of computers transmitting [the infringing] message to every other computer," the *Netcom* court held liability better resolved under "the rubric of contributory infringement," a schema more capable of addressing the complex relationship between ISPs and subscribers.<sup>23</sup> In stark contrast to *Frena*'s direct infringement regime, under *Netcom*, a claim for contributory infringement is made out if the ISP knew or should have known of the infringement and had substantially induced, caused, or contributed to that conduct.<sup>24</sup> A claim of vicarious liability could likewise be sustained where the right or ability to control the infringing conduct exists and financial benefit, directly attributable to the infringing content, accrues to the ISP.<sup>25</sup>

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or downloaded from the MAPHIA bulletin board, their role in the copying, including provision of facilities, direction, knowledge and encouragement, amounts to contributory copyright infringement."

21. See NIMMER, *supra* note 2, § 12B.01[A] (raising the hypothetical scenario of a BBS which is largely used for noninfringing purposes, but with the same level of infringing activity as in *Sega*).

22. *Religious Tech. Ctr. v. Netcom On-Line Communication Serv., Inc.*, 907 F. Supp. 1361, 1369 (N.D. Cal. 1995).

23. *Id.*

24. *Id.* at 1382.

25. *Id.* But see David L. Hayes, *Copyright Liability of Online Service Providers* (pt. 2), 19 THE COMPUTER & INTERNET LAW. Nov. 2002, at 15, 19. Although Hayes notes that at least one court relied on *Netcom* to establish no direct financial benefit where an ISP charged a flat fee for its services, Hayes suggests that the *Netcom* holding, which heavily relied on the district court ruling in *Fonovisa*, has been imperiled by subsequent findings. Namely, the Ninth Circuit's reversal on the issue of financial benefit in *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259 (9th Cir. 1996) (establishing sufficient benefit to auction owners based on admission fees and concession sales) and a similar result in *A&M Records Inc. v. Napster, Inc.*, 239 F.3d 1004 (9th Cir. 2001) (establishing financial benefit based on the draw that infringing content has on users of the service) make any future reliance by ISPs on *Netcom* to establish no financial benefit a more risky proposition.

## II. THE BASIC FRAMEWORK AND APPLICATION OF § 512

In 1998, Congress adopted § 512 of the DMCA, a legislative attempt to formalize structured immunities for ISPs, clarify the rights of copyright holders, and otherwise react to infringing content and conduct plaguing the Internet's new digital regime.<sup>26</sup> Section 512 creates safe harbor provisions to safeguard ISPs operating in their ordinary functions, a move to protect service providers from the type of liability that could have led them to "hesitate to make the necessary investment in the expansion of the speed and capacity of the Internet."<sup>27</sup>

### A. The Provisions of § 512

Section 512 "clearly define[s] the conditions under which" ISPs may be held liable for copyright infringement and creates four safe harbor provisions to shield ISPs from damages.<sup>28</sup> Each provision provides protection for a distinct ISP function.<sup>29</sup> Congress adapted the basic structure of *Netcom*'s policy analysis on direct infringement, exempting providers for the automated transmission of third party infringement, as the first safe harbor in § 512(a).<sup>30</sup> As codified, it grants immunity where ISPs "[take] no 'affirmative action that [directly results] in copying . . . works other than by installing and maintaining a system whereby software automatically forwards messages received from subscribers . . . and temporarily stores copies on its system.'"<sup>31</sup> *Netcom*'s analysis of contributory and vicarious liability were similarly formalized and clarified within § 512, though without reference to specific technologies.<sup>32</sup> The enumerated safe harbors describe distinct functions and their application requires separate analyses

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26. 17 U.S.C. § 512 (2000); *see also* Perfect 10, Inc. v. Cybernet Ventures, Inc, 213 F. Supp. 2d 1146, 1174 (C.D. Cal. 2002); Hayes, *supra* note 25, at 21-24 (discussing the legislative history which lead to the codification of ISP immunity in § 512 of the DMCA).

27. *See* NIMMER, *supra* note 2, § 12B.01[C][1] (discussing the need for § 512's limitations on liability so that ISPs would continue to build out of the Internet).

28. Hayes, *supra* note 25, at 22.

29. *Id.*

30. H.R. REP. NO. 105-551, pt. 1, at 26 (1998) ("Section 512(a)(1) . . . codifies the result of Religious Technology Center v. Netcom On-line Communications Services, Inc. . . . with respect to liability of providers for direct infringement.").

31. *Id.* (quoting Religious Tech. Ctr. v. Netcom On-Line Communication Serv., Inc., 907 F. Supp. 1361, 1368 (N.D. Cal. 1995)).

32. 144 CONG. REC. E160-61 (daily ed. Feb. 12, 1998) (statement of Rep. Coble) (the elements of vicarious infringement are set out in § 512(c)(1)(B) and the actual or constructive knowledge requirement of contributory infringement in § 512(c)(1)(A)(i)-(ii)).

according to the criteria of the relevant subsection.<sup>33</sup> Failure to gain immunity for a function detailed by one safe harbor does not preclude a finding of immunity under another provision for ISPs performing more than one functional role.<sup>34</sup> Importantly, safe harbor disqualification does not make out a prima facie case of infringement, so service providers may still defend under applicable copyright law.<sup>35</sup>

### 1. *The Eligibility Threshold of § 512*

To qualify for immunity under any safe harbor, § 512(i) obligates ISPs to meet two threshold requirements.<sup>36</sup> First, the ISP must “[adopt] and reasonably [implement]” a termination policy for repeat infringers and inform its subscribers of that policy.<sup>37</sup> Second, the ISP must accommodate and refrain from interfering with the standard technical measures copyright holders utilize in protecting works in the digital environment.<sup>38</sup> Though seemingly innocuous, the § 512(i) eligibility requirements have become a point of contention in recent caselaw, a development that this Note addresses more thoroughly throughout.

### 2. *The Four Functions Immunized Under § 512*

Once eligible, § 512 allows ISPs to function generally unfettered in four main operative roles. Under the statutory scheme, an ISP garners protection from damages for: a) transitory digital network communications; b) system caching; c) information residing on systems or networks at [the] direction of users; and d) providing information location tools.<sup>39</sup>

#### a) *Transitory Digital Network Communications*

ISPs provide the basic infrastructure of the Internet and, in that capacity, are shielded from liability under § 512(a), the first safe harbor provision.<sup>40</sup> Simply put, this section immunizes ISPs that are acting as mere

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33. 17 U.S.C. § 512(n) (2000) (“Whether a service provider qualifies for the limitation on liability in any one of the [safe harbor] subsections shall be based solely on the criteria in that subsection, and shall not affect a determination of whether that service provider qualifies for the limitations on liability under any other.”).

34. *Id.*

35. See NIMMER, *supra* note 2, § 12B.06[B] (noting that ISPs may still defend conduct under the Copyright Act of 1976 such as through the affirmative defense of fair use).

36. § 512(i)(1)(A)-(B).

37. *Id.* § 512(i)(1)(A).

38. *Id.* § 512(i)(1)(B).

39. *Id.* § 512(a)-(d).

40. Section 512(a) protects those “entit[ies] offering the transmission, routing, or providing of connections for digital online communications, between or among points specified by a user, of material of the user’s choosing, without modification to the content

conduits for information.<sup>41</sup> A “transitory digital network [communication]” refers to “transmitting, routing, or providing connections for, material through a system or network controlled or operated by or for the service provider” at the initiation of third parties, including the ISP’s intermediate or transient storage of that material.<sup>42</sup> The transmission of infringing works must occur automatically, cannot be selectively routed to specific recipients by the ISP, and may neither be retained on the system longer than is “reasonably necessary for the transmission, routing, or provision of connections” or have had its content modified by the ISP.<sup>43</sup> For example, an ISP would be protected when delivering email with infringing content.

#### b) System Caching

Section 512(b) and the remaining safe harbor provisions cover providers who deliver “online services or network access, or [operate] facilities therefor.”<sup>44</sup> “System caching” refers to the process by which ISPs temporarily “[store] material on a system or network,” as part of managing network performance, in order to “reduce network congestion generally” and speed access to popular sites.<sup>45</sup> The transmission must be initiated by a third party, transmitted through the system to a second user, and stored via automatic processes.<sup>46</sup> However, unlike protection for transitory communications, this subsection only limits liability for those service providers who, upon notification, “[respond] *expeditiously* to remove, or disable access to, the material that is claimed to be infringing.”<sup>47</sup>

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of the material as sent or received.” § 512(k)(1)(A) (Definition as applied specifically to subsection 512(a) on Transitory Digital Network Communications). America Online and Earthlink are two paradigmatic service providers in this narrow category and garner the codified Netcom protection against direct infringement.

41. See NIMMER, *supra* note 2, § 12B.02[B] (identifying the first safe harbor provision as protecting those ISPs engaging in “. . . essentially conduit only functions.”).

42. 17 U.S.C. § 512(a); *id.* § 512(a)(1).

43. *Id.* § 512(a)(2)-(5).

44. *Id.* § 512(k)(1)(B) (Definition of providers as applied to safe harbor categories other than (a), but inclusive of those as defined in subparagraph (A) above). Included within this class of service provider is a search engine such as Google or a multi-purpose content and linking service such as Yahoo.

45. See NIMMER, *supra* note 2, § 12B.03[A].

46. § 512(b)(A)-(C).

47. *Id.* § 512(b)(E) (emphasis added).

c) Information Residing on Systems or Networks at the Direction of Users

The safe harbor provision of § 512(c) for “information residing on systems or networks” limits ISP liability for content posted or hosted at the direction of end users.<sup>48</sup> Examples of functions covered within this safe harbor category include the storage of user home pages, Usenet and auction site postings, and chat rooms.<sup>49</sup> This provision protects those ISPs that receive no financial benefit “directly attributable to the infringing activity,” where the provider has neither the right nor ability to control the activity and where, if properly notified, the ISP suppresses access to the infringing content.<sup>50</sup> However, it does not protect ISPs with actual or constructive knowledge of infringing content who do not, on their own initiative, move quickly to disable access.<sup>51</sup> Section 512(c) additionally details the need for ISPs to provide agents charged with handling infringement notifications on their behalf and enumerates the elements constituting notification sufficient to shift the liability burden back on to the ISP.<sup>52</sup>

d) Information Location Tools

Lastly, under § 512(d), ISPs are granted immunity for the “information location tools” that provide links to “online location[s] containing infringing material or infringing activity . . . including a directory, index, reference, pointer, or hypertext link.”<sup>53</sup> Again, actual or constructive knowledge of the infringement proves fatal, though, as § 512(c) makes clear, takedown upon notification and the absence of direct financial benefit preserves the immunity.<sup>54</sup>

### 3. Notice and Takedown

Despite its explicit purpose of sheltering ISPs from unreasonable liability, § 512 also contains substantial protection for the rights of copyright holders. In order to reap the benefits of immunity, ISPs must institute systems of notice and takedown by which copyright holders can identify infringing material for ISP removal. First, the ISP must designate an agent

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48. *Id.* § 512(c); see NIMMER, *supra* note 2, § 12B.04[B] (noting that the material may not appear by action or by decision of the service provider, but must be user directed).

49. See NIMMER, *supra* note 2, § 12B.04[B] (describing the types of functions covered).

50. § 512(c)(1)(B)-(C).

51. *Id.* § 512(c)(1)(A)(i).

52. *Id.* § 512(c)(1)(C)(2)-(3).

53. *Id.* § 512(d).

54. *Id.* § 512(d)(1)-(3).

to handle infringement claims.<sup>55</sup> To ease the burden on the copyright owner, the agent's contact information must be made readily available both through conspicuous placement on the ISP's own site and through registration with the Copyright Office.<sup>56</sup> Second, a written communication to the designated agent containing specific identifying elements constitutes effective notice.<sup>57</sup>

Once the copyright holder effects notice under the scheme, § 512 requires an ISP to remove or otherwise disable access to the allegedly infringing material identified in the claim.<sup>58</sup> To balance the risks of such pre-adjudicated termination, § 512 also ensures that the ISP cannot be held liable for taking the identified material down and provides an analogous counter notification procedure whereby a subscriber can challenge the infringement claim.<sup>59</sup>

#### 4. *No Affirmative Duty to Police the Internet*

Section 512 imposes no affirmative duty on ISPs to police their vast systems in search of copyright infringement.<sup>60</sup> Section 512 also ensures that voluntary efforts to monitor do not result in forfeiture of the safe harbor limitations on liability.<sup>61</sup> However, the vagueness of the "reasonable implementation" standard may prove to be a back door requirement for ISPs to police. As noted earlier, the termination policy is a threshold to eligibility under § 512. Failure to implement that policy might lead a court to deny the ISP the benefit of the safe harbors. If strictly construed, the requirement of reasonable implementation may begin to look like an affirmative duty to both monitor and *actively* terminate infringers. As discussed in Part III *infra*, the recent decision in *Perfect 10, Inc. v. Cybernet*

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55. *Id.* § 512(c)(2).

56. *Id.* § 512(c)(2)(A)-(B).

57. *Id.* § 512(c)(3)(i)-(vi). The elements of effective notification include: 1) a signature of a person authorized to act on behalf of the owner of the copyright allegedly infringed; 2) identification of the work infringed or a representative list of such works if multiple works exist at a single site; 3) identification of the infringing material and information sufficient to allow the ISP to locate it; 4) contact information of the complaining party; 5) a statement of good faith; 6) a statement of accuracy of the claim under penalty of perjury.

58. *Id.* § 512(c)(1)(C).

59. *Id.* § 512(g)(1)-(3).

60. *Id.* § 512(m)(1).

61. *See* NIMMER, *supra* note 2, § 12B.09[B] n.26 (discussing the Congressional desire not to discourage ISPs from undertaking monitoring for fear of losing the safe harbor immunities).

*Ventures, Inc.*,<sup>62</sup> where a court found that the ISP had not sufficiently acted on its termination policy, appears to suggest that active policing has become a virtual prerequisite to immunity within § 512's safe harbors.

#### 5. Remedies and Subpoena Powers Under § 512

Once a service provider qualifies for safe harbor, monetary relief is not available to the copyright holder,<sup>63</sup> and the crushing liability ISPs anticipated prior to the DMCA is eliminated.<sup>64</sup> The court may, however, still award equitable relief even where the safe harbor provision has shielded the provider from damages.<sup>65</sup> Under § 512(j), injunctive relief may take the form of orders to restrict access to infringing material or particular sites on a system, orders to deny access or terminate subscribers "engaging in infringing activity," and any other injunctive action the court finds necessary to effectuate relief, so long as it is the "least burdensome to the service provider" of the available equitable remedies.<sup>66</sup>

While ISPs may qualify for immunity, the safe harbor provisions do not protect those end users "who take advantage of [the service provider's] facilities" to infringe copyrighted works.<sup>67</sup> Thus, § 512 allows the copyright owner to ask a district court to issue a subpoena requiring the ISP to reveal the identity of the alleged primary infringer.<sup>68</sup> The request must include a copy of 512(c) notification, a proposed subpoena, and a sworn declaration that the information sought is for the sole purpose of protecting copyright.<sup>69</sup> Upon subpoena, an ISP must quickly disclose the identity of the alleged infringing subscriber, whether or not it has determined that the content in question actually violates copyright.<sup>70</sup> Commentators note that the § 512 subpoena provisions are ripe for abuse, "particularly in circumstances involving competitors or critics" where copyright holders might use the subpoena powers to "investigate and gather information

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62. See *Perfect 10, Inc. v. Cybernet Ventures, Inc.*, 213 F. Supp. 2d 1146, 1179 (C.D. Cal. 2002) ("Because the Court finds that there is a strong likelihood that Cybernet cannot establish that it has "reasonably implemented" a policy directed at terminating repeat infringers . . . there is little likelihood that it can avail itself of § 512's safe harbors.").

63. 17 U.S.C. § 512(a)-(d) ("A service provider shall not be liable for monetary relief . . .").

64. Hayes, *supra* note 25, at 22.

65. § 512(j)(1).

66. *Id.* § 512(j)(1)(i)-(iii).

67. See NIMMER, *supra* note 2, § 12B.09[A] (noting that an end user engaging in copyright infringement remains fully liable).

68. § 512(h)(1).

69. *Id.* § 512(h)(2)(A)-(C).

70. *Id.* § 512(h)(5).

... that would not generally be available in the off-line world.”<sup>71</sup> Both Wal-Mart’s recent abuse of the subpoena power to obtain noncopyrightable price information and a recent subpoena asking the ISP Verizon to reveal the identity of an infringing subscriber despite the copyright holders’ failure to conform with the requisite notification clearly justify those concerns.<sup>72</sup>

## B. Courts Block Easy Entry to the Safe Harbors: *Napster* and *ALS Scan*

Following the enactment of the DMCA, caselaw quickly began to erode the protections of § 512’s safe harbors. In analyzing whether ISPs may avail themselves of those limitations on liability, courts in two recent cases failed to interpret the statutory protections so as to afford protection to service providers. In *Napster*,<sup>73</sup> the Ninth Circuit put the question of liability ahead of safe harbor defense consideration in forestalling protection and, in *ALS Scan Inc. v. RemarQ Communities, Inc.*,<sup>74</sup> the Fourth Cir-

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71. See NIMMER, *supra* note 2, at § 12B.09[A] (quoting the Hearing Before the Subcommittee on Telecommunications, Trade, and Consumer Protection, Serial No. 105-102 (June 5, 1998), at 16 (statement of Electronic Privacy Information Center)).

72. See AScribe Newswire, *FatWallet Victorious in Challenge to Wal-Mart’s Frivolous Digital Millennium Copyright Act Subpoena*, available at <http://www.nyfairuse.org/dmca/walmart.fw.xhtml> (Dec. 5, 2002) (“Wal-Mart had sought the identity of the individual who posted Wal-Mart Day After Thanksgiving sales information on the FatWallet site . . . Wal-Mart obtained a subpoena from federal court under the DMCA after submitting a declaration under penalty of perjury that its sales prices were protected by copyright law. FatWallet.com objected to the subpoena on the grounds that the Supreme Court has ruled that facts cannot be copyrighted.”); see also Declan McCullagh, *Music Body Presses Anti-Piracy Case*, CNET News.com, at <http://news.com.com/2100-1023-954658.html> (Aug. 21, 2002); Declan McCullagh, *Verizon, RIAA in Copyright Showdown*, CNET News.com, at <http://news.com.com/2100-1023-960838.html> (Oct. 4, 2002); Reuters, *Verizon Questioned Over File Swapping*, CNET News.com, at <http://news.com.com/2100-1023-960935.html> (Oct. 5, 2002). On January 21, 2003, Verizon was ordered by the district court to turn over the subscriber information as per the subpoena. U.S. District Judge John D. Bates ruled that Congress could not have intended that the DMCA would “enable a copyright owner to obtain identifying information from a service provider storing the infringing material on its system, but would not enable a copyright owner to obtain identifying information” from an ISP merely transmitting such information. See Jonathan Krim, *Recording Firms Win Copyright Ruling*, at <http://www.washingtonpost.com/wpdyn/articles/A24577-2003Jan21.html> (Jan. 22, 2003); see also Amy Harmon, *Verizon Ordered to Give Identity of Net Subscriber*, at <http://www.nytimes.com/2003/01/22/technology/22MUSI.html> (Jan. 22, 2003). Verizon is appealing the decision. See Declan McCullagh, *Verizon Appeals RIAA Subpoena Win*, CNET News.com, at <http://news.com.com/2100-1023-982809.html> (Jan. 30, 2003).

73. 239 F.3d 1004 (9th Cir. 2001).

74. 239 F.3d 619 (4th Cir. 2001).

cuit rendered a substantially relaxed reading of the notification requirements under § 512(c) in a decision that shifts a good deal of the copyright holder's infringement burden back onto the ISP.<sup>75</sup>

In common law copyright, the elements of vicarious liability are met if a defendant has the right and ability to supervise infringing activity from which it receives a direct financial benefit.<sup>76</sup> In finding vicarious liability likely, despite § 512(m)'s "no affirmative duty to police," the *Napster* court looked upon the peer-to-peer provider's ability to block access to material, or to otherwise terminate infringing users, as evidence that it had the right and ability, and ultimately, the responsibility, to control the infringement.<sup>77</sup> Although the legislative intent of § 512 was to encourage ISPs voluntarily to engage in monitoring,<sup>78</sup> *Napster* reveals the peril faced by ISPs who demonstrate an ability to do just that. The Ninth Circuit grounded its vicarious liability analysis of Napster's services by analogy to the *Fonovisa* swap-meet, in which the "ability to block infringers' access to a particular environment for any reason whatsoever is evidence of the right and ability to supervise,"<sup>79</sup> and direct financial benefit adheres where "the availability of infringing material 'acts as a "draw" for customers.'"<sup>80</sup>

Rather than defaulting to an analysis of limitation on liability under § 512, the appeals court in *Napster* put the likelihood of liability first, leaving any significant consideration of the safe harbor defenses for development at trial, and remanded to the district court for modification of the preliminary injunction.<sup>81</sup> To the extent that the Ninth Circuit did consider § 512, it suggested Napster might not fit the categories of providers covered, questioned the need for § 512(c) official notice, and raised doubt about Napster's threshold eligibility because it failed to comport with the court's notion of a reasonably implemented termination policy for recidi-

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75. Alan S. Wernick, *ISP's Could Not Rely on Immunity in Two Cases*, 23 NAT'L L.J. 38 (2001).

76. *Napster*, 239 F.3d at 1022 (quoting *Gershwin Publ'g Corp. v. Columbia Artists Mgmt., Inc.*, 443 F.2d 1159, 1162 (2d Cir. 1971)).

77. *Id.* at 1027 ("Napster may be vicariously liable when it fails to affirmatively use its ability to patrol its system and preclude access to potentially infringing files listed in its search index. . . . Napster . . . also bears the burden of policing the system within the limits of the system.").

78. See NIMMER, *supra* note 2, § 12B.01[C][[1] (noting that an end user engaging in copyright infringement remains fully liable).

79. *Napster*, 239 F.3d at 1023 (citing *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 262 (9th Cir. 1996)).

80. *Id.* at 1023 (quoting *Fonovisa*, 76 F.3d at 263-64).

81. *Id.* at 1029.

vist infringers.<sup>82</sup> It remains unclear why both the district court and the Ninth Circuit chose to bypass the DMCA safe harbors, where injunctive remedies are clearly available, and to order equitable relief outside the § 512 regime.

Access to safe harbor protections continued to erode in *ALS Scan* when the Fourth Circuit took a less stringent view of compliance with § 512(c)'s notification procedures.<sup>83</sup> In that case, users of the ISP RemarQ posted and accessed newsgroup listings containing hundreds of infringing copies of pornographic photos owned by copyright holder ALS Scan.<sup>84</sup> Technically, ALS Scan failed to comply with § 512(c) notice and did not specify the "identity of the pictures forming the basis of the copyright claim."<sup>85</sup> Rather, the court based liability on the mere provision of what it considered information sufficient to locate infringing content, reasoning that the safe harbor immunities are "not presumptive, but granted only to 'innocent' service providers who can prove that they do not have actual or constructive notice."<sup>86</sup> In holding that the copyright owner need not identify infringing content with specificity, *ALS Scan* suggests ISPs may shoulder a much greater burden than originally contemplated in § 512.<sup>87</sup> Where ISPs are forced to determine which works might infringe, chilling effects may follow. Unsure of copyright status, ISPs will likely take down questionably infringing content.<sup>88</sup> Ultimately, the court's denial of the safe harbor in *ALS Scan* shows that "failure to respond properly and expeditiously to even an *imperfect* DMCA notification can be perilous."<sup>89</sup>

Together, *Napster* and *ALS Scan* illustrate the trend toward dismantling the legislative safe harbors and imposing a duty to police the Internet

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82. *Id.* at 1025. (questioning Napster's ability to invoke § 512 because it believed significant questions existed as to: "(1) whether Napster is an Internet service provider as defined by 17 U.S.C. § 512(d); (2) whether copyright owners must give a service provider "official" notice of infringing activity in order for it to have knowledge or awareness of infringing activity on its system; and (3) whether Napster complies with § 512(i), which requires a service provider to timely establish a detailed copyright compliance policy.").

83. *ALS Scan, Inc. v. Remarq Cmtys., Inc.*, 239 F.3d 619 (4th Cir. 2001).

84. *Id.* at 620-21.

85. *Id.* at 622.

86. *Id.* at 625 (noting the knowledge prongs of secondary liability).

87. See generally NIMMER, *supra* note 2, § 12B.04[B][4] (discussing notification procedures and the Fourth Circuit's departure in *ALS Scan* from strict adherence to the statutory requirements under § 512(c)).

88. *ALS Scan*, 239 F.3d at 624 (ALS Scan's notice directed RemarQ to two newsgroups containing infringing copies of its images, but "not all materials at the offending sites contained material to which ALS Scan held the copyrights.").

89. Wernick, *supra* note 75, at 39 (emphasis added).

for infringement where § 512 demands none. Against a growing storm of adverse adjudication, it is questionable whether § 512 ultimately provides the kind of protection ISPs originally sought.

### III. TRENDS: COURTS INTERPRET AND APPLY § 512

The DMCA is a relatively new statute and a major body of caselaw has yet to develop to help guide courts in interpreting and applying its provisions. As this Note demonstrates, every case that analyzes, provides insight, or otherwise clarifies how courts should treat § 512 is therefore significant. In this light, three recent cases in which ISPs defended under § 512 immunity contribute to the ever-evolving picture of how the safe harbor provisions function under the DMCA.<sup>90</sup> In part, each case either relies on or makes reference to decisions that precede it. This Note addresses some of the more salient developments contained in the opinions.

#### A. Hope for the Specific Notice Requirements of § 512(c)

A recent judicial reiteration of the burden of copyright holders to notify with specificity contains encouraging signs that *ALS Scan's* relaxed notice standard may yet prove to be an anomaly. In *Hendrickson v. eBay*,<sup>91</sup> a copyright owner sought damages from the Internet auction site, claiming that “pirated DVD copies of [his documentary film] ‘Manson’ . . . were being offered for sale on eBay.”<sup>92</sup> Prior to suit, plaintiff sent eBay a general cease and desist letter, but “did not explain which copies of ‘Manson’ . . . were infringing copies [and did not] fully describe [Hendrickson’s] copyright interest.”<sup>93</sup> Following the letter, eBay described its termination procedure to Hendrickson and requested proper notice under the DMCA, including the need for him to “identify the exact items” believed to infringe his rights.<sup>94</sup> Hendrickson “refused to fill out eBay’s Notice of Infringement form” and never provided eBay with the identifying information it sought.<sup>95</sup> After analyzing eBay’s potential liability under the

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90. See *Perfect 10, Inc. v. Cybernet Ventures, Inc.*, 213 F. Supp. 2d 1146 (C.D. Cal. 2002); *Ellison v. Robertson*, 189 F. Supp. 2d 1051 (C.D. Cal. 2002); *Hendrickson v. Ebay, Inc.*, 165 F. Supp. 2d 1082 (C.D. Cal. 2001).

91. 165 F. Supp. 2d 1082 (C.D. Cal. 2001).

92. *Id.* at 1084-86. Three suits were filed and later consolidated.

93. *Id.*

94. *Id.* at 1085. (noting that the request for identification was possible because “each listing on eBay’s website has its own item number”).

95. *Hendrickson*, 165 F. Supp. 2d at 1085.

DMCA safe harbors, the court granted summary judgment in favor of the auction site provider.<sup>96</sup>

Although eBay argued for functional immunity under both §§ 512 (c) and (d), the court limited the factual analysis to § 512(c) alone because it believed that the functions at issue qualified as “infringement . . . by reason of the storage at the direction of a user of material that resides on a system or network controlled or operated by or for the service provider.”<sup>97</sup> The court identified three requirements for invocation of § 512(c): 1) that the ISP has neither actual nor constructive knowledge of the infringement or, if it did have knowledge, it disabled access to the material;<sup>98</sup> 2) that the ISP has not directly benefited, where it had the right or ability to control the infringing activity;<sup>99</sup> and, most relevant here, 3) that the ISP quickly removed the allegedly infringing material “upon notification . . . as described in [§ 512(c)(3)],” the subsection that defines the elements of proper notification.<sup>100</sup>

The *Hendrickson* court considered a copyright holder’s failure to satisfy the requirements of proper notification by identifying infringing material insufficient to trigger the ISP’s duty to act.<sup>101</sup> Unlike the result in *ALS Scan*, in *Hendrickson*, deficient notice could not be used to impute legal knowledge, so as to shift the liability burden back onto the ISP.<sup>102</sup> In concluding that the rigors of the DMCA’s notification procedure had not been substantially met, the court cited the lack of a good faith statement and failure to identify the pirated goods with a high degree of specificity as the key missing elements.<sup>103</sup> *Hendrickson* also departs from *ALS Scan*’s presumption that a copyright holder may point to the infringement in a general manner, holding that absent communication that *all* Manson DVDs infringe, specific item numbers are “necessary to enable eBay to identify problematic listing.”<sup>104</sup>

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96. *Id.* at 1086.

97. *Id.*

98. *See id.* at 1088.

99. 17 U.S.C. §§ 512(c)(1)(A)-(C) (2000) (the vicarious liability codification).

100. *Id.* § 512(c)(1)(C).

101. *Hendrickson*, 165 F. Supp. 2d at 1089 (listing the six elements of proper notification contained in § 512 (c)(3)).

102. *Id.*

103. *Id.* at 1089-92.

104. *Id.* at 1090. The court noted that although the plaintiff claimed to have communicated that all “Manson” DVDs infringed his copyright, his failure to put the claim in writing, as required by § 512(c)(3)(A), prevents court consideration of that evidence. The decision stands in contrast to the *ALS Scan* court’s allowance that a representative list of infringing material would suffice.

Having concluded that eBay had no duty to act by reason of notification, the court turned to the knowledge prong of § 512(c)'s safe harbor. Though the *ALS Scan* court might not have concluded eBay had actual or constructive knowledge of the infringing activity, the *Hendrickson* court quickly disposed of the issue, emphasizing that under § 512, failed notification "shall not be considered . . . in determining whether a service provider has actual" or constructive knowledge.<sup>105</sup> Because *Hendrickson* failed to identify infringing activity with particularity, the court found the notice to be deficient and, as a result, that eBay did not have legal knowledge prior to suit.<sup>106</sup>

A California district court addressed § 512 immunities in *Ellison v. Robertson*.<sup>107</sup> Robertson scanned copies of Ellison's science-fiction novels into digital format and uploaded them to a USENET newsgroup carried through peer agreement by several ISPs, including AOL.<sup>108</sup> Through dicta, *Ellison* illustrates how a copyright holder may properly invoke the § 512(c) notification procedure to alert the ISP of a violation and how courts will protect the copyright interest if ISPs fail to act upon notification.<sup>109</sup> Upon learning of the infringing activity, Ellison researched the DMCA notification procedures and had his counsel email AOL's designated agent with the required information.<sup>110</sup> Receiving no response from AOL, plaintiff filed suit against Robertson, AOL, and two other ISPs on theories of direct, contributory, and vicarious infringement.<sup>111</sup> Prior to resolution of this action, Ellison not only settled with and dismissed defendant Robertson, the primary infringer, but more significantly, reached similar agreements with defendant RemarQ (the ISP that had provided Robertson's access to the USENET servers) and its parent company Critical Path.<sup>112</sup> The ISP settlements are notable primarily because they may

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105. *Id.* at 1092-93.

106. *Id.*

107. 189 F. Supp. 2d 1051 (C.D. Cal. 2002).

108. *Id.* at 1053-54. (The newsgroup in question was "alt.binaries.e-book" which appeared to carry "unauthorized digital copies of text material, primarily works of fiction by famous authors, including Ellison."). Message postings to the newsgroups are automatically transmitted to peer ISPs and, in the case of AOL, were retained on the "company's servers for fourteen days." *Id.* at 1054. Although Robertson was not an AOL subscriber, once he uploaded his infringing copies to a newsgroup, "they were then forwarded and copied throughout USENET and onto servers all over the world, including those belonging to AOL." *Id.*

109. *Id.* at 1054.

110. *Id.*

111. *Id.* AOL claimed it never received the e-mail, but shut down access to alt.binaries.e-book following service of the suit.

112. *Ellison v. Robertson*, 189 F. Supp. 2d 1051, 1054 (C.D. Cal. 2002).

reflect a concern, following RemarQ's experience in *ALS Scan*, that access to the safe harbors is easily obstructed by the courts. AOL remained in the case, however, and moved for summary judgment, claiming it had not infringed and invoking the § 512 defenses to shield it from liability.<sup>113</sup>

The *Ellison* court followed *Netcom* in first rejecting a direct infringement claim, citing "AOL's role . . . as a passive provider of USENET access . . . [that does] no more than operate or implement a system that is essential if Usenet messages are to be widely distributed."<sup>114</sup> The court found unworkable a theory of direct infringement holding the "entire Internet liable for activities that cannot reasonably be deterred."<sup>115</sup> After disposing of direct infringement, however, *Ellison* turned to the issue of contributory infringement: knowledge of, and inducement, causation, or material contribution to infringing activity.<sup>116</sup> In the court's opinion, AOL had reason to know of the infringement because the court found that AOL's failure to post the correct email address of its designated agent was responsible for the ISP never having received Ellison's notification.<sup>117</sup> The court refused to allow AOL's oversight to exempt it from knowledge, for fear of "encourag[ing] other ISPs to remain willfully ignorant in order to avoid contributory copyright infringement liability."<sup>118</sup> The *Netcom* court had held that a material contribution exists where an ISP providing Usenet access had knowledge of infringement but continued to carry the infringing postings.<sup>119</sup> The *Ellison* court refused to distinguish *Netcom* on the basis that AOL did not have actual knowledge in continuing to allow access to the infringing activity, because it reasoned that an ISP is equally culpable where it merely *would have known* of the infringement had it received the notification.<sup>120</sup> Accordingly, the court believed a triable issue of fact existed as to the contributory infringement claim.<sup>121</sup> The finding demon-

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113. *Id.*

114. *Id.* at 1056-57.

115. *Id.* at 1057.

116. *Id.*

117. *Id.* at 1057-58. AOL had changed its email address from "copyright@aol.com" to "aolcopyright@aol.com" and did not notify the Copyright Office of the change until several months later. The ISP additionally failed to arrange for messages sent to the old contact address to be forwarded to the new one. Some question exists as to why this failure to abide by the notice provisions of § 512(c) alone did not prevent the ISP from invoking the safe harbors of the DMCA.

118. *Id.* at 1058.

119. *Id.* at 1059 (citing *Religious Tech. Ctr. v. Netcom On-Line Communication Serv., Inc.*, 907 F. Supp. 1361, 1376 (N.D. Cal. 1995)).

120. *Id.*

121. *Id.*

strates that proper notification can defeat the safe harbor where protection is unwarranted and an ISP likely to be liable.<sup>122</sup>

Likewise, in a reassertion of the need for ISPs to abide by § 512(c)'s notice provisions, the recent court decision to withhold safe harbor protections in *Perfect 10, Inc. v. Cybernet Ventures*<sup>123</sup> rested in part on the fact that the ISP had a policy that deviated significantly from the DMCA notification and takedown requirements.<sup>124</sup> Because Cybernet altered the DMCA notice requirements, demanding that a copyright holder meet *all* of the service provider's stated procedures including its refusal to allow a representative list of infringing works to suffice as notice, the court found "an intent [by the ISP] to upset the Congressionally apportioned burden between copyright holder and service provider."<sup>125</sup>

Viewed in concert, *Hendrickson*, *Ellison*, and *Perfect 10* can be seen as a powerful judicial re-entrenchment of the need for strict adherence to § 512(c)'s notification requirement. Despite *ALS Scan*, the cases demonstrate that the burden of notice is a two way street and, if properly followed, can be used to balance ISP liability as Congress intended.

#### **B. The Detrimental Effect of Allowing a Liability Analysis to Precede Consideration of the Safe Harbors**

Courts appear conflicted over whether a common law analysis of copyright infringement should precede analysis under the safe harbor defenses. Similar to *Napster's* reliance on the *Fonovisa* swap meet analogy, the *Hendrickson* court identified the key question on liability as "whether eBay can be held secondarily liable for providing the type of selling platform/forum and services . . . however limited or automated in nature" to third party infringers.<sup>126</sup> Unlike *Napster*, however, the court acknowledged that the issue of liability on the merits was a secondary consideration, and that "the Court must [first] address . . . whether the DMCA shields eBay from liability for copyright infringement."<sup>127</sup>

As an initial matter, the *Hendrickson* court noted that the purpose of the DMCA is to encourage and "facilitate the robust development and worldwide expansion of electronic commerce, communications, research,

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122. *Id.*

123. 213 F. Supp. 2d 1146 (C.D. Cal. 2002).

124. *Id.* at 1179.

125. *Id.* at 1180 ("Cybernet has failed to structure a notice system that complies with section 512.").

126. *Hendrickson v. Ebay, Inc.*, 165 F. Supp. 2d 1082, 1087 (C.D. Cal. 2001).

127. *Id.* at 1087-88 (noting that the *Napster* court had put off consideration of the DMCA safe harbors).

development, and education,” a goal accomplished in part by “protect[ing] qualifying Internet service providers from liability for all monetary relief for direct, vicarious and contributory infringement.”<sup>128</sup> The court recognized that eBay fit the § 512 definition of a service provider and could therefore look to find shelter in its safe harbors.<sup>129</sup> The court believed that the legislative intent to shield ISPs was critical to an analysis of liability and that the analysis must therefore be undertaken only after a court first considers whether an ISP could, in fact, avail itself of those protections.

In contrast to *Hendrickson*'s mandate that consideration of a claim begins by looking to the § 512 immunities, the *Ellison* court engaged in the infringement analysis as its initial inquiry.<sup>130</sup> In this manner, the court relied on caselaw, rather than the statutory safe harbor provisions to frame the issues, an ordering that, as in *Napster*, allowed the court to focus on the likelihood of the ISP's liability from the outset, before ever taking the limitations of § 512 into account.<sup>131</sup>

In the third recent case to consider the interpretation and application of § 512's limitations on liability, *Perfect 10, Inc. v. Cybernet Ventures, Inc.*, the same misaligned result occurred, with liability analysis preceding and preemptively coloring consideration of the safe harbor provisions.<sup>132</sup> Defendant provider Cybernet Ventures ran an age verification service called “Adult Check” through which it permitted access to and collected payments for pornographic websites.<sup>133</sup> Plaintiff Perfect 10 discovered “more than 10,000 copies of Perfect 10 images” on websites affiliated with Cybernet's Adult Check system.<sup>134</sup> Perfect 10 filed for a preliminary injunction and, as in *Napster*, the first consideration of the likelihood of finding infringement informed the later assessment of whether the safe harbors might apply.<sup>135</sup>

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128. *Id.* at 1088 (quoting the legislative history as contained in S. REP. NO. 105-190 (1998)).

129. *Id.* (including eBay in the broad category of providers of online services under § 512 (k)(1)(B)).

130. *Ellison v. Robertson*, 189 F. Supp. 2d 1051, 1056 (C.D. Cal. 2002).

131. *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1025 (9th Cir. 2001). Only after allowing an injunction against Napster, having engaged in the infringement analysis, did the Ninth Circuit consider § 512, noting “We do not agree that Napster's potential liability for contributory and vicarious infringement renders the Digital Millennium Copyright Act inapplicable per se. We instead recognize that this issue will be more fully developed at trial.” *Id.*

132. 213 F. Supp. 2d 1146 (C.D. Cal. 2002).

133. *Id.* at 1158.

134. *Id.* at 1162.

135. *Id.* at 1165.

The framing of the analyses in *Napster*, *Ellison*, and *Perfect 10* reveals that a finding of liability is more likely where the safe harbor provisions are not addressed first, and demonstrates that procedural clarification is imperative. An ISP should be able to access the safe harbors without courts first viewing its role through the lens of a common law infringement analysis. The cases have proven much less generous than the safe harbor provisions intended, and they dismantled the careful balance of responsibility Congress undertook in formulating § 512. *Hendrickson* alone ordered its review of liability correctly, relying on § 512 immunity as the initial inquiry.<sup>136</sup> Because no solid rule on the issue has developed, ISPs seeking to invoke the immunities run the risk of being tainted as infringers from the outset. In large part, as *Napster*, *ALS Scan* and *Perfect 10* make obvious, a court's inclination to view particular ISPs as bad actors seems to inform the way it chooses to engage and order its analysis.

**C. The Control Prong of Vicarious Liability Analysis under § 512 Combines with § 512(i)'s Threshold Eligibility Requirement and Begins to Look Like an Affirmative Duty to Police.**

Viewed as a whole, the decisions in *Hendrickson*, *Ellison*, and *Perfect 10* illustrate the failure of § 512 to clarify ISP liability for copyright infringement in the digital domain. Emerging as the areas of greatest confusion are how the eligibility threshold of § 512(i) should be interpreted and what constitutes control so as to make out vicarious liability. Although *Ellison* concluded that § 512(i) merely requires ISPs to put customers on notice of the threat of termination for repeat infringement,<sup>137</sup> *Perfect 10* demonstrates that courts can also view the failure to have actually terminated infringers as a failure to reasonably implement that policy, and thereby deny ISPs the benefits of the safe harbors altogether.<sup>138</sup> How the *Perfect 10* holding can be reconciled with § 512(m)'s 'no affirmative duty to police' is in need of much greater development. The clear trend, however, seems to be a court expectation that ISPs are in fact monitoring and actively terminating repeat infringers, acts of control that seem to imply a backdoor duty to police.

In contrast to *Perfect 10*'s view that the ISP must exercise control, when it can, in order to pass the threshold requirements of § 512(i), the *Hendrickson* decision insists that voluntary policing by an ISP cannot be used to establish the right to control, perhaps by reason of the choice to

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136. *Hendrickson v. Ebay, Inc.*, 165 F. Supp. 2d 1082, 1087-88 (C.D. Cal. 2001).

137. *Ellison v. Robertson*, 189 F. Supp. 2d 1051, 1066 (C.D. Cal. 2002).

138. *Perfect 10*, 213 F. Supp. 2d at 1179.

look first at whether the safe harbor provisions are applicable.<sup>139</sup> Hendrickson contended that, in removing infringing listings in the past and monitoring its service daily for keywords that appear to signal infringing items, eBay demonstrates the right and ability to control that activity.<sup>140</sup> In addressing § 512(c)'s vicarious liability prong, the court stopped short of addressing direct financial benefit because it believed the "undisputed facts establish" that eBay was not in control of the infringement.<sup>141</sup> The court thus rejected plaintiff's contention as meritless.<sup>142</sup>

The *Hendrickson* court's analysis of the control issue clearly distinguishes *Napster's* extension of *Fonivisa* to the Internet and contains significant language to limit that holding.<sup>143</sup> As contained in the DMCA, the court noted that the "right and ability to control" infringement "cannot simply mean the ability of a service provider to remove or block access to materials posted on its website or server."<sup>144</sup> ISPs are required to take down infringing materials upon valid notice, and must also have implemented a policy for termination of repeat infringers under the eligibility threshold of § 512(i).<sup>145</sup> The court reasoned that "Congress could not have intended for courts to hold that a service provider loses immunity under the . . . DMCA because it engages in acts that are specifically required by the DMCA."<sup>146</sup> Moreover, the court noted that eBay's "voluntary efforts to combat piracy over the Internet" through limited monitoring cannot "lead the Court to conclude that eBay has the right and ability to control . . . within the meaning of the DMCA."<sup>147</sup> The court also found eBay's passive role in the "listing, bidding, sale and delivery of any item offered for sale on its website," compelling evidence that it had no control over the type of infringement at issue, namely the right to distribute.<sup>148</sup>

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139. *Hendrickson*, 165 F. Supp. 2d at 1092-93.

140. *Id.* at 1093 (noting that eBay conducted searches using keywords such as "bootleg" and "counterfeit" and removed the listings if the staff determined that infringing goods were being offered").

141. *Id.*

142. *Id.*

143. *Id.* at 1093-94. Whereas *Napster's* ability to block or disable access was evidence of an ability to control and the basis of the ISPs likely liability, the court in *Hendrickson* did not consider eBay's similar acts sufficient reason to deny immunity under § 512.

144. *Id.* at 1093.

145. *Id.*

146. *Id.*

147. *Id.* (citing to the legislative history for the proposition that the DMCA is not intended to discourage such monitoring and that eligibility is not lost in the act.); see H.R. REP. NO. 105-796 (1998).

148. *Id.* at 1094.

*Hendrickson* illustrates how the safe harbor provisions, when properly considered, can provide great protection to ISPs. Liability ultimately turns on the court's interpretation of the DMCA provisions with regard to control. Had the court followed the Ninth Circuit's *Napster* logic, it would surely have found the safe harbor of § 512(c) unavailable and held eBay liable. Under a *Napster* analysis, it looks as though eBay had both the right and ability to control, as evidenced by its ability to police and terminate and that direct financial benefit could be easily established because eBay receives insertion fees and a cut of the final value achieved in each auction listing.<sup>149</sup>

The *Ellison* court similarly rejects both *Napster* and *Netcom*'s finding that an ability to block access or otherwise delete content demonstrates the ISP's right and ability to control and, instead, embraced *Hendrickson*'s analysis of the issue under the DMCA.<sup>150</sup> Thus the court found that "the DMCA requires more than the mere ability to delete and block access to infringing material after that material has been posted in order" to establish the right and ability to control the activity.<sup>151</sup> Moreover, the court further distinguished *Netcom* because, although newsgroup peers could "block users' access to the infringing postings . . . it could not do anything to restrict the infringing activity at the root level."<sup>152</sup> In other words, AOL had no direct control over the access of Robertson, the direct infringer in that case.<sup>153</sup> The court also found insignificant the financial benefit derived by the "draw" of infringing Usenet postings.<sup>154</sup> The court noted that "infringing activity must be at least a *substantial* draw" and that to "hold otherwise would provide essentially for limitless expansion of vicarious liability."<sup>155</sup> In general, the court held that direct financial benefit could

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149. *Hendrickson*, 165 F. Supp. 2d at 1094-95. Worthy of some of mention was the court's extension of the safe harbor protections to employees of eBay, individually, for acts "committed in the course and scope of their employment." *Id.* In so holding, the court noted that "Congress could not have intended to shift the target of infringement actions from the [ISPs] to their employees when it enacted the safe harbor provisions." *Id.* at 1095.

150. *Ellison v. Robertson*, 189 F. Supp. 2d 1051, 1059-60 (C.D. Cal. 2002).

151. *Id.* at 1061.

152. *Id.* at 1062.

153. *Id.*

154. *Id.* at 1063 (noting that the pro rata draw of any one newsgroup on AOL was estimated to be no more than 0.00000596% of total usage).

155. *Id.* at 1063 n.11 (citing the Ninth Circuit consideration of Fonovisa requirements in *Adobe Systems Inc. v. Canus Productions, Inc.* 173 F. Supp. 2d 1044 (C.D. Cal. 2001) and the fear that "for ISPs, the vicarious copyright infringement doctrine might [otherwise] start to resemble strict liability for any material that somehow finds its way onto the

not be made out where infringing and noninfringing users pay a fixed fee.<sup>156</sup> The court accordingly granted summary adjudication on the vicarious infringement claim in AOL's favor.<sup>157</sup>

Having completed the infringement analysis, the *Ellison* court eventually turned to AOL's safe harbor defense, beginning with the two threshold eligibility conditions of § 512(i).<sup>158</sup> It was undisputed that AOL satisfied the second requirement, that it accommodate and not interfere with the standard technical measures used by copyright holders to protect their work.<sup>159</sup> *Ellison* suggests, however, that AOL failed to comply with the requirement that it reasonably implement a termination policy, because evidence showed that "no individual has ever been terminated for being a repeat infringer" by AOL and "AOL had not precisely defined how many times a user had to be guilty of infringement before that user could be" terminated.<sup>160</sup> In contrast to *Napster*, the court interpreted § 512(i) not as a mandate to police for and terminate recidivist infringers, but merely as a command that ISPs "put [their] users on notice that they face a realistic threat of having their Internet access terminated if they repeatedly violate intellectual property rights."<sup>161</sup> Having done so, the court ruled that AOL was eligible for protection under § 512's safe harbor provisions.<sup>162</sup> Had the court decided to address the safe harbor provisions as a preliminary matter, as *Hendrickson* suggests is proper, it could have disposed of much of the case on that basis alone.<sup>163</sup>

As was the case in both *Hendrickson* and *Ellison*, the *Perfect 10* court relied on *Netcom* to dispose of direct infringement.<sup>164</sup> The court found contributory infringement likely, however, not only because Cybernet had received actual notice of alleged infringement, but because it had a general knowledge of infringing activity, based on the ISPs routine review of member sites containing "disclaimers to the effect, 'we do not hold copyrights for these works.'"<sup>165</sup> The court followed *Napster* and *Fonovisa* in

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ISP's servers."). The court also cites the legislative history of the DMCA as contained in H.R. REP. 105-551(II), at 54 (1998). *Id.* at 1063-64.

156. *Id.* at 1064.

157. *Id.*

158. *Id.*

159. *Id.* at 1065.

160. *Id.* at 1066.

161. *Id.*

162. *Id.*

163. *Hendrickson v. Ebay, Inc.*, 165 F. Supp. 2d 1082, 1088 (C.D. Cal. 2001).

164. *Perfect 10, Inc. v. Cybernet Ventures, Inc.* 213 F. Supp. 2d 1146, 1167-69 (C.D. Cal. 2002).

165. *Id.* at 1169.

holding that the material contribution prong of contributory infringement was likely also satisfied.<sup>166</sup> Along with providing the Adult Check service, absent which access to the infringing content could not occur, the court found that Cybernet makes “steady payments to infringing sites” and thereby “materially contribute[s] to the growth and proliferation of any infringement.”<sup>167</sup>

The *Perfect 10* court also believed that Cybernet was probably liable for vicarious infringement, having demonstrated the right and ability to control and a direct financial benefit.<sup>168</sup> The court analogized to *Napster* in finding that Cybernet directly benefits from the draw of infringement because its “future revenue is [similarly] directly dependent upon ‘increases in user base.’”<sup>169</sup> The court also established that Cybernet had a right and ability to control infringement because it provided “detailed instructions regard[ing] issues of layout, appearance, and content” to its member sites.<sup>170</sup> Rejecting the *Hendrickson* or *Ellison* approach to the control issue, however, the court considered Cybernet’s ability to block access to or otherwise monitor content or activity tantamount to an admission of control, as had the *Fonovisa* and *Napster* courts.<sup>171</sup>

Most significantly, when the court finally looked at the DMCA safe harbor defense, it outright rejected *Ellison*’s reading of § 512(i)’s eligibility requirement (the reasonably implemented termination policy) as mere warning and not as a backdoor requirement that ISPs actively police and terminate.<sup>172</sup> In so doing, the court engaged in a policy analysis and found that “making the entrance into the safe harbor too wide would allow service providers acting in complicity with infringers to approach copyright infringement on an image by image basis without ever targeting the source of these images.”<sup>173</sup> The court believed Cybernet could not pass the eligibility threshold absent a showing that it had actually terminated recidivist infringers.<sup>174</sup> But the court had used that very same ability to terminate as

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166. *Id.* at 1170-71.

167. *Id.* at 1171.

168. *Id.* at 1171-74.

169. *Id.* at 1171. New users who register for access to member sites pay Cybernet directly.

170. *Id.* at 1173.

171. *Id.* at 1174.

172. *Id.* at 1175-78 (“part[ing] ways with the interpretation . . . in *Ellison*, in order to maintain the ‘strong incentive’ for service providers to prevent their services from becoming safe havens or conduits for known repeat copyright infringers.”).

173. *Id.* at 1177.

174. *Id.* at 1178.

a justification for its finding of control.<sup>175</sup> This forces the ISP into a Catch-22: the ISP must be actively terminating recidivist offenders but, in so doing, the ISP thereby opens itself up to a finding that it demonstrates an ability to control, making it vulnerable to the vicarious liability claim.<sup>176</sup> Denying Cybernet shelter, the court granted a preliminary injunction against the provider.<sup>177</sup> The injunction that issued is of some relevance because it institutes a virtual duty to police all content to which Cybernet provides access.<sup>178</sup> In effect, the injunctive order in *Perfect 10* is an invocation of the kind of overwhelming liability that ISPs feared would put them out of business.

#### IV. CONCLUSION

Courts are in need of further guidance on how to approach and apply the § 512 safe harbor provisions, and need clarification of their legal duties. Recent conflicting results suggest that ISPs may soon be burdened with the kinds of policing duties from which the DMCA was intended to provide relief. Specifically, as a result of *ALS Scan*, ISPs might begin to take down the good with the bad, forced to remove arguably noninfringing content in a superabundance of caution, even upon deficient notice. And, in the wake of *Perfect 10*, the duty to monitor may lead to takedown and termination, absent specific notice of infringement. Together, the post-DMCA decisions portend a future in which ISPs shoulder a greater weight of responsibility for protecting copyright in the digital era. And, if case law continues to erode or otherwise block access to the § 512 safe harbor provisions, the shelter of immunity may provide little promise of protection against what could be, in the peer-to-peer era, a gathering storm of infringement suits.<sup>179</sup>

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175. *Id.* at 1174.

176. *Id.* at 1179.

177. *Id.* at 1193.

178. *Id.* at 1193-96. First, the court required Cybernet, prior to adding members to its network, to “review the content of websites to determine whether they contain any Prohibited Content.” *Id.* at 1194. The court also ordered perpetual monthly reviews of any member sites that had at any time removed content based on alleged copyright infringement. *Id.* Lastly, the court ordered review within ninety days of the content of every Cybernet premium member site. *Id.*

179. There seems to be only a small logical leap from the district court holding that Verizon must turn over user information for content that never resided on its servers under § 512(k) and, the possibility that future courts could find the failure to have actively terminated users who engage in peer to peer infringement as a reason to deny protection of the § 512 safe harbor provisions. See Krim, *supra* note 72 (“Internet service companies fear that if the decision stands, they will be deluged by subpoenas . . .”).



## KELLY V. ARRIBA SOFT CORP.

By Matthew C. Staples

Throughout the Internet's brief existence, authors have actively sought ways to protect their copyrighted content, while technological innovators have striven to develop means to access, integrate, and disseminate this content. Although other legal and extralegal measures have been utilized, or appear likely to be utilized, by rights holders in the future to protect their works, copyright law has been at the forefront of the conflict. As technology has thrust complexity upon this area of law, courts have struggled to apply a doctrine developed for the print world to the evolving digital landscape.

This complexity was at the center of *Kelly v. Arriba Soft Corp.*,<sup>1</sup> a recent Ninth Circuit case involving a "visual search engine." In *Kelly*, the Ninth Circuit squarely applied copyright's "fair use" exception—already an elusive and complex piece of the copyright puzzle—to the nascent law of Internet hyperlinking. The court held that a firm's creation of small "thumbnails" of a photographer's copyrighted images for use in its visual search engine constituted fair use.<sup>2</sup> The panel also held that the visual search engine's unauthorized "inline linking and framing" of images residing on the photographer's websites violated his right of public display.<sup>3</sup>

Part I provides a brief explanation of technical definitions. Part II summarizes the relevant copyright doctrine, specifically the copyright owner's right to display her work publicly, and the fair use exception. Part III gives a case summary of *Kelly*. Part IV places *Kelly* in the context of the larger debate regarding the increasing propertization of intellectual property, focusing on the case's implications for copyright law on the Internet. Part IV.A points out the problematic misuse of certain technical terms by the court, Part IV.B addresses the concerns that the case may have far-reaching effects on hyperlinking, and Part IV.C casts a critical, yet ultimately approving, eye toward the court's emphasis on the transformative nature of the allegedly infringing use, examining *Kelly*'s implications for websites desiring to use thumbnail images, inline linking, framing, and similar technologies. Part IV concludes by examining potential threats to fair use online. Although the Ninth Circuit's analysis has faced

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1. 280 F.3d 934 (9th Cir. 2002).

2. *Id.* at 948.

3. *Id.*

mixed reviews from legal commentators,<sup>4</sup> this Note concludes that the decision is fundamentally consistent with both recent jurisprudence and copyright law's theoretical underpinnings.

## I. THE TECHNOLOGIES AT ISSUE

*Kelly* involves technologies used by most current forms of search engines, implicating technologies specific to "visual search engines," which allow users to search for image files on the Internet. The court first discusses thumbnail images ("thumbnails"), which are shrunken versions of full-sized images typically used to link to the corresponding full-sized image, and to index and summarize the results of a search. The case also involves software programs commonly known as "robots," or "bots," which automatically seek, collect, and summarize information.<sup>5</sup> Understanding these agents' functionality will aid in understanding the alternative legal theories and extralegal measures that content owners often use to protect their content. Lastly, several visual search engines utilize, or have utilized,<sup>6</sup> some form of inline linking or framing, two methods for linking to content on the Internet. Like "bots," these hyperlinking methods are subject to technological controls.

### A. "Thumbnail" Images

Thumbnails are smaller, lower resolution copies of digital images, usually used to link to the corresponding full-sized image.<sup>7</sup> They allow World Wide Web ("Web") users to determine whether the users wish to download a larger, higher-resolution copy to their browser, by first viewing the thumbnails. While thumbnails usually link to the corresponding

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4. Compare Eugene R. Quinn, Jr., *Web Surfing 101: The Evolving Law of Hyperlinking*, 2 BARRY L. REV. 37, 64 (2001) (criticizing the district court's fair use determination in *Kelly v. Arriba Soft Corp.*, 77 F. Supp. 2d 1116, 1119 (C.D. Cal. 1999)), with Kelly Donohue, Note, *Court Gives Thumbs-Up For Use of Thumbnail Pictures Online*, 2002 DUKE L. & TECH. REV. 0006, ¶ 19-20 (giving general approbation to the Ninth Circuit's decision).

5. See *infra* notes 8-12 and accompanying text.

6. According to one of *Kelly*'s websites, as of May 6, 2002, three of the five major visual search engines—those of Ditto.com, AltaVista, and Lycos—had responded to the Ninth Circuit's decision by modifying the manner in which their results were displayed. Google and PicSearch, according to *Kelly*, had not. See *Image Search Engines*, at <http://netcopyrightlaw.com/imagesearch.asp> (last visited Feb. 22, 2003).

7. See "Thumbnail," Client Help Desk, at <http://www.clienthelpdesk.com/dictionary/thumbnail.html> (last visited Feb. 22, 2003). For a more technical description, see Harvey A. Cohen, *Access and Retrieval from Image Databases Using Image Thumbnails* (1996), available at [http://homepage.cs.latrobe.edu.au/image/papers/ThumbRetrieval\\_ICIP96.pdf](http://homepage.cs.latrobe.edu.au/image/papers/ThumbRetrieval_ICIP96.pdf) (last visited Feb. 20, 2003).

full-sized image, they function like any other hyperlink, and may link to any kind of content. By definition, the creation of a thumbnail requires that a copy of the full-sized image be made.

### B. “Autonomous Agents” or “Bots”

Software programs, commonly known as “robots” or “bots,” are used for various automated data collection tasks. One important function of bots, often called “spiders” or “web crawlers” in the search engine context, is to create the indices upon which search engines are built.<sup>8</sup> Bots traverse the Internet, recursively following hyperlink after hyperlink, indexing each webpage in order to create a webpage database. Users may query a search engine to match terms contained in the database so as to retrieve the indexed page.<sup>9</sup> Similarly, bots create databases of images located on the Internet in order to allow users to search for images in visual search engines such as Google’s Image Search,<sup>10</sup> Altavista’s Image Search,<sup>11</sup> and Ditto Visual Search.<sup>12</sup>

### C. Inline Linking and Framing

Inline linking and framing allow Web publishers to associate site content with the content of another party’s site, to create a webpage that is a hybrid of both parties’ content.<sup>13</sup> Inline links allow a website to display a work residing on another website’s server, within the context of its own website, as if the inline linked work resided on its own server.<sup>14</sup> The user is typically unaware that the image has been imported from another website. Similarly, a framing webpage can use framing code to display all or a

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8. Stephen T. Middlebrook & John Muller, *Thoughts on Bots: The Emerging Law of Electronic Agents*, 56 BUS. LAW. 341, 343 (2000).

9. See Jeffrey M. Rosenfeld, *Spiders and Crawlers and Bots, Oh My: The Economic Efficiency and Public Policy of Online Contracts That Restrict Data Collection*, 2002 STAN. TECH. L. REV. 3, ¶ 2 (2002).

10. <http://images.google.com> (last visited Feb. 22, 2003).

11. <http://www.altavista.com/image/default> (last visited Feb. 19, 2003).

12. The original Arriba Vista search engine has been modified and is now called Ditto Visual Search. Its current incarnation is located at <http://www.ditto.com> (last visited Feb. 20, 2003).

13. See Lydia Pallas Loren, *The Changing Nature of Derivative Works in the Face of New Technologies*, 4 J. SMALL & EMERGING BUS. L. 57, 59 (2000); Mark Sableman, *Link Law Revisited: Internet Linking Law at Five Years*, 16 BERKELEY TECH. L.J. 1273, 1297 (2001).

14. For further explanation of the workings of inline linking and framing, see Nicos L. Tsilas, *Minimizing Potential Liability Associated With Linking and Framing on the World Wide Web*, 8 COMMLAW CONSPECTUS 85, 86 (2000).

portion of a remote website within a “frame” on the framing webpage.<sup>15</sup> The framed site functions no differently than if it were unframed, allowing the user to navigate through links on the framed site, all without terminating the connection to the framing site.<sup>16</sup>

#### D. Technological Controls For Website Operators

Website operators may prevent the inline linking or framing of their content through simple programming techniques.<sup>17</sup> The most basic techniques include frequently changing the address of a website’s main or subsidiary pages, or requiring a password or other authentication to access a website’s content.<sup>18</sup> Similarly, programmed commands may be used to prevent websites with specified domains from linking to a site’s content. Since both inline linking and framing utilize links to request the target page from its originating server, each is subject to technological controls.

Bots may be countered with similar ease. To prevent access by bots, a website may incorporate a “robot exclusion header,” a text file that informs the robot that its presence is unwelcome.<sup>19</sup> Most bots respond appropriately to these instructions and do not index the site’s content.<sup>20</sup> However, compliance is entirely voluntary and predicated on the bot being programmed to read the header and conform to its instructions.<sup>21</sup>

Despite the ease with which technological controls can be used to defend against inline linking or framing, technological controls are not a panacea for all websites encountering undesired links. They usually are easily circumvented, and may negatively affect a site’s functionality.<sup>22</sup>

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15. David Yan, *Virtual Reality: Can We Ride Trademark Law to Surf Cyberspace?*, 10 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 773, 812 (2000).

16. Richard Raysman & Peter Brown, *Dangerous Liaisons: The Legal Risks of Linking Web Sites*, 217 N.Y.L.J. 66 (Apr. 8, 1997), at 3.

17. See Loren, *supra* note 13, at 91; Quinn, *supra* note 4, at 47; Aaron Rubin, Comment, *Are You Experienced? The Copyright Implications of Website Modification Technology*, 89 CAL. L. REV. 817, 842 n.165 (2001); Sableman, *supra* note 13, at 1341; David Yan, *supra* note 15, at 812-13.

18. See Kara Beal, *The Potential Liability of Linking on the Internet: An Examination of Possible Legal Solutions*, 1998 BYU L. REV. 703, 732-33 (1998); Sableman, *supra* note 13, at 1341.

19. See Laura Quilter, Note, *The Continuing Expansion of Cyberspace: Trespass to Chattels*, 17 BERKELEY TECH. L.J. 421, 424 n.31 (2002); Rosenfeld, *supra* note 9, ¶ 3; Martijn Koster, *A Standard For Robot Exclusion*, at <http://www.robotstxt.org/wc/norobots.html> (last visited Feb. 22, 2003).

20. See Quilter, *supra* note 19, at 424 & n.31.

21. See *id.*

22. See *infra* Part IV.D.1.

## II. LEGAL BACKGROUND

### A. The Right to Display Work Publicly

A copyright owner is granted the exclusive right to “display the work publicly.”<sup>23</sup> The Copyright Act defines a display as “any act by which the initial performance or display is transmitted, repeated, or made to recur.”<sup>24</sup> The Act’s definition of the term “publicly” encompasses a transmission of a display of a work to the public “by means of any device or process, whether the members of the public capable of receiving the performance or display receive it in the same place or in separate places and at the same time or at different times.”<sup>25</sup> The House Report regarding the 1976 Copyright Act revision states that “[e]ach and every method by which the images or sounds comprising a performance or display are picked up and conveyed is a ‘transmission,’” and “[t]he definition of ‘transmit’ . . . is broad enough to include all conceivable forms and combinations of wired or wireless communications media.”<sup>26</sup>

These statutory provisions and associated commentary suggest that a website framing secondary content could infringe the secondary content author’s exclusive right to display her work publicly.<sup>27</sup> Although a framing site does not store or transmit copies of its target pages, the instructions contained in its frameset documents directly cause the secondary content to be displayed within a frame.<sup>28</sup> Similarly, “inline links” directly cause the secondary content to be displayed on the webpage containing the inline link. Thus, a website framing or inline linking to copyrighted material may arguably be “displaying” them for purposes of copyright liability.

### B. The Fair Use Exception

Congress codified the judicially-created fair use exception to “permit[] courts to avoid rigid application of the copyright statute when, on occa-

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23. 17 U.S.C. § 106(5) (2000).

24. H.R. REP. NO. 94-1476, at 63 (1976), *reprinted in* 1976 U.S.C.C.A.N. 5659, 5677.

25. 17 U.S.C. § 101.

26. H.R. REP. NO. 94-1476, at 64 (1976), *reprinted in* 1976 U.S.C.C.A.N. 5659, 5678.

27. See Alison Roarty, *Link Liability: The Argument For Inline Links and Frames as Infringements of the Copyright Display Right*, 68 FORDHAM L. REV. 1011, 1048 (1999).

28. See Brian D. Wassom, *Copyright Implications of “Unconventional Linking” on the World Wide Web: Framing, Deep Linking and Inlining*, 49 CASE W. RES. L. REV. 181, 208 (1998).

sion, it would stifle the very creativity which that law is designed to foster."<sup>29</sup> Section 107 of the Copyright Act specifies certain uses of copyrighted material that normally fall within the bounds of fair use: criticism, comment, news reporting, teaching, scholarship, and research.<sup>30</sup> However, these and all other fair use defenses are examined under the four-factor fair use test codified in 17 U.S.C. § 107.<sup>31</sup>

Intended to be illustrative rather than exhaustive,<sup>32</sup> the statutory factors should be balanced in light of the objectives of copyright law, rather than in terms of definitive or determinative tests.<sup>33</sup> Congress left courts to develop particular applications of the factors, as they had done at common law.

### III. CASE SUMMARY

#### A. FACTUAL BACKGROUND

Plaintiff Leslie Kelly, a professional photographer, displayed several of his copyrighted photographs on his websites. He also licensed some

29. *Dr. Seuss Enters., L.P. v. Penguin Books USA, Inc.*, 109 F.3d 1394, 1399 (9th Cir. 1997) (citing *Iowa State Univ. Research Found., Inc. v. Am. Broad. Co.*, 621 F.2d 57, 60 (2d Cir. 1980)).

30. 17 U.S.C. § 107 (2000).

31. *Id.*; see *Harper & Row, Publishers, Inc. v. Nation Enters.*, 471 U.S. 539, 551-52 (1985). Section 107 expresses the fair use provision as follows:

In determining whether the use made of a work in any particular case is a fair use the factors to be considered shall include—

- (1) the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes;
- (2) the nature of the copyrighted work;
- (3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and
- (4) the effect of the use upon the potential market for or value of the copyrighted work.

17 U.S.C. § 107.

32. See ROBERT MERGES ET AL., *INTELLECTUAL PROPERTY IN THE NEW TECHNOLOGICAL AGE* 490 (2d ed. 2000) (citing H.R. REP. NO. 94-1476, at 66 (1976), and stating that the factors to be considered—along with § 107's illustrative list of fair uses—were “the result of a process accretion” during the judicial development of the fair use doctrine at common law,” and that “section 107 was designed to ‘offer some guidance’ in determining fair use” rather than “to formulate ‘exact rules’”); see also Ruth Okediji, *Givers, Takers, and Other Kinds of Users: A Fair Use Doctrine For Cyberspace*, 53 FLA. L. REV. 107, 123 (2001) (citing H.R. REP. NO. 94-1476, at 68 (1976), which stated, “There may be instances in which copying which does not fall within the [statute’s] guidelines . . . may nonetheless be permitted under the criteria of fair use.”).

33. *Dr. Seuss*, 109 F.3d at 1399.

photographs to outside websites. Defendant Arriba Soft Corp.<sup>34</sup> operated a “visual search engine” which displayed the results of a user’s search query as thumbnail images. To create the thumbnails, Arriba first used a “Web crawler” to search for images to index in its search engine.<sup>35</sup> Upon finding a suitable image, the crawler would download a copy of the full-sized image onto Arriba’s server, generate a thumbnail representation of the image, and then delete the full-sized image from the server.<sup>36</sup>

Arriba’s search engine returned these thumbnails as search results.<sup>37</sup> Originally, upon a user’s clicking a thumbnail, Arriba’s search engine produced a page displaying the full-sized image, retrieved directly from the originating website’s server, with text describing the size of the image, a link to the originating website, the Arriba banner, and Arriba advertising.<sup>38</sup> After operating in this manner for several months, Arriba altered its search engine such that the results page contained two links, entitled “Details” and “Source” respectively, next to each thumbnail.<sup>39</sup> The “Details” link led to a page similar to the one produced previously, except it displayed a thumbnail in place of the full-sized image.<sup>40</sup> A user’s clicking of this thumbnail, or the “Source” link, produced two new windows on top of Arriba’s initial results page: a foreground window displaying the full-sized image, again retrieved directly from its originating server, and a second window displaying the full webpage on which the image was originally displayed.<sup>41</sup>

## B. PROCEDURAL HISTORY

Upon learning that unlicensed copies of his images were included in Arriba’s database, Kelly brought a claim in the U.S. District Court for the Central District of California against Arriba for copyright infringement.<sup>42</sup> In December 1999, the court ruled that although Kelly had established a prima facie case of copyright infringement based on Arriba’s unauthorized reproduction and display of his works, Arriba had established a valid fair

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34. Arriba Soft changed its name to “Ditto.com” after the commencement of the appellate portion of its litigation with Kelly. *Kelly v. Arriba Soft Corp.*, 280 F.3d 934, 938 n.1 (9th Cir. 2002).

35. *Id.* at 938.

36. *Id.*

37. *Id.*

38. *Id.*

39. *Id.* at 939.

40. *Id.*

41. *Id.*

42. *Kelly v. Arriba Soft Corp.*, 77 F. Supp. 2d 1116 (C.D. Cal. 1999).

use defense under § 107 of the Copyright Act.<sup>43</sup> Kelly appealed to the Ninth Circuit.<sup>44</sup>

### C. THE NINTH CIRCUIT'S ANALYSIS

In *Kelly*, the Ninth Circuit's invocation of existing law was straightforward. The court analyzed Arriba's use of thumbnails and its "inline linking and framing" of Kelly's images as separate and distinct actions.<sup>45</sup> With respect to Arriba's creation and use of thumbnails, it was undisputed that Kelly's images were copyrightable and that Arriba had copied them without authorization.<sup>46</sup> Therefore, Arriba's liability for its creation and use of the thumbnails hinged entirely on the success of its fair use defense.

Examining Arriba's "inline linking and framing," the court acknowledged that Arriba's practices did not implicate the reproduction right.<sup>47</sup> The court thus focused on Kelly's right to display the work publicly.<sup>48</sup> Finally, the court analyzed a possible fair use defense with regard to Arriba's inline linking and framing.<sup>49</sup>

#### 1. Thumbnail Reproductions of Kelly's Images

In its evaluation of the thumbnail images, the court focused primarily on the first and fourth statutory fair use factors; namely, the purpose and character of the use, and the effect on the market for the copyrighted work. Analyzing the first factor, the court considered both the commercial nature

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43. *Id.* at 1121.

44. *Kelly v. Arriba Soft Corp.*, 280 F.3d 934 (9th Cir. 2002).

45. *Id.* at 939.

46. *Id.* at 940.

47. *Id.* at 944 ("[Arriba's practice] does not entail copying [Kelly's images] but, rather, importing them directly from Kelly's web site. Therefore, it cannot be copyright infringement based on the reproduction of copyrighted works . . .").

48. *See id.* at 944-47.

49. The Ninth Circuit requested additional briefs in this case on October 10, 2002, chiefly concerning the "derivative use" right. *See Kelly v. Arriba Soft Corp.*, No. 00-55521 (9th Cir. filed Oct. 10, 2002) (order requesting additional briefs). As of this Note's publication, the court had taken no action in response, and it is unclear whether the right to prepare derivative works may ultimately be at issue in the case. The authority regarding applicability of the "derivative use" right to framing is uncertain in the Ninth Circuit. *See Futuredontics, Inc. v. Applied Anagramatics, Inc.*, 1998 U.S. Dist. LEXIS 2265, \*10 (C.D. Cal. 1998), *aff'd*, 152 F.3d 925 (9th Cir. 1998) (refusing both plaintiff's motion for a preliminary injunction and defendant's motion to dismiss, holding that the cases cited by the parties did not conclusively determine whether the defendants' framing Web page constituted a derivative work). Moreover, as discussed *infra* Part IV.A, Arriba's conduct during the time period at issue does not seem to have involved "framing" at all, despite being so deemed by both the trial judge and the Ninth Circuit panel. Owing to this uncertainty regarding its relevance, the derivative works theory is not considered in this Note.

of Arriba's use and whether the use "merely superseded the object of the originals or instead added a further purpose or different character."<sup>50</sup> It determined that although Arriba's website served an overtly commercial purpose, Arriba's use was "more incidental and less exploitative in nature than more traditional types of commercial use" since Arriba was neither selling Kelly's images nor using them to promote its website directly.<sup>51</sup> The commercial nature of the use thus only slightly weighed against a finding of fair use.<sup>52</sup>

The court next determined that since Arriba's thumbnails served an "entirely different function" than Kelly's images, they did not supersede Kelly's use.<sup>53</sup> Since the thumbnails did "not supersed[e] Kelly's use but, rather, has created a different purpose for the images, Arriba's use is transformative."<sup>54</sup> After noting the benefit accorded the public by the search engine's "enhancing information gathering techniques on the internet,"<sup>55</sup> the court concluded that the first factor weighed in favor of Arriba.<sup>56</sup>

The second and third factors—the nature of the copyrighted work, and the amount and substantiality of the portion used in relation to the work as a whole—received scant attention from the court. Regarding the nature of the work, the court simply noted that creative works such as Kelly's "are closer to the core of copyright protection than are more fact-based works,"<sup>57</sup> but found Kelly's previous online publication of the work to cut in favor of fair use.<sup>58</sup> Thus, this factor weighed only slightly in favor of Kelly.<sup>59</sup> As to the amount and substantiality of the portion used, the court clarified that although copying a work in its entirety militates against fair use, the extent of permissible copying significantly varies according to the purpose and character of the use.<sup>60</sup> This factor was deemed a nullity, because although Arriba had copied the images in their entirety, doing so was required for the visual search engine's functionality.<sup>61</sup>

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50. *Id.* at 941 (citing *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 579 (1994)).

51. *Id.* at 940 (citing *A & M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1015 (9th Cir. 2001)).

52. *Id.* at 941.

53. *Id.* at 941-42.

54. *Id.*

55. *Id.* at 942.

56. *Id.*

57. *Id.* at 942-43.

58. *Id.* at 943.

59. *Id.*

60. *Id.*

61. *Id.*

Addressing the effect on the market for the copyrighted work, the court again focused on the transformative nature of Arriba's use. Noting that "a transformative work is less likely to have an adverse impact on the market of the original than a work that merely supersedes the copyrighted work,"<sup>62</sup> the court concluded that as a highly transformative use of Kelly's images, the thumbnails' adverse effect on the market for the images would be minimal.<sup>63</sup>

Having applied the four statutory factors, the court concluded that on balance, Arriba's creation and use of Kelly's images as thumbnails constituted a valid fair use.<sup>64</sup>

## 2. *Arriba's Linking to Kelly's Full-Sized Images*

Assessing Arriba's "inline linking and framing," the court acknowledged that Arriba had made no copies, and thus confined its analysis to the public display right.<sup>65</sup> Noting that the Act's legislative history emphasized the "broad nature of the display right,"<sup>66</sup> the court determined that the display of Kelly's images on a computer screen constituted a public display.<sup>67</sup> The court then examined two district court cases that found infringement of the display right.<sup>68</sup> Although each of these defendants had copied copyrighted images to its servers to make them available to subscribers, the panel refused to distinguish the cases.<sup>69</sup> Rather, the court emphasized the "active role" the defendants had taken in "creating the display" of the images in each case.<sup>70</sup> It concluded that Arriba likewise had "actively participated in the display of Kelly's images," and thus was directly liable for infringement of Kelly's display right.<sup>71</sup>

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62. *Id.* at 943 (citing *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 591 (1994)).

63. *See id.*

64. *Id.* at 944.

65. *Id.*

66. *Id.* at 945.

67. *Id.*

68. *Playboy Enters., Inc. v. Webworld, Inc.*, 991 F. Supp. 543 (N.D. Tex. 1997) (holding a website operator who downloaded copyrighted photographs from Internet newsgroups, discarded the text, and made the images available to subscribers to have violated Playboy's exclusive right to display the photographs); *Playboy Enters., Inc. v. Russ Hardenburgh, Inc.*, 982 F. Supp. 503 (N.D. Ohio 1997) (holding the owner of an electronic bulletin board system to have infringed Playboy's copyrights by displaying copyrighted images on its system).

69. *Kelly*, 280 F.3d at 946.

70. *Id.*

71. *Id.* at 947.

Finally, the court considered whether this infringement might be excused by the fair use exception. The court determined that “the search engine would function the same without [their display],” because the full-sized images did not “act as a means to access other information on the internet [sic]” and “likely [were] the end product themselves.”<sup>72</sup> In addition, Arriba had added no new expression or meaning to render its use transformative.<sup>73</sup> As a result, the first fair use factor fell squarely in favor of Kelly.<sup>74</sup> The second factor—the nature of the copyrighted work—was unchanged from the thumbnail analysis and again slightly favored Kelly.<sup>75</sup> As to the third factor—the amount and substantiality of the work used—the court concluded that, although displaying the full-sized images was essential to Arriba’s purpose of giving users access to the image without visiting Kelly’s website, this purpose itself was illegitimate.<sup>76</sup> Because Arriba’s use of the full-sized images was unreasonable in light of the purpose of the display, the third factor favored Kelly.<sup>77</sup> Lastly, the court addressed the fourth factor, the effect of the use on the market for the copyrighted work. Noting the frequent dependence of the fourth factor on the degree of transformation of the allegedly infringing use, the court clearly delineated all the potential markets for Kelly’s works.<sup>78</sup> Upon determining that Arriba’s inline linking and framing “would result in substantial adverse effects” to each market, the court concluded that the fourth factor weighed heavily in Kelly’s favor.<sup>79</sup>

All four statutory fair use factors having weighed in favor of Kelly, the court held that Arriba’s inline linking and framing of Kelly’s full-sized images did not constitute fair use.<sup>80</sup>

#### IV. DISCUSSION

##### A. Descriptive Errors in the Opinion Complicate the Analysis

The Ninth Circuit’s opinion is complicated by two significant descriptive errors. The court’s first error was not clearly stating which of Arriba’s manners of fully displaying Kelly’s work was infringing. The court’s sec-

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72. *Id.*

73. *Id.*

74. *Id.* at 948.

75. *Id.*

76. *Id.*

77. *Id.*

78. *Id.*

79. *Id.*

80. *Id.*

ond error was incorrectly characterizing one of Arriba's full-sized displays of Kelly's work as having used framing. Both errors greatly increase the difficulty of analyzing the court's reasoning.

First, although the Ninth Circuit echoed the trial judge's description of two different iterations of Arriba's service during the time period under consideration,<sup>81</sup> it failed to distinguish between the two versions when conducting its infringement analysis. The two versions were markedly different, as the first iteration displayed the full-sized, inline-linked image on a page of Arriba's creation, immediately beneath a banner advertisement;<sup>82</sup> but the second version displays the inline-linked, full-sized image by itself in a new browser window, along with a second new browser window displaying the entire webpage on which the image originally appeared.<sup>83</sup> Since the court does not differentiate between the two, the precise proscription of *Kelly* is unclear.

Second, although the Ninth Circuit described Arriba's practices as "inline linking and framing," Arriba does not appear to have actually framed Kelly's webpages or copyrighted images during the time period at issue. The first iteration of Arriba's service is correctly described as employing inline linking because it did "import an image from another web site;"<sup>84</sup> yet the second iteration is erroneously described as using "framing." The second iteration of Arriba's search engine placed the inline-linked image in a new browser window, not a frame. Thus, while the problematic aspects of Arriba's conduct might also arise in framing cases, the court's opinion should not be understood as condemning the framing of copyrighted content.

## **B. Effects of the Court's Proscription of Inline Linking of Copyrighted Content**

Seizing on the opinion's lack of technical precision, critics of the decision have asserted that it will have far-reaching limiting effects on the development of the World Wide Web. Some have claimed that the court's condemnation of "inline linking and framing" may be read to imply that "the mere act of establishing a direct link to a copyrighted work creates

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81. *See id.* at 938-39.

82. *Id.* at 938; Petition for Panel Rehearing and Rehearing En Banc by Defendant-Appellee Ditto.com, Inc. (Formerly Arriba Soft Corporation) at 20-21, *Kelly v. Arriba Soft Corp.*, 280 F.3d 934 (9th Cir. 2002) (No. 00-55521) (showing screen shots of the two different versions of Arriba's search engine during the time period at issue).

83. Petition for Panel Rehearing and Rehearing En Banc by Ditto.com, at 20-21, *Kelly* (No. 00-55521).

84. *Id.* at 938.

liability for public display unless authorized.”<sup>85</sup> Others have extended this reasoning to suggest that every online service provider directly linking to copyrighted works would also face liability.<sup>86</sup>

These arguments should not be taken to suggest that the Ninth Circuit has proscribed all links to copyrighted content. When read in context, the court’s use of the term “direct link” referred to Arriba’s use of inline links to display others’ copyrighted images as a seamless part of Arriba’s website.<sup>87</sup> This type of linking, which effectively divorces the image from its original setting and mires the inline-linked image amongst Arriba’s advertisements, is fundamentally different than the technique typically used to link separate pages on the Web. While the Web’s vast potential for communication and dissemination of information depends upon unfettered linking, this is easily distinguished from a search engine’s juxtaposition of the creative works of others with the search engine’s own advertisements.

Critics of the Ninth Circuit’s ruling contend that inline linking should not constitute a violation of the public display right, correctly pointing out that the content’s originating server—not a framing or inline-linking webpage—actually “transmits” inline-linked content.<sup>88</sup> A server hosting content on the Internet will transmit a copy of the content in response to any

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85. Petition for Panel Rehearing and Rehearing En Banc by Ditto.com, at 20-21, *Kelly* (No. 00-55521).

86. See Brief of Google Inc. as Amicus Curiae In Support of Petition for Panel Rehearing and Rehearing En Banc by Defendant-Appellee Ditto.Com, Inc. (Formerly Arriba Soft Corporation) at 5, *Kelly v. Arriba Soft Corp.*, 280 F.3d 934 (9th Cir. 2002) (No. 00-55521) (contending that “without clarification, it might be argued that this reasoning would impose liability on every search engine for providing a list of search results that link to third party web pages (and indeed, on every Internet service provider that directly links to copyrighted works”).

87. See *Kelly*, 280 F.3d at 947 (“Arriba acted as more than a passive conduit of the images by establishing a direct link to the copyrighted images. Therefore, Arriba is liable for publicly displaying Kelly’s copyrighted images without his permission.”). This is true for the period with which this lawsuit is concerned, January 1999 until “sometime after August 2000.” *Id.* at 939. Thereafter, Arriba modified its search engine so as to display the full-sized image alone within one frame, and to frame the entire webpage on which the copyrighted image originally appeared in a frame below. *Id.* Then, “direct link” as used by the court would refer only to the inline linked image within a frame.

88. See Petition for Panel Rehearing and Rehearing En Banc by Defendant-Appellee Ditto.com, Inc. (Formerly Arriba Soft Corporation) at 8, *Kelly v. Arriba Soft Corp.*, 280 F.3d 934 (9th Cir. 2002) (No. 00-55521); see generally Brief of the Electronic Frontier Foundation as Amicus Curiae In Support of Petition for Panel Rehearing and Rehearing En Banc by Defendant-Appellee Ditto.Com, Inc. (Formerly Arriba Soft Corporation), *Kelly v. Arriba Soft Corp.*, 280 F.3d 934 (9th Cir. 2002) (No. 00-55521).

valid command.<sup>89</sup> Thus, these critics contend, because unprotected content is thereby set forth on the Internet for indiscriminate dissemination, providing a link to this content ought not constitute infringement of the content owner's public display right.

This argument, however, ignores the manner in which copyrighted content is actually used and viewed online. A webpage containing images consists of a webpage written in HTML code that contains HTML requests for image files. Although the webpage and its images are constituent parts of a singular whole which appears seamless to most users, the image files and the webpage are in different file formats and reside separately on a server. In the case of inline linking, they reside on different servers. This is how a search engine such as Arriba's can locate and link to image files separately from the webpage on which they are intended to appear.

It is tempting to conclude that since copyrighted images are thereby placed on a server and may be linked to by any webpage, they are already being "publicly displayed" and cannot have this right infringed by a party inline linking this content. Allowing this, however, would significantly reduce incentives to place copyrighted images online. Rather than acquiring a license for copyrighted images, Web authors could freely code their webpages to inline link to images residing on others' servers. Servers hosting popular images, particularly those of broad or general relevance, would be linked to by several webpages and would have to employ technological controls to prevent such linking. Such restrictions may be undesirable for a great many reasons.<sup>90</sup>

At bottom, the *Kelly* court recognized that inline linking full-sized images was not necessary to the functioning of Arriba's search engine.<sup>91</sup> Although not made explicit, the court seemed to realize that Arriba—particularly in the earlier incarnation of its service, which juxtaposed inline-linked images with its banner advertisements—was merely seeking to entice users to view full-sized images through its service rather than to venture to the site on which the image was originally intended to appear.<sup>92</sup> This would allow Arriba to not only display their advertisements each time a full-sized image was viewed, but also to keep more users from leaving Arriba's site to visit the sites on which the images appeared.

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89. See Wassom, *supra* note 28, at 188 (describing the process by which a copy of content is "transmitted" in response to a user's request).

90. See *infra* Part IV.D.1.

91. *Kelly v. Arriba Soft Corp.*, 280 F.2d 934, 937 (9th Cir. 2002).

92. See *id.*

This common-sense analysis led the *Kelly* court to condemn inline linking and framing that merely “superseded the object” of the original works,<sup>93</sup> while lending its cautious approval to transformative uses that benefit the public in some manner.<sup>94</sup> Since the Ninth Circuit has requested additional briefs in the case,<sup>95</sup> rehearing may well be granted; an amended opinion could correct the court’s misstatement of certain technical terms. Even if the language remains the same, however, the court’s reasoning is clear when read in proper context. *Kelly* threatens only inline linking as performed by Arriba. Other hyperlinking methods, comprising the vast majority of Internet links, should remain unaffected by the holding.

### C. The Ninth Circuit Emphasizes the Integral Nature of the “Transformative Use” Analysis

If *Kelly* is to have a far-reaching impact on fair use, it will likely come about from the Ninth Circuit’s embrace—and extension—of the recent trend toward an emphasis on the transformative nature of a secondary use.<sup>96</sup> The court’s thumbnail analysis in *Kelly* indicates that so long as a use is transformative, factors tending against a fair use claim will likely be ignored. Should the transformative use analysis further come to supersede the remaining concerns reflected in the fair use inquiry, judicial analysis in fair use cases might scarcely resemble the doctrine as originally conceived.

However, such a seemingly radical step may constitute a positive step in Internet hyperlinking jurisprudence. This softening of the fair use test indicates that courts are finally paying proper attention to potential public benefits when balancing issues of incentives and access. Liberal application of the fair use exception may encourage desirable productive uses of content while allowing technological innovators to create new expression through the transformation of existing works. The attainment of the proper result mitigates potential concerns regarding the overemphasis of a single, judicially-crafted factor in the application of a statutory test. *Kelly*’s analysis returns fair use to its rightful place in policing the copyright bargain.

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93. *Id.* at 947.

94. *See infra* notes 115-117 and accompanying text.

95. *See supra* note 32.

96. *See* Pierre N. Leval, *Toward a Fair Use Standard*, 103 HARV. L. REV. 1105, 1111 (1990) (contending that justification for the fair use exception primarily turns on whether, and to what extent, the challenged use is transformative); *see also* *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 579 (1994).

1. *Kelly's Thumbnail Analysis Further Nudges the Fair Use Inquiry Toward Analysis of a Single Factor: Transformative Use*

The Ninth Circuit's finding that Arriba's creation and use of the thumbnails was sufficiently transformative played a decisive role in the outcome as to the first and fourth statutory factors. Guided by the Supreme Court's recent emphasis on transformative use,<sup>97</sup> the Ninth Circuit emphasized that transformative works were less likely to cause harm to the original work's market.<sup>98</sup> The transformative nature of Arriba's thumbnails was also sufficient to outweigh the firm's profit motive during the court's analysis of the first statutory factor.<sup>99</sup> This determination affected the court's analysis of the third factor, the amount and substantiality of the portion used. Here the court, noting that "the extent of permissible copying varies with the purpose and character of the use,"<sup>100</sup> refused to condemn Arriba's copying of the images in their entirety since doing so was essential to Arriba's novel use for the reproduced images.<sup>101</sup>

The powerful implications of successfully characterizing an otherwise infringing use as "transformative" are thus clearly demonstrated in *Kelly*. Kelly's works were copied in their entirety by a profit-motivated actor. These facts should cut strongly against a defendant insofar as the second and third factors—the nature of the copyrighted work, and the amount and substantiality of the portion used, respectively—are concerned. Moreover, the defendant's profit motive should factor into the analysis of the first statutory factor, the purpose and character of the use.<sup>102</sup> Yet Arriba's creation and use of the thumbnails was deemed a fair one.<sup>103</sup> The transformative use determination either affected or trumped all else in the fair use inquiry.

This collapsing of the fair use inquiry is consistent with copyright law's goal of encouraging productive uses without detrimentally affecting creative incentives. Concern for creative incentives is reflected in the inquiry into the effect on the market for the copyrighted work, the most im-

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97. Equating its standard with that originally provided by Justice Story in *Folsom v. Marsh*, 9 F. Cas. 342 (C.C.D. Mass. 1841) (No. 4,901), the *Campbell* Court described the central purpose of the "character and purpose" inquiry as ascertaining "whether and to what extent the new work is transformative." *Campbell*, 510 U.S. at 579.

98. *Kelly*, 280 F.3d at 943.

99. *Id.* at 941-42.

100. *Id.* (citing *Campbell*, 510 U.S. at 586-87).

101. *Id.* at 943.

102. *Campbell*, 510 U.S. at 584-85.

103. *Id.* at 944.

portant of the four statutory factors.<sup>104</sup> This factor is closely intertwined with the character and purpose of the use, as the Ninth Circuit made explicit.<sup>105</sup> The character and purpose of the use, in turn, is dominated by the question of transformation.<sup>106</sup>

Otherwise stated, the inquiry into market effects essentially asks whether the infringing use “supersede[s] the use of the original,”<sup>107</sup> an inquiry which dovetails with the question of whether the infringing use was transformative. Arriba’s thumbnails did not supersede the use of the original images,<sup>108</sup> and in fact actually increased traffic to Kelly’s site.<sup>109</sup> They did not decrease Kelly’s incentives to produce creative works and make them accessible. If courts instead were to impose stricter criteria for finding transformative use, thereby decreasing the scope of the fair use exception, markets for legitimate products—such as a visual search engine that functions as a powerful research tool—would likely be foreclosed. Such detrimental effects on expressive diversity and public education are entirely unnecessary, so long as the standard for finding a use transformative remains high enough to preserve incentives for prospective authors.

2. *Kelly’s Increased Willingness to Find Uses “Transformative” May Promote Innovation*

*Kelly* indicates that any use of copyrighted content, irrespective of commerciality or the amount used, may be held to constitute fair use if sufficiently transformative.<sup>110</sup> If this holding is followed, the issue of whether a secondary use is “transformative,” and if so, to what extent, will take on paramount importance in fair use cases.

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104. See *Harper & Row, Publishers, Inc. v. Nation Enters.*, 471 U.S. 539, 566 (1985) (stating that this factor is “undoubtedly the single most important element of fair use”).

105. See *Kelly*, 280 F.3d at 948 (“The fourth factor often depends upon how transformative the new use is compared to the original use. . . . Works that are not transformative . . . have the same purpose as the original work and will often have a negative effect on the original work’s market.”).

106. See *supra* Part IV.C.1.

107. See *Campbell*, 510 U.S. at 579 (quoting *Folsom v. Marsh*, 9 F. Cas. 342, 345 (C.C.D. Mass.1841) (No. 4,901)).

108. See *Kelly*, 280 F.3d at 944 (“There would be no way to view, create, or sell a clear, full-sized image without going to Kelly’s web sites.”).

109. See *id.* It is unlikely that this benefit accorded Kelly’s websites played a determinative role in the market harm analysis, since simply having no effect or slight detrimental effects on Kelly’s website would be entirely consistent with not superseding the websites’ uses.

110. See *id.* at 941-42.

The central purpose of the transformation inquiry is to ascertain whether the use “supersede[s] the objects” of the original work.<sup>111</sup> Embracing that characterization, Judge Leval has explained that a transformative use is “productive and must employ the quoted matter in a different manner or for a different purpose than the original.”<sup>112</sup> A productive use, in turn, “should have a broader meaning [than ‘transformative’ use] that connotes a use that furthers the purpose of copyright law.”<sup>113</sup>

The Ninth Circuit was mindful of these characterizations while deeming Arriba’s thumbnails transformative.<sup>114</sup> It analogized the situation before it to *Nunez v. International News Corp.*,<sup>115</sup> in which the First Circuit found that copying a photograph intended to be used in a modeling portfolio and using it instead in a news article was a transformative use.<sup>116</sup> As in *Nunez*, explained the court, Arriba had created a new purpose for Kelly’s images and was not merely superseding Kelly’s purpose.<sup>117</sup> However, the Ninth Circuit did not mention that in *Nunez*, the First Circuit made clear that “by using the photographs *in conjunction with editorial commentary*,” the defendant had not merely “supersede[d] the objects of the original creations,’ but instead used the works for ‘a further purpose,’ giving them a new ‘meaning, or message.’”<sup>118</sup> Arriba’s use, in contrast, added no creative purpose, and in no way accorded a novel meaning or message to Kelly’s images themselves.<sup>119</sup> Its use resembles neither those given as examples of “transformative” use, nor—upon close inspection—the use deemed fair in *Nunez*.

Despite these dissimilarities with conventional illustrations of transformative use, Arriba’s use of the thumbnails was transformative by at least one definition, that posited by Judge Leval.<sup>120</sup> Arriba’s thumbnails constituted a productive use that employed the quoted material for a different purpose than the original.<sup>121</sup> Since Arriba’s use “benefit[ed] the

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111. *Folsom*, 9 F. Cas. at 348.

112. Leval, *supra* note 96, at 1111.

113. Loren, *supra* note 13, at 31.

114. *Kelly*, 280 F.3d at 941-42 (“Because Arriba’s use is not superseding Kelly’s use but, rather, has created a different purpose for the images, Arriba’s use is transformative.”).

115. 235 F.3d 18 (1st Cir. 2000).

116. *See Kelly*, 280 F.3d at 942 (citing *Nunez*, 235 F.3d at 22-23).

117. *Id.*

118. *Nunez*, 235 F.3d at 23 (citing *Campbell*, 510 U.S. at 579) (emphasis added).

119. *See Kelly*, 280 F.3d at 942 (stating that “thumbnails” are not used for illustrative or artistic purposes).

120. *See supra* note 114 and accompanying text.

121. *See supra* note 114 and accompanying text.

public by enhancing information gathering techniques on the internet” and “d[id] not stifle artistic creativity,” the court found it to “promote the goals of the Copyright Act and the fair use exception.”<sup>122</sup> The use was therefore productive.<sup>123</sup> Additionally, since the thumbnails were “not used for illustrative or artistic purposes,”<sup>124</sup> they served a different purpose than the original work.<sup>125</sup>

Taking these definitional matters into account, *Kelly* effectively indicates that any use with a different purpose than the original will be deemed sufficiently transformative to constitute fair use.<sup>126</sup> This seems the case even when facts normally tending against fair use are present, such as the copying of the original work in its entirety or a manifestly commercial purpose.<sup>127</sup> The opinion also indicates that a secondary use’s potential public benefit will enter into the analysis of the secondary use’s purpose and character.<sup>128</sup> Finding that an advertising-based search engine accorded society a public benefit signals that courts may be willing to find such benefits from many types of technological innovations that incorporate copyrighted content in whole or in part. This seems particularly likely when courts analyze technologies that index, summarize, or otherwise improve access to content.

*Kelly*’s adherence to the recent jurisprudential trend of favoring transformative uses accords with copyright law’s theoretical underpinnings. Having indicated a willingness to declare a great many uses transformative, *Kelly* may be at the forefront of an era of latitude afforded to technological innovators to use creative material for transformative uses. So long as these pieces of secondary expression do not unduly diminish incentives for creativity, they should fall within the confines of fair use.<sup>129</sup> Fair use is not merely a loose bundle of exceptions, but an integral part of copyright law’s overall scheme.<sup>130</sup> Since Congress has been accused of responding

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122. *Kelly*, 280 F.3d at 942.

123. *See Loren, supra* note 13, at 31-32 (describing productive use and distinguishing it from transformative use).

124. *Id.*

125. *See Kelly*, 280 F.3d at 942 (stating that Arriba’s use of Kelly’s images served a different function from Kelly’s purposes).

126. *See id.*

127. *See id.* at 943 (finding that Arriba’s copying reasonable even though “Arriba did copy each of Kelly’s images as a whole”).

128. *See id.*

129. *See Leval, supra* note 96, at 1110.

130. *See Leval, supra* note 96; Neil Weinstock Netanel, *Copyright and a Democratic Civil Society*, 103 YALE L.J. 283 (1996); Lloyd L. Weinreb, *Fair Use*, 67 FORDHAM L. REV. 1291, 1310 (1999).

to technological change with excessive protectionism,<sup>131</sup> fair use must assume a broader role in the copyright bargain to counterbalance these encroachments on user rights.<sup>132</sup>

#### D. Potential Threats to Fair Use

Copyright law is but one means used to protect content in the digital environment. Technological controls often augment, or replace, copyright law on the Internet. Other legal theories, such as contract law, also supplement protection.<sup>133</sup> Ultimately, however, copyright law is preferable to potentially inequitable technological controls as well as other methods that might significantly harm fair use.

##### 1. *Technological Controls May Detrimentially Affect Creative Incentives*

Kelly likely could have prevented the inline linking and downloading of his images by implementing technological controls. Many commentators have endorsed the use of such controls to protect copyrighted works in digital form.<sup>134</sup> Some have gone further, suggesting that all technological

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131. Jessica Litman, *Copyright Legislation and Technological Change*, 68 OR. L. REV. 275, 281 (1989). See also Okediji, *supra* note 32, at 176-77 n.400 (citing Hearings on S. 1284 and H.R. 2441 before the Subcomm. on Courts and Intellectual Property of the Senate and House Comm. on the Judiciary (1995) (statement of Bruce Lehman, Assistant Secretary of Commerce)).

132. See Loren, *supra* note 13, at 20-21.

133. In addition to contract law, which is discussed *infra* Part IV.D.2, other legal doctrines relevant here include the resurrected common law doctrine of trespass to chattels, common law misappropriation, and possible statutory database protection. Unlike contract law, and trespass to chattels in limited instances, the remaining two doctrines given here do not typically involve copyrightable information and thus do not implicate fair use. Trespass to chattels has been viably asserted by website operators seeking to prevent bots from collecting data from their sites, although its application to the Internet has been questioned. See Dan L. Burk, *The Trouble with Trespass*, 4 J. SMALL & EMERGING BUS. L. 27, 54 (2000) (noting the doctrine's application while contending the doctrine may be pernicious when applied in the Internet context). Common law misappropriation may not be preempted by copyright law, yet appears limited to cases involving the misappropriation of time-sensitive material. See Beal, *supra* note 18, at 730-31. Database protection, for its part, has been the impetus for several proposed bills in Congress. See John D. Saba, Jr., *Internet Property Rights: E-Trespass*, 33 ST. MARY'S L.J. 367, 398-400 (2002). Without knowing the contours of any bill which might be enacted, analysis of the implications of database protection statutes on fair use is imprudent. However, these statutes could conceivably cover material within the auspices of copyright, presenting fair use concerns as a result.

134. See, e.g., Loren, *supra* note 13, at 91-92; Robert L. Tucker, *Information Superhighway Robbery: The Tortious Misuse of Links, Frames, Metatags, and Domain Names*, 4 VA. J.L. & TECH. 8, ¶ 143 (1999) (“[Technological solutions] are so simple and readily

options be exhausted before resort to litigation.<sup>135</sup> Effective technological means to prevent inline linking and framing are available,<sup>136</sup> and because those seeking to circumvent technological protections would face liability under the anticircumvention provisions of the Digital Millennium Copyright Act (DMCA),<sup>137</sup> such methods are efficacious. They prevent access by the majority of users prophylactically, while the DMCA provides for the punishment of those who defeat them.

Despite technological controls' effectiveness, however, declining to employ them should not diminish a copyright holder's rights. If website operators were required to use technological controls as a substitute for seeking legal redress, malevolent actors would have no reason to refrain from framing, inline linking, or otherwise inappropriately linking to sites lacking effective technological controls. Requiring copyright holders to use technological means to mitigate damages would have a similar effect.<sup>138</sup> Copyright law protects the unseasoned Internet publisher to the same extent as large, commercial websites. While the operators of the latter might reasonably be expected to employ technological controls to prevent undesirable activities—such as the downloading of copyrighted images, inline linking, framing, and other undesired linking—it is unjustifiable to expect the same of the former, who may not have the time, resources, training, or experience to thwart unwanted links. Sites with sufficient resources perceiving problematic linking will implement technological controls without additional motivation. Although making the use of technological controls compulsory may promote judicial economy, this alone cannot justify depriving authors of their rights. Doing so would provide a significant disincentive for the creation and dissemination of creative works.

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available that it is difficult to understand why anyone would want to resort to litigation rather than use the quick, certain, and comparatively inexpensive technological fix instead.”).

135. Tucker, *supra* note 134, ¶ 145.

136. See Loren, *supra* note 13, at 91; Tucker, *supra* note 134, ¶ 143-45.

137. Section 1201(a)(1)(A) of the Digital Millennium Copyright Act prohibits one from “circumvent[ing] a technological measure that effectively controls access to a work protected under [Title 17].” 17 U.S.C. § 1201(a)(1)(A) (2000).

138. See Tucker, *supra* note 134, ¶ 145 (arguing that the common law doctrine of avoidable consequences should require website operators to determine whether others have created unauthorized links to their sites and, if so, to take all reasonable, technologically feasible steps to minimize or eliminate the resulting damage).

## 2. *Non-Copyright Legal Theories May Limit Fair Use*

While technological controls may have problematic consequences for copyright owners' incentives,<sup>139</sup> some other legal theories currently espoused to protect websites' content, or which lie on the horizon, might significantly limit fair use. Most problematic are "browsewrap" agreements<sup>140</sup> and other contracts by which access to copyrighted works is sold or otherwise limited. Recent appellate case law indicates that these contracts, which purport to bind a user, can be written and applied so as to be enforceable under state contract law.<sup>141</sup>

Restrictive contracts, if widely employed, could severely limit fair use of creative materials located online. A purchaser of a book usually has no contractual relationship with the author, publisher, or bookseller regarding how the buyer may use the book.<sup>142</sup> The buyer's rights to read the book, make notes in it, copy expression or ideas from it, or dispose of it, are all determined by the nature and scope of the copyright owner's exclusive rights in the literary work embodied in the book and the buyer's property rights in the book itself.<sup>143</sup> In contrast, a work existing exclusively in an electronic database might only be obtained via some contractual relationship.<sup>144</sup> Even if a user could locate the resource and willingly pay for it, the database provider may condition access on the user's binding promise to refrain from uses that might be considered fair use under copyright

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139. Despite the drawbacks mentioned *supra* Part IV.D.1, technological controls that prevent inline linking, framing, and other similar means for linking to and displaying content do not detrimentally affect fair use. As typically employed, such controls do not prevent access by users, but rather, limit undesired means of accessing or displaying a website's content. For example, a website may employ technology that, upon the website being set in frames, makes the frames disappear. This has no effect on access. Even more restrictive technologies, such as a Web server programmed to reject all inline linking requests to images on that server, do not significantly impact fair use. Although the content will not be disseminated via the undesired method, it may be accessed freely through conventional linking methods. So long as website operators allow their content to be accessed by standard means, fair use will not be implicated.

140. See Robert A. Hillman & Jeffrey J. Rachlinski, *Standard Form-Contracting in the Electronic Age*, 77 N.Y.U. L. REV. 429, 464 (2002) (describing browsewrap contracts, which are "terms and conditions" that "generally provide that using the website to purchase goods or services offered (or just visiting the site) constitute acceptance of the conditions contained therein").

141. See Lydia J. Wilhelm, Comment, *Ensuring Enforceability: How Online Businesses Can Best Protect Themselves From Consumer Litigation*, 86 MARQ. L. REV. 181, 188-92 (2002) (citing cases).

142. See Netanel, *supra* note 130, at 385.

143. *Id.*; see also Quinn, *supra* note 4, at 71.

144. See Netanel, *supra* note 130, at 385.

law.<sup>145</sup> Such limitations on access may have profound consequences for fair use of resources located exclusively online, affecting everyone from children creating a library report to a critic attempting to create a parody for the purpose of social commentary. Since the digital environment contains no analog to the print world's public library, where copyrighted materials may be dependably found for free, this problem will increase in significance as an increasing number of materials are published primarily or exclusively online.

## V. CONCLUSION

With its methodical analysis in *Kelly*, the Ninth Circuit provided relatively clear guidance for search engine operators and others who index, summarize, or link to copyrighted works in the online medium. The court evinced a clear desire to avoid limiting new technologies that make use of preexisting copyrighted material, while simultaneously making clear that the public display right may be extended to condemn linking practices that display copyrighted material without adding further meaning or purpose. This balanced result is in accord with the goals of the copyright grant, equitably balancing the public's need for information-gathering, indexing, and information location tools with the necessity of maintaining incentives for the creation and dissemination of creative works.

Looking prospectively, the Ninth Circuit has clearly opened its arms to new works and technologies that incorporate preexisting works in a functionally transformative manner, although it is too early to tell whether this trend will carry over to fair use jurisprudence outside of the Internet context. It is clear, however, that copyright law is adaptable to evolving technologies so long as copyright's justifying principles remain in sight.

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145. *Id.*



## VEECK V. SOUTHERN BUILDING CODE CONGRESS INTERNATIONAL, INC.

*By Nick Martini*

Many documents produced by the federal government perform important, socially-desirable functions. Furthermore, the government provides incentives to ensure its works will continue to be developed. For these reasons copyright protection has generally been denied for governmental works. Nevertheless, courts struggle to determine what constitutes a government work. *Veeck v. Southern Building Code Congress International, Inc.*<sup>1</sup> addressed whether model codes created by private entities lose copyright protection when adopted by municipalities, thus grappling with the question of how broad of a scope should be given to the government works exception to copyright protection.

This Note will proceed in three parts. Part I traces the history of the government works exception in copyright law, and tracks the evolving importance of incentives in determining whether a work falls under the exception. Part II examines the history and progression of *Veeck*, highlighting the main issues presented in the case. Part III analyzes *Veeck* in the context of the government works exception, specifically considering what incentives promote the creation of such works and whether copyright incentives are needed. This Note concludes that while sufficient incentives motivate the creation of important governmental works such as judicial opinions, statutes, and model codes, less significant government-affiliated works such as tax maps or health care coding systems may require additional incentives for their creation.

### **I. BACKGROUND: THE HISTORY OF THE GOVERNMENT WORKS EXCEPTION TO COPYRIGHT PROTECTION**

Early government works exception precedents remain an important basis for contemporary decisions and also identify the importance of incentives to create a document in determining whether a work should fall under the government works exception.<sup>2</sup> Beginning with common law cases in the early nineteenth century, courts began to recognize the injustice of

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1. 49 F. Supp. 2d 885 (E.D. Tex. 1999) [hereinafter *Veeck I*], *aff'd*, 241 F.3d 398 (5th Cir. 2001) [hereinafter *Veeck II*], *rev'd en banc*, 293 F.3d 791 (5th Cir. 2002) [hereinafter *Veeck III*], and *petition for cert. filed*, 71 U.S.L.W. 3170 (Sept. 4, 2002).

2. See, e.g., *Veeck III*, 293 F.3d at 795-99; *Bldg. Officials & Code Adm'r v. Code Tech., Inc.*, 628 F.2d 730, 733-34 (1st Cir. 1980) [hereinafter *BOCA*].

granting copyright protection to expressions of primary law.<sup>3</sup> In time, the federal government began to codify these holdings into statutes barring copyright protection for government works.<sup>4</sup> Since its common law inception, courts have struggled to define the scope of the government works exception<sup>5</sup> and this task has only become more difficult as the volume and range of government works has expanded.<sup>6</sup>

In *Wheaton v. Peters*,<sup>7</sup> which established the common law government works exception, the Supreme Court denied copyright protection to the official reporter of its cases, stating that courts were “unanimously of the opinion, that no reporter has or can have any copyright in the written opinions delivered by this court; and that the judges thereof cannot confer on any reporter any such right.”<sup>8</sup> *Banks v. Manchester*<sup>9</sup> expanded *Wheaton*<sup>10</sup> by denying copyright protection for state judicial opinions.<sup>11</sup> The Court provided two justifications for its ruling: (1) judges had adequate finan-

3. See, e.g., *Callaghan v. Myers*, 128 U.S. 617, 645-47 (1888); *Banks v. Manchester*, 128 U.S. 244, 253-54 (1888); *Wheaton v. Peters*, 33 U.S. (8 Pet.) 591, 668 (1834); *Howell v. Miller*, 91 F. 129, 138 (6th Cir. 1898); *Davidson v. Wheelock*, 27 F. 61, 62 (C.C.D. Minn. 1866); *Nash v. Lathrop*, 6 N.E. 559, 562-63 (Mass. 1886).

4. See, e.g., 17 U.S.C. §§ 101, 105 (2002); 17 U.S.C. § 8 (repealed 1976).

5. See, e.g., *Banks*, 128 U.S. at 254; *Wheaton*, 33 U.S. (8 Pet.) at 668; *Heine v. Appleton*, 11 F. Cas. 1031, 1032-33 (S.D.N.Y. 1857) (No. 6324).

6. See, e.g., *County of Suffolk v. First Am. Real Estate Solutions*, 261 F.3d 179 (2d Cir. 2001) (considering whether copyright protection should be afforded to tax maps prepared by a county government); *Practice Mgmt. Info. Corp. v. AMA*, 121 F.3d 516, 518-20 (9th Cir. 1997) (determining whether a health care coding system adopted by a federal agency was a government work); *Schnapper v. Foley*, 667 F.2d 102 (D.C. Cir. 1981) (determining whether a movie commissioned by the federal government was an uncopyrightable work of the government); *Bldg. Officials & Code Adm’r v. Code Tech., Inc.*, 628 F.2d 730 (1st Cir. 1980) (considering whether privately created building codes, adopted by local governments, could maintain their copyright protection); *S & H Computer Sys., Inc. v. SAS Inst., Inc.*, 568 F. Supp. 416 (M.D. Tenn. 1983) (determining whether government funding for development of a software program made it a government work).

7. 33 U.S. (8 Pet.) at 668.

8. *Id.* Lacking statutory rules, the Court in *Wheaton* relied on equity principles to ensure public access to judicial opinions. See *Andrea Simon, Note, A Constitutional Analysis of Copyrighting Government-Commissioned Work*, 84 COLUM. L. REV. 425, 428 (1984); accord *Veeck III*, 293 F.3d at 795.

9. 128 U.S. 244 (1888).

10. *Wheaton* held that federal judicial opinions could not be copyrighted. *Wheaton*, 33 U.S. (8 Pet.) at 668. *Banks* expanded the *Wheaton* holding to also prevent copyright protection for state judicial opinions. *Banks*, 128 U.S. at 252-54.

11. *Banks*, 128 U.S. at 252-54.

cial incentives to ensure creation of opinions;<sup>12</sup> and (2) judicial opinions constituted the law and due process required complete access to the law.<sup>13</sup>

The Printing Act of 1885 contained the first legislative provision precluding copyright protection for government works.<sup>14</sup> Section 52 of the Act established the Public Printer (later the Government Printing Office),<sup>15</sup> allowing it to sell printing plates for government documents to private parties on the condition that “no publication reprinted from such stereotype or electrotype plates and no other [g]overnment publication shall be copyrighted.”<sup>16</sup> The Printing Act ushered in a new era for the government works exception by allowing courts to base their decisions on statutory construction rather than the more nebulous common law principles.<sup>17</sup>

Congress later incorporated the Printing Act’s prohibition on the copyright of government works into section 8 of the Copyright Act of 1909 (1909 Act), which provided that, “[n]o copyright shall subsist in the original text of any work which is in . . . any publication of the United States government, or any reprint, in whole or in part, thereof . . . .”<sup>18</sup> While this provision reflected Congress’ intention to deny copyright protection to government works, the 1909 Act failed to specify what constituted “publications of the United States Government.”<sup>19</sup> This oversight caused a great deal of confusion and inconsistency as courts struggled to interpret the scope of this phrase.<sup>20</sup>

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12. *Id.* at 253. The court held that judges receive a salary from the public treasury, and can, therefore, have no “pecuniary interest or proprietorship, as against the public at large, in the fruits of their judicial labors.” *Id.*

13. According to the *Banks* court, “The whole work done by the judges constitutes the authentic exposition and interpretation of the law, which, binding every citizen, is free for publication to all . . . .” *Id.* at 253.

14. Printing Act, ch. 23, 28 Stat. 601 (1895) (repealed 1909). See also David Rabinowitz, *Everything You Ever Wanted to Know About the Copyright Act Before 1909, But Couldn’t Be Bothered to Look Up*, 49 J. COPYRIGHT SOC’Y 649, 652 (2001).

15. §§ 1-2, 28 Stat. at 601. See also L. Ray Patterson & Craig Joyce, *Monopolizing the Law: The Scope of Copyright Protection for Law Reports and Statutory Compilations*, 36 UCLA L. REV. 719, 752 (1989).

16. § 52, 28 Stat. at 608.

17. Compare *Callaghan v. Myers*, 128 U.S. 617, 647-52 (1888), and *Banks*, 128 U.S. at 253, and *Wheaton*, 33 U.S. (8 Pet.) at 668, with *Sherrill v. Grieves*, 20 COPY-RIGHT OFF. BULL. 675 (D.C. Sup. Ct. 1929).

18. 17 U.S.C. § 8 (repealed 1976).

19. *What is a “Publication of the United States Government”? A Search for a Meaningful Solution*, 17 RUTGERS L. REV. 579, 579 (1963) [hereinafter *Meaningful Solution*].

20. See, e.g., *Scherr v. Universal Match Corp.*, 297 F. Supp. 107, 110-11 & n.8 (S.D.N.Y. 1967) (discussing the difficulty courts faced trying to define “publications of the United States Government”). See also *Meaningful Solution*, *supra* note 19, at 579

In a series of cases from the 1920s through the 1970s, courts considered three factors to determine whether a particular work should be classified as a government publication under the 1909 Act:<sup>21</sup> (1) the relationship between the work and the author's government employment;<sup>22</sup> (2) the degree to which an author used government facilities, personnel, and resources to create the work;<sup>23</sup> and (3) whether the government claimed authorship or distributed the work.<sup>24</sup> *Public Affairs Associates, Inc. v. Rickover*<sup>25</sup> illustrates the difficulty courts faced applying these factors.<sup>26</sup> Even though Vice Admiral Rickover's speeches were printed using government resources and bore official seals of federal agencies, the court gave more weight to the fact that they were developed on Rickover's private time and had little to do with his duties and thus the court held that the speeches were not publications of the government.<sup>27</sup>

Congress attempted to remedy its failure to define what constituted a government publication in the Copyright Act of 1976 (1976 Act). Section 101 of the 1976 Act provided a definition for "governmental work" as one "prepared by an officer or employee of the United States Government as part of that person's official duties."<sup>28</sup>

One of the first major challenges of the framework of the 1976 Act occurred in *Building Officials & Code Administrators v. Code Technology*,

(stating that because of the limited amount of government publishing in the early twentieth century, there was little need to specifically define government publications).

21. See, e.g., *Sawyer v. Crowell Publ'g Co.*, 46 F. Supp. 471 (S.D.N.Y. 1942) [hereinafter *Sawyer I*], *aff'd*, 142 F.2d 497 (2d Cir. 1944) [hereinafter *Sawyer II*]; *Grieves*, 20 COPYRIGHT OFF. BULL. at 685-87; see also *Meaningful Solution*, *supra* note 19, at 585-590.

22. See, e.g., *U.S. v. First Trust Co.*, 251 F.2d 686, 688-91 (8th Cir. 1958); *Sawyer I*, 46 F. Supp. at 473; *Grieves*, *supra* note 17, at 685-87.

23. See, e.g., *Sawyer II*, 142 F.2d at 498; *Grieves*, 20 COPYRIGHT OFF. BULL. at 685.

24. See, e.g., *U.S. v. First Trust Co.*, 251 F.2d 686, 688-91 (8th Cir. 1958); *Sawyer II*, 142 F.2d at 498-99; *Grieves*, *supra* note 17, at 686.

25. 177 F. Supp. 601 (D.D.C. 1959), *rev'd*, 284 F.2d 262 (D.C. Cir. 1960) [hereinafter *Rickover II*], *vacated by* 369 U.S. 111 (1962), *remanded to* 268 F. Supp. 444 (D.D.C. 1967) [hereinafter *Rickover IV*].

26. *Rickover* was appealed from the district court to the Court of Appeals for the District of Columbia, then was granted certiorari by the Supreme Court, and ultimately was reheard and decided by the district court nearly eight years after the action was instigated. See *supra* note 25.

27. *Rickover IV*, 268 F. Supp. at 448-50, 456.

28. 17 U.S.C. § 101 (2002). In addition to providing a definition of "governmental work," Congress replaced section 8 of the 1909 Act with the more succinct section 105 of the 1976 Act, which states, "Copyright protection under this title is not available for any work of the United States Government . . ." *Id.* § 105.

*Inc.*<sup>29</sup> The Building Officials and Code Administrators (BOCA), developers of a privately created model code that was subsequently adopted by a local government, attempted to prevent Code Technology from copying and distributing the code.<sup>30</sup> On appeal from a preliminary injunction order, BOCA defended the injunction on the ground that its codes differed from statutes and judicial opinions because government employees did not create the codes, and the model codes did not receive funding from the government, and thus copyright protection was essential to ensure adequate incentives for development of their codes.<sup>31</sup> The court dismissed these arguments and vacated the grant of preliminary injunction.<sup>32</sup>

Courts also encountered difficulties adjudicating cases where works were funded by the government, but, unlike statutes and judicial opinions, did not have the binding effect of law. In *Schnapper v. Foley*,<sup>33</sup> the federal government hired a movie director to create a documentary about the Supreme Court, and required the director to assign his copyright in the completed work.<sup>34</sup> The director later sued for declaratory relief, claiming that the movie was a government work, making his copyright assignment unenforceable.<sup>35</sup> The court of appeals rejected the director's argument and found that even though 17 U.S.C. § 105 precluded the government from directly obtaining a copyright, nothing prevented it from commissioning a work and requiring the creator to copyright the work and assign the copyright to the government.<sup>36</sup>

As the variety and volume of government-affiliated works lacking direct legal effect increased, courts became more inclined to place such works outside the ambit of the government works exception. In *CCC Information Services, Inc. v. Maclean Hunter Market Reports*,<sup>37</sup> copyright protection was given to a compilation of automobile values known as the Red Book, which was cited by several states as an alternative standard for valuing automobiles.<sup>38</sup> The Second Circuit was "not prepared to hold that

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29. 628 F.2d 730 (1st Cir. 1980).

30. *Id.* at 731.

31. *Id.* at 733-34.

32. *Id.* at 736.

33. 667 F.2d 102 (D.C. Cir. 1981).

34. *Id.* at 106.

35. *Id.* at 105.

36. *Id.* at 109. In another case, a district court found that funding from the federal government and use of government resources did not convert a software program into an uncopyrightable government work. *S & H Computer Sys., Inc. v. SAS Inst., Inc.*, 568 F. Supp. 416, 419 (M.D. Tenn. 1983).

37. 44 F.3d 61 (2d Cir. 1994).

38. *Id.* at 73.

a state's reference to a copyrighted work as a legal standard for valuation results in loss of the copyright."<sup>39</sup> Similarly, in *Practice Management Information Corp. v. AMA*,<sup>40</sup> the Ninth Circuit found that even though a government agency regulation required use of a privately developed coding system for hospital forms, the coding system did not enter the public domain.<sup>41</sup> The court distinguished *Banks v. Manchester* on the grounds that a private entity created the coding system, the government did not pay the entity, and there was no evidence that anyone was denied access to the system.<sup>42</sup>

Finally, *County of Suffolk v. First American Real Estate Solutions, Inc.*<sup>43</sup> held that tax maps developed by a county government could be sufficiently different from opinions and statutes and thus entitled to copyright protection.<sup>44</sup> Two factors must be considered in determining if a work should be treated the same as opinions and statutes: whether the public needed access to the work and whether the entity creating the work had sufficient economic incentives to create the work.<sup>45</sup> The court found little need for the public to have access to tax maps, since these maps did not create legal obligation to pay property taxes.<sup>46</sup> However, it remanded the case for further development and a determination of whether copyright incentives were needed for the county to invest the resources it did into creating the maps.<sup>47</sup>

## II. CASE SUMMARY

### A. Facts and Procedural History

In 1998 Peter Veeck's plans to rehabilitate a two-story, commercial building in Denison, Texas, were delayed when he was unable to locate Denison's building code.<sup>48</sup> After several unsuccessful attempts to locate

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39. *Id.* at 74.

40. 121 F.3d 516 (9th Cir. 1997).

41. *Id.* at 521.

42. *Id.* at 518-19.

43. 261 F.3d 179 (2d Cir. 2001).

44. *Id.* at 187.

45. *Id.* at 193-94 (citing *Practice Mgmt. Info. Corp. v. AMA*, 121 F.3d 516, 518-19 (9th Cir. 1997) and *Bldg. Officials & Code Adm'r v. Code Tech., Inc.*, 628 F.2d 730, 734-35 (1st Cir. 1980), both of which relied on *Banks v. Manchester*, 128 U.S. 244 (1888) to establish the two considerations).

46. *Id.* at 195.

47. *Id.* at 194-95.

48. See Daniel Fisher, *We Own That Law*, FORBES, Apr. 30, 2001, at 60; Charles Paul Freund, *The Price of Legislation*, REASON, Aug. 1, 2001, at 16, 16-17.

the code Veeck bought an electronic copy from SBCCI for \$72, and copied and published the text of the building code on his website.<sup>49</sup> SBCCI was an organization that developed, promoted, and promulgated model codes.<sup>50</sup> To facilitate adoption of its codes, SBCCI did not charge local governments any fees when its codes were adopted, did not keep track of entities that adopted its codes, and did not execute any licensing agreements with the government.<sup>51</sup> It relied on dues from its members and sales of copies of its codes to private entities to cover its expenses.<sup>52</sup>

Responding to SBCCI's threat of litigation, Veeck filed for declaratory judgment, arguing that SBCCI's codes were uncopyrightable on several grounds.<sup>53</sup> Veeck's primary argument was that granting copyright protection to the model codes violated due process, which required unrestricted access to the law, and, since copyright restricted access, SBCCI could not have a copyright in the enacted model codes.<sup>54</sup> Veeck also made claims under the idea-expression dichotomy, merger doctrine,<sup>55</sup> copyright misuse,<sup>56</sup> copyright waiver,<sup>57</sup> and fair use.<sup>58</sup> SBCCI counterclaimed alleging copyright infringement, unfair competition, and breach of contract.<sup>59</sup> Both parties subsequently moved for summary judgment.<sup>60</sup>

## B. District Court Decision

The district court rejected Veeck's due process claim based on its interpretation of *Banks v. Manchester*.<sup>61</sup> According to the court, *Banks* de-

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49. *Veeck III*, 293 F.3d at 793. Veeck claimed to have searched through Denison's bookstores and libraries, and visited approximately twenty towns in North Texas in an attempt to locate a complete version of the code. *Id.* at 809 (Wiener, J., dissenting).

50. *Id.* at 793-94.

51. *Id.* at 794.

52. *Id.* at 816 (Wiener, J., dissenting). The dissent went on to note SBCCI gets \$3 million annually from selling copies of its code. The remaining \$6 million in its budget was obtained from membership dues. *Id.* at 816 n.24.

53. *Veeck I*, 49 F. Supp. 2d at 888.

54. *Id.* at 888-90.

55. Veeck argued that laws are facts, and that once the model codes were enacted into law they merged with fact to create a single, uncopyrightable document. *Veeck III*, 293 F.3d at 800.

56. Veeck claimed that SBCCI misused their model code copyrights by requiring "exclusive use of its codes or any other of its services as a condition of a governmental subdivision's adopting one of the codes." *Id.* at 822 (Wiener, J., dissenting).

57. Veeck claimed that SBCCI "waived its right to copyright protection by encouraging municipalities to adopt its codes by reference." *Veeck II*, 241 F.3d at 409.

58. *Id.* at 409-10.

59. *Veeck III*, 293 F.3d at 794.

60. *Id.*

61. *Veeck I*, 49 F. Supp. 2d at 888-90 (interpreting 128 U.S. 244 (1888)).

nied copyright protection to judicial opinions on the grounds that judges were public servants and thus their works must be in the public domain, and that public policy supported the placement of judicial opinions in the public domain since these opinions were “authentic expositions of law.”<sup>62</sup> Since SBCCI was not a public servant and there was no evidence that public access to the model codes had been denied, the district court held that neither of the *Banks* justifications applied and copyright could be extended to SBCCI’s enacted model codes.<sup>63</sup> The court also rejected Veeck’s other arguments<sup>64</sup> and permanently enjoined Veeck from interfering with SBCCI’s copyrights.<sup>65</sup>

### C. Fifth Circuit Decision

Veeck appealed to the Fifth Circuit, which affirmed the district court’s ruling in a divided panel.<sup>66</sup> The court upheld the district court’s finding that due process had not been violated because neither of the concerns identified in *Banks v. Manchester* were exhibited in *Veeck*.<sup>67</sup> However, the Fifth Circuit supplemented this analysis by balancing due process concerns with policy considerations.<sup>68</sup> According to the court, if copyright protection was not extended to groups like SBCCI, they would lose the incentive to create model codes, and governments would be forced to spend considerable amounts of money to fill the void.<sup>69</sup> The court used similar reasoning as the district court to reject Veeck’s other copyright claims, consequently finding SBCCI’s copyrights to be valid and infringed.<sup>70</sup>

### D. Fifth Circuit En Banc Decision

Veeck appealed the decision and petitioned the Fifth Circuit for *en banc* review. The Fifth Circuit granted review, reversing the Fifth Circuit

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62. *Id.* at 888.

63. *Id.* at 888-89.

64. The district court rejected Veeck’s idea-expression dichotomy, merger doctrine, copyright misuse, copyright waiver, and fair use claims. *Id.* at 890-91.

65. The district court also awarded attorneys’ fees and \$2,500 in statutory damages. *Id.* at 892-93.

66. *Veeck II*, 241 F.3d at 411.

67. Specifically, the court held *Banks* denied copyright protection to judicial opinions because judges were paid with public funds and because the law should be available to the public. Because SBCCI was not paid with public funds, and because Veeck failed to prove his access to the law was denied, the court found *Banks* did not apply. *Id.* at 404-05.

68. *Id.* at 405-06.

69. *Id.* at 406.

70. *Id.*

panel's holdings to sustain each of Veeck's claims. The majority began its analysis by reviewing Supreme Court cases denying copyright protection to judicial opinions.<sup>71</sup> The Fifth Circuit interpreted the Supreme Court rulings in *Wheaton v. Peters* and *Banks v. Manchester* as unequivocal support for the proposition that the law cannot be copyrighted.<sup>72</sup> *Banks* never proposed that judges were not authors because the government paid them or that they did not need incentives to create judicial opinions.<sup>73</sup> The majority also applied the *Banks* holding that laws should be available to the public.<sup>74</sup> Ultimately the court found, "as law, the model codes enter the public domain and are not subject to the copyright holder's exclusive prerogatives. As model codes, however, the organization's works retain their protected status."<sup>75</sup> Because the court found that Veeck had only copied the law, it held that SBCCI's copyright had not been infringed.<sup>76</sup>

In addition to its due process analysis, the court buttressed its finding that SBCCI should not have a copyright in the law with three additional arguments. First, the majority found that the Copyright Act's idea-expression dichotomy prevented the grant of copyright protection to SBCCI's model codes.<sup>77</sup> Second, the majority claimed that the remainder of the caselaw suggested that SBCCI should be denied a copyright in its enacted model codes.<sup>78</sup> The court cited *BOCA* as "clearly favoring Veeck's position over that of SBCCI . . ."<sup>79</sup> The First Circuit in *BOCA* denied a preliminary injunction to prevent copying of an enacted model code because it was not convinced that model codes were sufficiently different from statutes and judicial opinions to warrant different treatment.<sup>80</sup>

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71. *Veeck III*, 293 F.3d at 795-99.

72. *Id.* at 795-96.

73. *Id.* at 797. In so holding, the majority rejected SBCCI's argument that *Banks* held, *inter alia*, that judicial opinions could not be copyrighted because the government provided sufficient incentives for judges to create these government works. *Id.*

74. *Id.* at 800.

75. *Id.* at 793.

76. *Id.* at 800.

77. According to the court, SBCCI's "codes are 'facts' under the copyright law. They are the unique, unalterable expression of the 'idea' that constitutes local law." *Id.* at 801.

78. *Id.* at 803.

79. *Id.* at 803. See also *supra* notes 29-32 and accompanying text.

80. *BOCA*, 628 F.2d at 732. The *Veeck* court then distinguished *CCC Info. Services and Practice Mgmt.*, see *supra* notes 37-42 and accompanying text, from the current case. *Veeck III*, 293 F.3d at 804-05. According to the Fifth Circuit these decisions were distinguishable because each dealt with standards that were only referred to by laws or regulations. This did not create the same binding effect of law that results from enactment of model codes. *Id.* at 804-05. Furthermore, the court placed considerable weight on the fact

Finally, the majority considered policy arguments and concluded that SBCCI did not need the incentive of copyright to ensure production of its model codes.<sup>81</sup>

The dissent endorsed the view of the Fifth Circuit en banc panel, viewing *Veeck* as balancing due process concerns and preservation of incentives to create valuable works. First, the dissent considered the potential due process violations that could exist if copyright protection was extended to SBCCI's enacted model codes.<sup>82</sup> According to the dissent, due process violation asserted by *Veeck* asserted was "murky at best."<sup>83</sup> First, *Veeck* was never prosecuted for violating any of the building codes he claimed were unavailable, thus precluding claims of procedural due process violations.<sup>84</sup> Consequently, the only remaining due process argument that *Veeck* could make was that the model codes entered the public domain upon enactment into law and that this robbed the codes of copyright protection.<sup>85</sup> The dissent challenged this proposition by distinguishing two opinions arguably supporting this position, *Banks* and *BOCA*.<sup>86</sup> Because there was no evidence that *Veeck* was denied due process, and since no controlling precedent identified due process concerns for cases like *Veeck*, the dissent concluded that due process did not invalidate SBCCI's copyrights.<sup>87</sup>

The dissent analyzed the policy considerations favoring the grant of a copyright to SBCCI, and argued that denying copyright protection would

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that neither author in these cases created their works for the purpose of incorporating them into law. *Id.* at 805.

81. The court provided three reasons why SBCCI did not need copyright protection. First, SBCCI produced model codes for sixty years without copyright protection and would likely continue to survive without these rights. Second, even without copyright protection the possibility of self-regulation created a powerful enough incentive for SBCCI to continue to make model codes. Third, if SBCCI really needed copyright protection for its codes it could be obtained for any value-added versions of the codes it produced. *Id.* at 805-06.

82. *Id.* at 811-14 (Wiener, J., dissenting).

83. *Id.* at 812 (Wiener, J., dissenting).

84. *Id.* at 813 (Wiener, J., dissenting).

85. *Id.* (Wiener, J., dissenting).

86. The dissent found that the "*Banks* holding is obviously limited to the work of taxpayer-paid public officials who produce or interpret the law." *Id.* at 811 (Wiener, J., dissenting). Because SBCCI was not a public official and was not funded by taxes, its model codes did not present the same due process/public domain concerns implicated by judicial opinions. While the dissent conceded *BOCA* favored *Veeck*'s argument, it argued *BOCA* did not explicitly deny copyright protection to enacted model codes. *See id.* at 813-14 (Wiener, J., dissenting). Consequently neither *Banks* nor *BOCA* could be interpreted as holding that model codes entered the public domain upon enactment.

87. *Id.* at 818 (Wiener, J., dissenting).

erode incentives for creating such works. It described SBCCI as a privately owned, nonprofit organization that relied heavily on revenues from the sale of its model codes.<sup>88</sup> It argued that if SBCCI and similar entities were denied copyright protection, they would lose significant revenue and thus the ability and incentives to create the model codes.<sup>89</sup> This concern was corroborated by *Practice Management Information Corp. v. AMA*,<sup>90</sup> which held that denying copyright protection to nonprofit organizations that perform public services could eliminate necessary incentives to perform the public service.<sup>91</sup> The dissent argued that private code-creating entities like SBCCI performed essential services to small towns by providing sophisticated and current model codes at a low cost. If SBCCI and similar organizations discontinued this service, these communities would have to spend considerable resources to create codes.<sup>92</sup> Preventing Veeck from publishing SBCCI's model codes on the Internet would not "obstruct reasonable and necessary usage of and compliance with the adopted codes."<sup>93</sup> Based on these arguments the dissent concluded that serious policy concerns necessitated copyright protection for SBCCI's enacted model codes.<sup>94</sup>

### III. DISCUSSION

The history of the government works exception and the arguments presented in *Veeck* indicate that incentives to create play an important role in a court's determination of whether a work fits under the government works exception.<sup>95</sup> If insufficient incentives exist to create a work, it is much less likely that courts will find it fits under the government works

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88. *Id.* at 816 (Wiener, J., dissenting).

89. *Id.* at 816-17 (Wiener, J., dissenting).

90. 121 F.3d 516 (9th Cir. 1997).

91. *Veeck III*, 293 F.3d at 816 (Wiener, J., dissenting) (quoting *Practice Mgmt.*, 121 F.3d at 518).

92. *Id.* at 817 (Wiener, J., dissenting).

93. *Id.* (Wiener, J., dissenting).

94. Upon completing its policy analysis, the dissent performed a cursory analysis of Veeck's other claims and found: (1) because there were several ways to express model codes Veeck's idea-expression dichotomy and merger claims did not apply; (2) there was no evidence SBCCI misused its copyright; (3) SBCCI did not waive its copyright when it encouraged towns to adopt its codes; (4) Veeck did not engage in fair use because he copied almost the entire code, and this copying had the potential to have a substantial detrimental effect on SBCCI's ability to generate revenue; and (5) Veeck infringed SBCCI's valid copyright in its codes. *Id.* at 820-25 (Wiener, J., dissenting).

95. *See supra* Parts I, II.

exception.<sup>96</sup> This Part considers the incentives for creating various works affiliated with the government, and how these incentives affect the ultimate classification and copyrightability of the works.

#### A. Incentives to Create Judicial Opinions, Legislative Statutes, and Model Codes

Judicial opinions and legislative enactments have the most direct incentives for the creation of all government works.<sup>97</sup> Judges and legislators must, by the very nature of their jobs, produce literary works for the government. Judges write opinions documenting the reasoning used to resolve a dispute, while legislators draft legislation. Courts have recognized that salaries produce sufficient incentives for judges and legislators to continue to create government works.<sup>98</sup>

While the incentives to create opinions and statutes are clear, the motivation to create model codes is less apparent. Usually developers of model codes do not receive funding from the government.<sup>99</sup> Instead, they count on a significant part of their revenue to come from the sale of their copyright protected model codes.<sup>100</sup> Consequently, barring copyright protection for model codes could potentially eliminate much of the incentive to create these codes.<sup>101</sup> While this result is possible, examination of the incentives behind model code development indicates that savings from industry standardization, quality control, and self-regulation make creation of model codes profitable for practically any trade organization regardless of whether they are awarded a copyright for the codes.<sup>102</sup> These incentives are examined in the following studies of the housing, software, and banking industries.

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96. See *County of Suffolk v. First Am. Real Estate Solutions, Inc.*, 261 F.3d 179, 194 (2d Cir. 2001); *Practice Mgmt.*, 121 F.3d at 518-19.

97. Even in the nineteenth century courts had firmly resolved that part of the reason why the law could not be copyrighted was because creators of these literary works were government employees, paid by tax dollars. *Banks v. Manchester*, 128 U.S. 244, 253 (1888); *Wheaton v. Peters*, 33 U.S. (8 Pet.) 591, 616 (1834) (quoting argument by counsel for Wheaton).

98. "The copyright system's goal of promoting the arts and sciences by granting temporary monopolies to copyright holders was not at stake in *Banks* because judges' salaries provided adequate incentive to write opinions." *Practice Mgmt.*, 121 F.3d at 518.

99. See *Veeck III*, 293 F.3d at 794; *BOCA*, 628 F.2d at 734.

100. See *Veeck III*, 293 F.3d at 816 n.24 (Wiener, J., dissenting).

101. See *id.* at 816-17 (Wiener, J., dissenting).

102. *Id.*

### 1. *The Housing Industry*

The housing industry presents excellent examples of why organizations will participate in the creation of model codes regardless of the availability of copyright protection. Until recently there were several organizations promulgating “competing editions of building codes that were adopted primarily on a regional basis.”<sup>103</sup> In the last few years, these organizations began to consolidate into one mega-organization.<sup>104</sup> The primary source of building regulations has traditionally been these codes, and the codes themselves have been, and continue to be, heavily influenced by firms in the housing industry.<sup>105</sup> The result of this influence is seen in the International Residential Code, which focused on a new public policy of “affordable housing” while eliminating protection of property as a purpose of the code.<sup>106</sup> The effect of this shift in focus was that “without any form of legislative oversight, the industry succeeded in imposing its preferred policy as law.”<sup>107</sup> The industry’s ability to change the values in the de facto law in building construction from safety to affordability saved the housing industry a significant amount of money, and serves as a powerful example of why organizational groups will continue to be interested in the creation of model codes even if the codes do not receive copyright protection.

### 2. *The Software Industry*

Another example of the importance of model codes in furthering an organization’s or industry’s goals is seen in the creation and adoption of the Uniform Computer Information Transactions Act (UCITA).<sup>108</sup> UCITA was created by the National Conference of Commissioners of Uniform State Law (NCCUSL),<sup>109</sup> which relies heavily on the “opinions and

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103. Michael D. Turner, *Paradigms, Pigeonholes, and Precedent: Reflections on Regulatory Control of Residential Construction*, 23 WHITTIER L. REV. 3, 28 (2001).

104. *Id.* at 28, 32. In 1994 SBCCI, BOCA, and the International Conference of Building Officials (ICBO) merged to form the International Code Congress (ICC). *See About ICC*, at <http://www.intlcode.org/about/index.htm> (last visited Mar. 2, 2003).

105. Turner, *supra* note 103, at 32.

106. *Id.* at 32-34.

107. *Id.* at 33.

108. *See* Brian D. McDonald, Note, *The Uniform Computer Information Transactions Act*, 16 BERKELEY TECH. L.J. 461, 463 (2001).

109. NCCUSL creates uniform laws, which it then recommends to state legislatures. Most of its financial support comes from state appropriations. While NCCUSL drafting committees are typically headed by academics, practitioners tend to control the results. Alan Schwartz & Robert E. Scott, *The Political Economy of Private Legislatures*, 143 U. PA. L. REV. 595, 601-02 (1995).

viewpoints” of interested groups and allows these groups to “actively participate in the exhaustive drafting process.”<sup>110</sup> The main complaint against UCITA is that it gives “too much power to the computer information industry and strips consumers of many significant rights that would be protected in non-UCITA jurisdictions.”<sup>111</sup> Not only did the software industry influence the drafting of UCITA, but at least one commentator had claimed that it also strong-armed two states into adopting the Act.<sup>112</sup> Under UCITA consumer rights are diminished in several ways,<sup>113</sup> which has the potential to save the software industry millions of dollars, and making model code development attractive to software companies regardless of the code’s copyrightability.

### 3. *The Banking Industry*

Finally, amendment of Article 9 of the Uniform Commercial Code (UCC)<sup>114</sup> illustrates the importance interest groups place in the development of model codes.<sup>115</sup> When the UCC announced the revision of Article 9, which pertains to banking and financing institutions, several representatives of banking and financial institutions volunteered their help.<sup>116</sup> Because of this “support,” Article 9 was revised to overwhelmingly promote the interests of banks and finance companies.<sup>117</sup> The revisions lower the cost of financing while creating rules that many commentators argue disadvantage borrowers.<sup>118</sup> Undoubtedly the assistance of representatives from the banking industry played a role in the adoption of these measures which, if enacted into law, have the potential to save the banking industry

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110. See McDonald, *supra* note 108, at 476-77 (citing M. Michael Cramer et al., *Uniformity in State Laws*, 33 MD. B.J. 48 (2000)).

111. *Id.* at 463.

112. *Id.* at 481-82. See also Brendan I. Koerner, *Bugging Out*, THE NEW REPUBLIC, Nov. 27, 2000, at 13.

113. UCITA erodes consumer rights by: (1) requiring buyers to agree to the terms of the contract before seeing what those terms are, (2) making software agreements licenses rather than sales, (3) allows the licensor to draft advantageous choice-of-law and self-help provisions, and (4) allows licensors to change the terms of agreements and disavow implied warranties. McDonald, *supra* note 108, at 464-65 & nn.21-24.

114. The UCC was drafted jointly by NCCUSL and the American Law Institute (ALI). See Schwartz & Scott, *supra* note 109, at 596. ALI drafts and publishes the Restatements of Law, model codes, and other legal reforms. A reporter and a few associate reporters draft most of the text promulgated by the ALI. *Id.* at 600.

115. *Id.* at 638-40.

116. *Id.* at 640 (noting that the group in charge of updating Article 9 consisted of thirteen lawyers, most of whom worked for banking or financial institutions).

117. *Id.* at 639.

118. *Id.* See also Robert E. Scott, *The Politics of Article 9*, 80 VA. L. REV. 1783, 1823-24 (1994).

a lot of money.<sup>119</sup> Therefore, interest groups in the banking industry have an incentive to participate in model codes like Article 9 even if copyright protection will not be available for these codes.

### **B. Incentives for the Creation of Less Significant Works Affiliated with the Government**

While strong incentives exist to create opinions, statutes, and model codes, incentives to create less significant works of the government, like tax maps and health care coding systems, are comparatively weak. These lesser works are beneficial to society, but also cost significant amounts of money to develop. Unlike judicial opinions, statutes, or model codes, tax maps and health care coding systems might not have necessary financial incentives to ensure adequate development, making copyright protection necessary for these works.

In *County of Suffolk v. First American Real Estate Solutions, Inc.*,<sup>120</sup> even though a New York statute directed each county to create tax maps, the Second Circuit ruled copyright protection for the maps might be necessary to ensure they were adequately developed.<sup>121</sup> In addition to the statute requiring tax maps, New York also passed a Freedom of Information Law, requiring all state agencies (including the counties) to “make available for public inspection and copying all records.”<sup>122</sup> Consequently, each county in New York was required to create tax maps and make them available to the public. Suffolk County, through its Real Property Tax Service Agency, not only created maps for all of its divisions, but it also invested considerable resources to update the maps and make them useful.<sup>123</sup> Although the county allowed any citizen to have complete access to its tax maps, it obtained a copyright in the maps to prevent businesses from exploiting the value it invested in the maps.<sup>124</sup> Despite this, First American copied Suffolk County’s tax maps without consent and sold these maps on CD-ROMs.<sup>125</sup> In response, Suffolk County sued First American for copyright infringement.<sup>126</sup>

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119. See generally Schwartz & Scott, *supra* note 109, at 638-42.

120. 261 F.3d 179 (2d Cir. 2001). See *supra* notes 43-47 and accompanying text.

121. *Id.* at 183-84.

122. *Id.* at 185 (citing N.Y. PUB. OFF. LAW § 87(2) (McKinney Supp. 2001)).

123. *Id.* at 184. Suffolk mapped all of its tax districts and special district boundaries. In addition, it “creates new maps and indices annually to reflect alterations in size, shape, and/or location of parcels of land . . . .” *Id.* The county created 4,600 tax maps mapping over 500,000 parcels of land in ten townships. *Id.*

124. *Id.* at 184.

125. *Id.*

126. *Id.*

Because a New York statute mandated creation of the maps, Suffolk County clearly had sufficient incentives to create tax maps. The mere fact that the county had to create the maps, however, did not guarantee the quality or usefulness of the maps. State and local governments work under finite budgets.<sup>127</sup> Furthermore, recent economic slumps have caused several state governments to face budget crises.<sup>128</sup> Creating tax maps requires the compilation of a great deal of information.<sup>129</sup> Assembling this data, monitoring changes in mapped parcels, and amending maps can be quite costly.<sup>130</sup> Furthermore, tax maps do not have quite the legal importance of other government works such as judicial opinions or statutes.<sup>131</sup> Given budget constraints and the limited importance of tax maps, it was unclear to the *Suffolk* court whether the New York statute mandating creation of tax maps produced sufficient incentive for Suffolk County to develop the maps as extensively as it did.<sup>132</sup> Consequently, the court refused to deny the county copyright protection in its tax maps without fully determining whether there were sufficient incentives outside of copyright protection to ensure the quality of the tax maps would not diminish.<sup>133</sup>

*Practice Management Information Corp. v. AMA*<sup>134</sup> held that government adoption of a privately developed coding system did not invalidate the system's copyright, in part, to preserve sufficient incentives to create works like the coding system.<sup>135</sup> In this case, the AMA developed a coding system for health care procedures.<sup>136</sup> The Health Care Financing Administration (HCFA), in an attempt to establish a low cost, uniform code for identifying physicians' services, adopted the AMA system.<sup>137</sup> When Prac-

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127. Howard Gleckman et al., *To the Victors Belong the Budget Mess*, BUS. WK., Dec. 9, 2002, at 100 ("Nearly every state government is required by law to balance its budget every year. Plus, the states can't print money the way Washington can. So while the federal government can borrow and spend or borrow to cut taxes, states cannot.").

128. See *id.* See also *Davis Hopes to Slice \$10.2 Billion*, OAKLAND TRIB., Dec. 7, 2002, at News 1.

<sup>129</sup> 129. See, e.g., *Sidwell Parcel Map Features*, at <http://www.sidwellmaps.com/mapfeatures.asp>; *Tax Parcels in the Town of Plattekill, Ulster County*, at <http://www.nysgis.state.ny.us/gis3/data/ulster.PLATTBNDY.html> (last visited Mar. 2, 2003).

130. See *Suffolk*, 261 F.3d at 184.

131. As the court in *Suffolk* noted, "tax maps themselves do not create the legal obligation to pay property taxes but are merely a means by which the government assesses a pre-existing obligation." *Id.* at 195.

132. *Id.* at 194.

133. *Id.*

134. 121 F.3d 516 (9th Cir. 1997). See *supra* notes 40-42 and accompanying text.

135. *Id.* at 518-19.

136. *Id.* at 517.

137. *Id.*

tice Management, a distributor of forms containing the AMA system, did not receive the volume discount it anticipated, it sued to invalidate the AMA's copyright. Practice Management argued that forms entered the public domain when they were adopted by the HCFA.<sup>138</sup> The court rejected this argument, holding, "[t]o vitiate copyright, in [these] circumstances, could, without adequate justification, prove destructive of the copyright interest . . . ."<sup>139</sup>

Because the AMA coding system was not mandated by statute, or funded by the government, barring copyright protection for the system could eliminate much of the incentives to create such a system. The AMA spent more than thirty years continuously developing a comprehensive coding system for more than six thousand medical procedures.<sup>140</sup> The procedures are divided into six sections so that the user can efficiently locate code numbers.<sup>141</sup> Unquestionably, the AMA invested considerable resources into the system. Because the AMA did not receive any compensation from the government when the HCFA adopted the system,<sup>142</sup> denying it copyright protection would have diminished the AMA's ability to recover its investment in the system. This policy argument, coupled with the lack of evidence that access to the coding system was ever denied, led the court to preserve the AMA's copyright in the coding system.<sup>143</sup>

Creating works such as tax maps and health care coding systems presents governments with a dilemma. On the one hand, these works are beneficial to society. Tax maps allow people to know how much the government is going to tax a given parcel of land,<sup>144</sup> while a uniform, efficient health care coding system facilitates the provision of medical services. On the other hand, governments do not have spare money to develop these costly works. Where useful, but not necessary, works of the government are costly to develop, copyright protection might be the only means of ensuring development of the works. Since lesser works of the government often do not have the binding effect of law,<sup>145</sup> copyrighting these works does not create the same due process concerns that were

138. *Id.* at 518.

139. *Id.* at 517.

140. *Id.* at 517.

141. *Id.*

142. *Id.* at 517-18.

143. *Id.* at 519-20.

144. *County of Suffolk v. First Am. Real Estate Solutions, Inc.*, 261 F.3d 179, 195 (2d Cir. 2001).

145. *See, e.g., id.* at 195; *CCC Info. Sys., Inc. v. Maclean Hunter Mkt. Reports*, 44 F.3d 61, 73 (2d Cir. 1994) (granting copyright to a work containing automobile valuation figures despite the work being referred to by several state statutes as an *alternative* legal standard for valuation).

does not create the same due process concerns that were presented in *Veeck*. Consequently, copyright protection might be the best choice for ensuring development of these works.

#### IV. CONCLUSION

For over a century courts have struggled to determine whether various works affiliated with the government fit within the scope of the government works exception. One factor that has consistently played a large role in these analyses has been the incentive to create a particular work. Government salaries serve as direct incentives that guarantee judges and legislators will continue to create opinions and statutes. Model codes also have significant incentives in the form of industry standardization, quality control, and self-regulation, which generate huge savings for business interests and guarantee development of model codes even without the lure of copyright protection. Lesser works of the government, such as tax maps and health care coding systems, on the other hand, are costly to make and difficult to maintain. Without copyright protection, works like tax maps and coding systems may be neglected at the expense of other more enticing endeavors. Consequently, copyright protection might be warranted for less important government works that are labor intensive but valuable to society.

## ADDITIONAL DEVELOPMENTS—COPYRIGHT

### *RANDOM HOUSE, INC. v. ROSETTA BOOKS LLC*

*283 F.3d 490 (2d Cir. 2002)*

In a case for copyright infringement, the Second Circuit held that the district court did not abuse its discretion in denying a preliminary injunction to a publishing company, who held exclusive licenses in the book form of certain novels, to prevent the sale of the “ebook” form of those novels.

Random House, Inc. sought a preliminary injunction to enjoin Rosetta Books LLC from selling “ebooks” of novels whose authors had granted Random House the exclusive right to publish, print, and sell their copyrighted works “in book form.” The United States District Court for the Southern District of New York denied the motion for a preliminary injunction.

In the Second Circuit, to satisfy the requirements of a preliminary injunction, a party must show: (1) irreparable harm in the absence of the injunction and (2) either (a) a likelihood of success on the merits or (b) sufficiently serious questions going to the merits to make them a fair ground for litigation and a balance of hardships tipping decidedly in the movant’s favor. The court first held that the requirement of irreparable harm can be met by proof of a likelihood of success on the merits, since copyright infringement gives rise to a presumption of irreparable harm. However, the court noted that a determination of the contractual scope of the term “book” was necessary for resolving whether the licenses extend to ebooks. The court thus concluded that Random House did not meet the likelihood of success condition. On the alternative balancing of hardship, the court found that a denial of injunction would only harm Random House’s good will, but the grant of an injunction could put Rosetta Books out of business or at least eliminate its business with all authors who had executed similar contracts. The court held that this alternative condition was balanced in Rosetta Books’ favor. Therefore, the court affirmed the district court’s ruling.

***MORRIS V. BUSINESS CONCEPTS, INC.****283 F.3d 502 (2d Cir. 2002)*

In a case for copyright infringement, the Court of Appeals for the Second Circuit ruled that copyright registration of a collective work does not satisfy the Copyright Act's registration requirements of a particular constituent work, at 17 U.S.C. § 411.

Morris, a journalist, sued Business Concepts, Inc. for unauthorized use of Morris' articles in a newsletter. Morris' articles were published in a magazine, *Allure*, and the contract between Morris and Conde Nast, *Allure*'s owner, specified that Conde Nast has exclusive worldwide first publication rights of the Morris articles for 90 days after their publication in *Allure*, and that Morris retains a copyright in her articles. Conde Nast had registered *Allure* in the Copyright Office as collective work. Morris, however, had not separately registered her articles. In an earlier opinion, *Morris v. Business Concepts, Inc.*, 259 F.3d 65 (2d Cir. 2001), the Second Circuit stated in Part I of the opinion that there could be only one copyright owner, and that an exclusive licensee of certain copyrights was not regarded as an owner of the underlying copyright. The court further stated in Part II and III of the opinion that registration of a collective work did not satisfy the registration requirement of the individual component pursuant to § 411(a) of the Copyright Act, and rejected Morris' hardship argument. Therefore, the court there affirmed the district court's summary judgment for the defendant based on lack of subject matter jurisdiction, since a § 411(a) registration is a prerequisite for copyright infringement suit.

Morris petitioned for rehearing. In the current opinion, in response to the petition, the court modified its previous opinion by removing Part I of that opinion. The court recognized that its previous opinion on the ownership issue was primarily based on *Nimmer on Copyright*, and acknowledged that the language of § 101 of the Copyright Act, several other treaties, and a recent Supreme Court case, *New York Times Co. v. Tasini*, 533 U.S. 483 (2001), all suggest that a work may have more than one copyright owner. Nevertheless, the court held that irrespective of the answer to that question, it still needed to decide whether registration of an exclusive licensee could satisfy the § 411(a) registration requirement of the author. The court then held that a claimant registering a serial publication may claim copyright not only in the collective work, but also in the individual component in which all rights have been transferred to the claimant. However, for components in which all rights have not been transferred to the claimant, the registration of the serial will not extend to them. Therefore, the court held that since Morris retained a copyright in her articles, the registration of a copyright in the magazine *Allure* did not satisfy the 411(a) requirement with respect to Morris' articles. Morris' petition for rehearing was denied.

***ARISTA RECORDS, INC. v. MP3BOARD, INC.****2002 WL 1997918 (S.D.N.Y. 2002)*

The United States District Court for the Southern District of New York ruled on cross motions for summary judgment regarding an Internet search company's contributory and vicarious liability for copyright infringement of music committed by its members which using the company's services.

Several major record companies brought suit against MP3Board for operating a website which provides Internet users with a search engine and other resources enabling them to locate sound recording files from publicly available web sites. Many of these files located with the assistance of MP3Board's website are illegal copies. The Recording Industry Association of America (RIAA) wrote to MP3Board with list of links that lead to illegal copies of music, including names of artists and music, and demanded removal of all infringing links from its website. However, MP3Board did not remove the links. Various record companies then filed suit against MP3Board alleging contributory and vicarious copyright infringement.

The court denied summary judgment motions from both sides regarding contributory and vicarious liability. As for the record companies' motion, the court ruled that the record companies failed to prove that any direct infringement resulted from MP3Board's operations. As for MP3Board's motion, the court found that sufficient evidence existed that a factfinder could determine that MP3Board engaged in an overall course of conduct which could materially contribute to copyright infringement. The contributing acts included a search engine, solicitation of third parties to post links, tutorials for searching and downloading copyrighted music, and a message board to facilitate search activity. The court also found that evidence existed indicating that MP3Board knew or should have known of the infringing activities it facilitated, including the letter from the RIAA and the use of certain language on the MP3Board's website acknowledging the infringement possibility by its users. Therefore, the court held that a jury could find MP3Board liable for contributory infringement. With regard to vicarious liability, the court found that MP3Board could have deleted the infringing links upon receiving the letter from the RIAA and that MP3Board possessed a direct financial interest in the infringing activity. Therefore, the court held that a jury could find MP3Board vicariously liable for copyright infringement.

### *IN RE AIMSTER COPYRIGHT LITIGATION*

*2002 WL 31006142 (N.D. Ill. Sept. 4, 2002)*

The United States District Court for the Northern District of Illinois granted plaintiff record companies' motion for a preliminary injunction that enjoined Internet file sharing company Aimster from operating its service on the ground of contributory and vicarious copyright infringement.

Aimster's service allows its members to search files, such as music files, on the hard disc of a large number of other Aimster users and facilitates the transfer of files among its members upon the identification of the files. The files are transferred in an encrypted form directly among Aimster's users without going through Aimster's server. However, Aimster requires registration and log in of each of its users. Aimster also provides a club service with a monthly fee where users can download copyrighted popular music from a member's hard drive without doing a search. The plaintiffs are music copyright owners whose copyrights are allegedly being infringed by users of Aimster's service. Different groups of plaintiffs filed numerous actions in different district courts against Aimster. The actions were consolidated in the Northern District of Illinois, and the consolidated plaintiffs filed a motion for a preliminary injunction.

The court granted plaintiffs' motion. The court concluded that plaintiffs are likely to succeed in their contributory copyright infringement action against Aimster. First, the court found that plaintiffs had unequivocally established that Aimster's users are engaged in direct copyright infringement. Second, the court found that Aimster knows or should have known of the infringing activity, because of the letters sent to Aimster by the Record Industry Association of America regarding the activity, the tutorial provided by Aimster, and the chat rooms, bulletin boards and club service provided by Aimster. In rejecting Aimster's encryption argument, the court stated that Aimster should at least have constructive knowledge, which alone satisfies the knowledge requirement. Third, the court found that Aimster's service materially contributes to its users' infringing activities. In so holding, the court rejected Aimster's "substantial non-infringing use" defense. The court failed to find that Aimster's claimed non-infringing use actually exists, and concluded that Aimster's service demonstrated a much closer tie to the infringement activities than the video cassette recorder decided in *Sony Corp. of Am. v. Universal Studios*, 464 U.S. 417 (1984).

The court also concluded that plaintiffs are likely to succeed in their vicarious liability claim. The court found that Aimster has the right and ability to supervise its users despite encryption, because Aimster's users must provide log in information to Aimster. The court also found that Aimster had direct financial interest in the infringing activities as represented by the fee on its club service. In addition, the court rejected Aimster's DMCA defense, because Aimster is not an "innocent" service provider.

Lastly, on balancing hardships and public interest, the court specifically rejected Aimster's going-out-of-business argument, because doing so would encourage copyright infringement. Therefore, the court found that the balance tips in favor of plaintiff.

***VIDEO PIPELINE INC V. BUENA VISTA HOME  
ENTERTAINMENT, INC.***

*192 F. Supp. 2d 321 (D.N.J. 2002)*

The District Court of New Jersey granted a preliminary injunction against Video Pipeline, barring them from distributing promotional previews made from copyrighted motion pictures.

This case involved the intersection of the motion picture industry, video retailing, and the Internet. Buena Vista Entertainment (BVHE) is an exclusive licensee of Walt Disney Pictures and Television and exclusive distributor for Miramax. Video Pipeline compiles and organizes promotional previews (trailers) from entertainment companies into promotional videos for display by retailers in their stores. BVHE originally granted license to Video Pipeline for its use of some BVHE trailers in video stores, but Video Pipeline broadcasted the trailers over the Internet without permission, allowing customers to view them remotely before deciding to purchase or rent a title from a retailer. Video Pipeline received income from its retail customers for this service. BVHE complained and Video Pipeline sought a declaratory judgment that its use of the BVHE provided trailers over the Internet did not constitute copyright infringement. In response, BVHE terminated the license. Video Pipeline then began to create its own previews by taking clips from copies of BVHE's copyrighted videos owned by Video Pipeline's retail clients and making these clips available over the Internet. BVHE thus moved for a preliminary injunction.

The court first determined that Video Pipeline's clip previews were "derivative works" under § 106(2) of the Copyright Act. It further found that Video Pipeline's distribution of the previews over the Internet was a public performance under §106(4) and a public display under § 106(5). Therefore the court held that Video Pipeline had infringed BVHE's copyright. In response to Video Pipeline's First Sale defense, the court held that Video Pipeline was not a retailer who had lawfully purchased copies of BVHE's product. The court found that the relationship between Video Pipeline and its retailer customers was one of licensor and licensee, not one of agency, thus the first sale defense was not available to Video Pipeline. Additionally, the court noted that the first sale defense only protects on site displays of a visual image of a copyrighted work, not images transmitted from one place to members of the public located elsewhere. In response to Video Pipeline's fair use defense, the court analyzed the four fair use factors given in § 107: (1) purpose and character of the use; (2) nature of the copyrighted work; (3) the amount of use in relation to the original work as a whole and (4) the effect of the use on the potential market for the original work. On the first factor, the court determined that Video Pipeline did not add anything new to the original work, and that its service was conducted for profit. The court thus weighed this factor significantly against Video Pipeline. On the second factor, since movies are fictional rather than factual in nature, the court found it also weighed against Video Pipeline. On the third factor, although the portion of a movie used in the preview was small, the court found that qualitatively, the expression used by Video Pipeline was significant. The court thus ruled against Video Pipeline on the third factor. On the fourth factor, the court found that Video Pipeline's service can either increase or decrease BVHE's video sales or rentals, thus this factor is neutral with regard to Video Pipeline. On balance, the court held that a fair use defense was not available to Video Pipeline.

Having determined that BVHE was likely to succeed in a copyright infringement suit on the merits, the court reviewed whether irreparable harm would befall either party with

or without the preliminary injunction. The court held that a showing of a prima facie case of copyright infringement raises a presumption of irreparable harm to BVHE. However, the court failed to find that Video Pipeline would face irreparable harm if the preliminary injunction were granted, since Video Pipeline has other sources of income and its customers have other means to access movie previews. Lastly, the court analyzed whether public interest would be harmed by an injunction. The court held that BVHE's motion for preliminary injunction did not constitute copyright misuse, since BVHE did not use it to suppress competition. The court also found that the preliminary injunction did not restrict the retailer's right of free expression, because copyright only protects the form of expression and not the ideas expressed. Therefore, the court concluded that public interest would not be harmed by granting a preliminary injunction.

## FESTO CORP. V. SHOKETSU KINZOKU KOGYO KABUSHIKI CO.

By C. Alan Fu

In a decision eagerly awaited by the patent community, the Supreme Court in *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.* (hereinafter *Festo*) vacated the Federal Circuit's *en banc* decision (hereinafter *Festo III*) adopting a "complete bar" against application of the doctrine of equivalents to amended claims.<sup>1</sup> The Court held that the doctrine of equivalents is still available to narrowed claims if the equivalent in question meets one of the three tests promulgated by the Court—the foreseeability, tangential relationship and reasonableness tests.<sup>2</sup> These tests represent the newest effort by the Court to balance the protection and notice functions of the patent law. Most inventors and patent attorneys welcome the return of the doctrine of equivalents, because the vast majority of patents currently in force have amended claims.<sup>3</sup> The Federal Circuit's "complete bar" approach, if not vacated, would have significantly reduced the scope of protection to inventors and dramatically changed the way new patent applications are prosecuted.<sup>4</sup>

Part I of this Note traces the historic development of the doctrine of equivalents and prosecution history estoppel, and suggests that Supreme Court precedent concerning the interaction of these two doctrines has not been consistent. Part II summarizes the decisions from the *en banc* Federal Circuit and the Supreme Court. Part III then analyzes the Supreme Court

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1. 122 S. Ct. 1831, 1842 (2002) [hereinafter *Festo*], *rev'g* 234 F.3d 558 (Fed. Cir. 2000) (*en banc*) [hereinafter *Festo III*].

2. *Id.*

3. See, e.g., Richard A. Kaplan, *Festo Brings the Return of the Doctrine of Equivalents*, CHI. LAW., Oct. 2002, at 71; Steve Andersen, *Festo, Finally: Doctrine of Equivalents Withstands Test, with Concessions*, CORP. LEGAL TIMES, Aug. 2002, at 62; but see R. Polk Wagner, *Reconsidering Estoppel: Patent Administration and the Failure of Festo*, 151 U. PA. L. REV. 159 (2002) (arguing that a strict prosecution history estoppel generates incentives for patentees to produce socially valuable information during and before patent application).

4. See, e.g., Stephen Dirksen et al., BRIEF: PATENTS & TECHNOLOGY: *Patent Amendments and Prosecution History Estoppel Under Festo*, 2001 DUKE L. & TECH. REV. 11; Glen P. Belvis, *An Analysis of the En Banc Decision in Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co. and the Doctrine of Equivalents*, 11 FED. CIR. B.J. 59, 99-110 (2002).

decision and its impact on patent prosecution and litigation. Acknowledging that the new tests have the potential to be more balanced than both the “flexible bar” and the “complete bar” approaches, Part III argues that the Court’s adoption of a foreseeability test contradicts the Court’s previously stated view on the doctrine of equivalents in *Graver Tank & Manufacturing Co. v. Linde Air Products Co.*,<sup>5</sup> and proposes that the Court should overrule *Graver Tank* for a uniform application of the test. Part III also argues that the scope of the doctrine of equivalents under *Festo* is narrower than that under the traditional “flexible bar” approach and proposes patent prosecution strategies to avoid the limiting effect of the *Festo* tests.

## I. BACKGROUND

The purpose of the patent system is to encourage and reward innovation. It achieves this purpose by protecting patent rights while providing notice to the public of the scope of those rights.<sup>6</sup> These two functions are often at tension with each other: while a patentee profits by maximizing patent protection, the public benefits from limiting the scope of patent rights so that further innovation, inspired by and based upon the original invention, will not be stifled. Two legal doctrines, the doctrine of equivalents and prosecution history estoppel, play important roles in balancing the two conflicting functions of the patent law.<sup>7</sup>

### A. THE DOCTRINE OF EQUIVALENTS

The Supreme Court first established the doctrine of equivalents in *Winans v. Denmead* in 1853,<sup>8</sup> in which the Court held that an octagonal-shaped coal car with a pyramidal-shaped base is equivalent to a cylindrical-shaped one with a tapered cone-like base.<sup>9</sup> This debut of the doctrine of equivalents was achieved over the dissent of four justices, who raised a

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5. 339 U.S. 605, 612 (1950).

6. See Matthew J. Conigliaro, Andrew C. Greenberg & Mark A. Lemley, *Foreseeability in Patent Law*, 16 BERKELEY TECH. L.J. 1045, 1047 (2001).

7. *Id.*

8. 56 U.S. 330 (1853). In fact, reasoning similar to the doctrine of equivalents can be found much earlier than *Winans*. See Jay I. Alexander, *Cabining the Doctrine of Equivalents in Festo: A Historic Perspective on the Relationship Between the Doctrine of Equivalents and Prosecution History Estoppel*, 51 AM. U.L. REV. 553, 556-57 (2002) (finding reasoning similar to the doctrine of equivalents in a 1798 case).

9. *Winans*, 56 U.S. at 339-42. The patentee only patented the cylindrical-shaped car, not the octagonal-shaped one used by the defendant. The Court found that the advantage of a cylindrical-shaped coal cart with a cone-like base is to disperse the pressure of the load outwards in every direction, which can be achieved similarly by the octagonal-shaped car with a pyramid-like base. *Id.*

strong concern with the uncertainty that the doctrine would bring to the scope of patent claims.<sup>10</sup>

Nearly a century later, the Supreme Court laid the foundation of the modern doctrine of equivalents in *Graver Tank*.<sup>11</sup> In that case, the patentee claimed an electric welding composition that contained alkaline earth metal silicates, such as calcium or magnesium silicates. The only difference in the alleged infringer's product was the replacement of magnesium silicate with manganese silicate, which is not an alkaline earth metal silicate. The issue in *Graver Tank* centered on whether manganese silicate was an equivalent of magnesium silicate in the welding composition.<sup>12</sup>

In an effort to provide a framework for the doctrine of equivalents, the Court proposed that "a patentee may invoke [the doctrine of equivalents] to proceed against the producer of a device if it performs substantially the same function in substantially the same way to obtain the same result,"<sup>13</sup> an often-quoted test that has become known as the "function, way, result" test. An important factor in determining equivalence under this test is whether a person reasonably skilled in the art would have known of the interchangeability of the unclaimed elements with the claimed ones.<sup>14</sup> Finding that manganese silicate was widely known to be substantially identical in operation and result to magnesium silicate in welding compositions, the Court held that it was a protectable equivalent of magnesium silicate.<sup>15</sup>

Protection of patent rights clearly gained an upper hand over clear notice to the public in *Graver Tank*. As the Court observed, "to permit imitation of a patented invention which does not copy every literal detail would be to convert the protection of the patent grant into a hollow and useless thing."<sup>16</sup> However, the concern about uncertain patent scope, first raised by the dissenting justices in *Winans*, never subsided, and the unpredictable application of the "function, way, result" test following *Graver Tank* further intensified the debate. The Supreme Court recognized in *Warner-Jenkinson Co. v. Hilton Davis Chemical Co.* that, after *Graver Tank*, the doctrine had "taken on a life of its own, unbounded by the patent claims."<sup>17</sup>

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10. *See id.* at 347 (Campbell, J., dissenting).

11. *Graver Tank & Mfg. Co. v. Linde Air Prod. Co.*, 339 U.S. 605 (1950).

12. *Id.* at 610.

13. *Id.* at 608.

14. *Id.* at 609.

15. *Id.* at 612.

16. *Id.* at 607.

17. 520 U.S. 17, 28-29 (1997).

To rein in the application of the doctrine of equivalents, the Court endorsed two limitations in *Warner-Jenkinson*. The first is the “all elements rule,” which requires that the doctrine of equivalents be applied to each element of the claim, not to the invention as a whole.<sup>18</sup> This element-by-element analysis limits a patentee’s overreaching argument of overall similarity in function. The second limitation relies on prosecution history estoppel, the central subject of contention in *Festo*.<sup>19</sup>

## B. PROSECUTION HISTORY ESTOPPEL

### 1. *Inconsistency in the Court’s Application of Prosecution History Estoppel*

The Supreme Court applied prosecution history estoppel as early as 1879 to bar a patentee from claiming subject matter clearly abandoned during prosecution,<sup>20</sup> but the doctrine of equivalents remained available to subject matter unaffected by abandonment.<sup>21</sup> The Court’s position has not been consistent in less straightforward situations, where an amendment

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18. *Warner-Jenkinson*, 520 U.S. at 29. The framework of the “all elements rule” appeared much earlier than *Warner-Jenkinson*. In *Water-Meter Co. v. Desper*, 101 U.S. 332 (1879), the Court held that defendant’s meter did not infringe upon the patented meter because the defendant’s meter lacked one material element and substituted no equivalent for the element. In *Gage v. Herring*, 107 U.S. 640 (1882), the Court dismissed the infringement complaint because all the elements of the claimed invention were not present in the defendant’s product. The Court stated that every claimed element is material and the Court can only decide whether any part omitted by an alleged infringer is supplied by some other device or instrumentality which is its equivalent. *Id.* at 648. *See also* Alexander, *supra* note 8, at 565.

19. *See Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, 122 S. Ct. 1831, 1842 (2002), *rev’g* 234 F.3d 558 (Fed. Cir. 2000) (*en banc*); *see also Festo III*, 234 F.3d 558 (Fed. Cir. 2000).

20. *See Leggett v. Avery*, 101 U.S. 256 (1879). The patentee applied for extension of seven claims, six of which were rejected for anticipation by prior art and disclaimed by the patentee. *Id.* at 258. Only the fifth claim was granted. *Id.* The patentee later filed a reissue application containing claims essentially the same as the previously disclaimed ones and was granted the patent. *Id.* The Court held the reissued patent invalid, for the patentee could not recapture claims he already abandoned. *Id.* at 259-60. *See also* Union Metallic Cartridge Co. v. United States Cartridge Co., 112 U.S. 624 (1884) (holding that patentee was estopped from claiming infringement of an equivalent structure which had been expressly disclaimed during reissuance of the patent).

21. *See Goodyear Dental Vulcanite Co. v. Davis*, 102 U.S. 222 (1880). The patentee claimed the use of “vulcanized rubber” for the making of artificial teeth and disclaimed a specific material called “gutta-percha” for the purpose. *Id.* at 227-28. The Court nevertheless proceeded with analyzing whether the accused celluloid was an equivalent of the claimed “vulcanized rubber.” *Id.* at 229-30.

narrows the originally claimed subject matter, but the alleged infringing device is not clearly surrendered.

In its earliest cases, the Court applied an approach similar to the “flexible bar,” which allowed the application of the doctrine of equivalents to claim elements narrowed during prosecution. For example, in *Hurlbut v. Schillinger*, the patentee had disclaimed a portion of his invention to avoid prior art.<sup>22</sup> In a prior litigation, this disclaimer precluded a finding of infringement where the infringing device was found to be clearly abandoned by the disclaimer.<sup>23</sup> Nevertheless, the disclaimer did not prevent the *Hurlbut* Court from finding equivalent a device more similar to the invention than to the clearly surrendered subject matter.<sup>24</sup>

Starting in the early twentieth century, however, the Supreme Court appeared to adopt a more restricted view of the doctrine of equivalents as applied to narrowed claims.<sup>25</sup> *Exhibit Supply Co. v. Ace Patents Corp.* represents the Court’s furthest deviation from the “flexible bar” approach, in which the Court announced that “by the amendment [the patentee] recognized and emphasized the difference between the two phrases and proclaimed his abandonment of all that is embraced in that difference.”<sup>26</sup>

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22. 130 U.S. 456, 458-63 (1889). The patent involved an improvement in concrete pavements where concrete blocks were formed in detachment from each other by inserting tar-paper or its equivalent in between. *Id.* at 459-63. After reissuance of the patent, the patentee disclaimed the forming of blocks from plastic material without interposing anything in between the blocks, which the original claim encompassed. *Id.* at 463.

23. *Id.* at 465-66. In a prior litigation involving the patent, the patentee was barred from asserting infringement against a defendant whose pavement contained nothing between the blocks (discussing a prior litigation involving the patent where the patentee was barred from asserting infringement against a defendant whose pavement contained nothing between the blocks).

24. *Id.* at 472. The Court found that the defendant’s temporary use of a trowel or cutting instrument to divide the blocks is equivalent to the tar-paper claimed in the patent. *See also* *Sutter v. Robinson*, 119 U.S. 530 (1886). In a patent claiming a process of re-sweating tobacco leaves, the patentee narrowed his claim to a porous wooden box in order to distinguish a prior art metal box, but the Court still analyzed whether the uses of cases, boxes or packages in which tobacco leaves were originally packed by the producer was equivalent to the porous wooden box. *Id.* at 541.

25. *See, e.g.*, *Weber Electric Co. v. E.H. Freeman Electric Co.*, 256 U.S. 668, 677-78 (1921) (stating that when a patentee narrows his claim in order to obtain a patent, he may not resort to the doctrine of equivalents to claim the larger scope which it might have had without the amendments); *Hubbell v. United States*, 179 U.S. 77, 83-84 (1900) (“[L]imitations imposed by the inventor . . . must be strictly construed against the inventor and in favor of the public.”).

26. 315 U.S. 126, 136 (1942). The patent related to the structure of a resilient contact switch used in ball rolling games. During prosecution, the patentee substituted the phrase, “conduct means embedded in the table,” instead of for the original broader

The inconsistency in Supreme Court precedent resulted in inconsistent decisions in the lower courts, which applied both a “flexible bar” approach and a more limiting approach.<sup>27</sup> After its establishment in 1982, the Federal Circuit embraced the “flexible bar” approach in *Hughes Aircraft Co. v. United States*,<sup>28</sup> its first case concerning prosecution history estoppel, because the court believed that no reason or warrant existed for limiting application of the doctrine of equivalents to the few unamended claims.<sup>29</sup> The court further held that the effect of the amendment to the scope of available equivalents could range “from great to small to zero” depending on the nature and purpose of the amendment.<sup>30</sup>

A majority of cases decided by the Federal Circuit between 1984 and 1997 followed the *Hughes* reasoning and the “flexible bar” approach,<sup>31</sup> except *Kinzenbaw v. Deere & Co.*<sup>32</sup> In *Kinzenbaw*, decided one year after *Hughes*, a five-judge panel refused to analyze the availability of the doctrine of equivalents to a claim element narrowed by amendment, despite the argument by the patentee that the amendment was not necessary for patentability.<sup>33</sup> The *Kinzenbaw* decision thus resembles the “complete bar” approach, which is more consistent with the Supreme Court’s instruction in *Exhibit Supply*.<sup>34</sup>

## 2. *The Implication of Warner-Jenkinson on Prosecution History Estoppel*

The Supreme Court again addressed the two doctrines in *Warner-Jenkinson v. Hilton Davis*,<sup>35</sup> but still failed to resolve the confusion. The *Warner-Jenkinson* court discussed the circumstances that trigger prosecution history estoppel, but it did not reach the issue as to what range of

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phrase, “carried by the table,” in response to a rejection by the examiner. *Id.* at 133. The Court limited the scope of the term “embedded in the table” to its literal meaning due to the amendment. *Id.* at 136.

27. For a general discussion of circuit court approaches to prosecution history estoppel and the doctrine of equivalents, see Alexander, *supra* note 8, at 584-92.

28. 717 F.2d 1351, 1363 (Fed. Cir. 1983).

29. *Id.*

30. *Id.*

31. 5A DONALD S. CHISUM, CHISUM ON PATENTS § 18.05[3][b][i], at 18-497 (2001).

32. 741 F.2d 383 (Fed. Cir. 1984).

33. *Id.* at 388-89. In a patent for a row planter, the patentee amended his original claim to include a limitation that the radius of the gauge wheel exceeded the radius of the disc, although the patent examiner’s rejection was directed to another limitation. *Id.* at 388. The court nevertheless applied prosecution history estoppel and limited this claim element to its literal meaning. *Id.* at 389.

34. See *Exhibit Supply Co. v. Ace Patents Corp.*, 315 U.S. 126, 136 (1942).

35. 520 U.S. 17 (1997).

equivalents, if any, is available once prosecution history estoppel is triggered.

In *Warner-Jenkinson*, the patentee amended his claim of an ultrafiltration process, limiting the operative pH of the process to approximately 6.0 to 9.0.<sup>36</sup> The upper limit of pH 9.0 was added to distinguish the claim from the prior art, which disclosed an ultrafiltration process operating at pH above 9.0. However, the reason for adding a lower limit of pH 6.0 was not clear from the record.<sup>37</sup> The accused infringing process was conducted at pH 5.0, outside of the literally claimed range.<sup>38</sup>

The Court declined to take the position that prosecution history estoppel applies to every amendment, regardless of the reasons underlying the amendment.<sup>39</sup> As to a voluntary narrowing amendment, the Court placed the burden on the patentee to establish the reason for the amendment.<sup>40</sup> When no explanation for the amendment is established, the *Warner-Jenkinson* court held that the application of the doctrine of equivalents as to that element would be completely barred,<sup>41</sup> because an amendment is presumed to have a “substantial reason” related to patentability if not proved otherwise.<sup>42</sup> The Court adopted this approach to further a claim’s notice function.

The *Warner-Jenkinson* court adopted a “complete bar” to the doctrine of equivalents only in a narrow situation—where the patentee failed to establish an explanation for the amendment—and did not address the range of equivalents available when a reason related to patentability is offered for the amendment. However, the Court’s reasoning—that an unexplained amendment with a *presumed* substantial relationship to patentability is subject to a “complete bar” on the doctrine of equivalents—is arguably consistent with the idea that an amendment made for a *stated* reason related to patentability should also be subject to a “complete bar.” This continued lack of clarity in the Court’s guidance on the scope of the doctrine of equivalents led to the debate in the Federal Circuit in *Festo III*.

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36. *Id.* at 32.

37. *Id.*

38. *Id.* at 23.

39. *Id.* at 33 (“Where the reason for the change was not related to avoiding the prior art, the change may introduce a new element, but it does not necessarily preclude infringement by equivalents of that element.”).

40. *Id.* The Court also instructed lower courts to determine whether the proffered reason is sufficient to overcome prosecution history estoppel as a bar to application of the doctrine of equivalents to the element added by that amendment. *Id.*

41. *Id.*

42. *Id.*

## II. CASE SUMMARY

### A. FACTS AND PROCEDURAL HISTORY

Festo Corporation owns U.S. Patent No. 3,779,401 (the Carroll Patent) and U.S. Patent No. 4,354,125 (the Stoll Patent), for an improved magnetic rodless cylinder, a piston-driven device for moving objects that has many industrial uses.<sup>43</sup> Carroll added a requirement of a pair of sealing rings to his claims during a reexamination proceeding, to more specifically define his invention and to distinguish it from the prior art references.<sup>44</sup> Stoll added, in addition to a pair of sealing rings, a second requirement that the cylindrical sleeve be made of magnetizable material, after the examiner rejected the original claims for indefiniteness under 35 U.S.C. § 112 (2000).<sup>45</sup>

Shoketsu Kinzoku Kogyo Kabushiki Co. (hereinafter SMC) made a device similar to Festo's, except that SMC employed a single sealing ring with a two-way lip and it did not use a magnetizable sleeve.<sup>46</sup> Since SMC's device fell outside of the literal claims of the two Festo patents, the question at issue was whether SMC infringed the patents under the doctrine of equivalents.<sup>47</sup>

The district court found that Festo's amendments were not related to the examiner's § 112 rejections, and were not made to avoid prior art.<sup>48</sup> The court therefore declined to apply prosecution history estoppel, and granted Festo summary judgment of infringement of the Carroll patent under the doctrine of equivalents.<sup>49</sup> A jury also found SMC infringed the Stoll patent under the doctrine of equivalents.<sup>50</sup> A panel of the Court of Appeals for the Federal Circuit affirmed the district court's decision in *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.* [hereinafter *Festo I*].<sup>51</sup> The Supreme Court granted *certiorari*, vacated and remanded the case to the Federal Circuit for further consideration in light of the Court's intervening *Warner-Jenkinson* decision.<sup>52</sup> After a decision by the same Fed-

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43. *Festo II* at 578-82.

44. *Id.* at 584.

45. *Id.* at 583.

46. *Id.* at 582.

47. *Id.*

48. *Id.* at 585.

49. *Id.*

50. *Id.* at 584-85.

51. 72 F.3d 857 (Fed. Cir. 1995) [hereinafter *Festo I*].

52. *Shoketsu Kinzoku Kogyo Kabushiki Co. v. Festo Corp.*, 520 U.S. 1111 (1997).

eral Circuit panel as in *Festo I* on remand (*Festo II*),<sup>53</sup> the Federal Circuit ordered a rehearing *en banc* (*Festo III*) and reversed the district court's ruling.<sup>54</sup>

## B. THE FEDERAL CIRCUIT'S ANALYSIS

In order to provide a bright-line rule to the application of prosecution history estoppel, the *en banc* Federal Circuit held that prosecution history estoppel arises from any amendment that narrows a claim to comply with the Patent Act, not only from amendments made to avoid prior art.<sup>55</sup> More importantly, the court held that when estoppel applies, it stands as a "complete bar" against any claim of equivalence for the element that was amended.<sup>56</sup>

The court first analyzed whether the "substantial reason related to patentability," as required by *Warner-Jenkinson* to invoke prosecution history estoppel, is limited to those amendments made to overcome prior art under 35 U.S.C. §§ 102 and 103.<sup>57</sup> Acknowledging that the Supreme Court in *Warner-Jenkinson* focused on claim amendments made to overcome prior art, the court reasoned that other statutory requirements, such as 35 U.S.C. §§ 101 and 112,<sup>58</sup> are equally important in patentability analyses, because the Patent Office will reject a patent application that fails to satisfy any of these statutory requirements.<sup>59</sup> The court concluded that since an amendment relating to any of these statutory requirements is an amendment made for "a substantial reason related to patentability," such an amendment triggers prosecution history estoppel.<sup>60</sup>

Second, the Federal Circuit analyzed whether a voluntary claim amendment—one not required by the examiner or made in response to a rejection by an examiner for a stated reason—creates prosecution history estoppel.<sup>61</sup> Since voluntary amendments, like amendments required by the

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53. *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, 172 F.3d 857 (Fed. Cir. 1999) [hereinafter *Festo II*].

54. *Festo III*, 234 F.3d 558 (Fed. Cir. 2000).

55. *Id.* at 566.

56. *Id.* at 574-75.

57. *Id.* at 566. Both §§ 102 and 103 relate to prior art. Section 102 deals with a single piece of anticipating prior art, and § 103 deals with obviousness, where more than one piece of prior art may be combined to render an invention unpatentable. 35 U.S.C. §§ 102, 103 (2000).

58. 35 U.S.C. §§ 101, 112 (2000) (relating to patentable subject matter, and disclosure requirements, respectively).

59. *Festo III*, 234 F.3d at 566.

60. *Id.* at 567.

61. *Id.* at 568.

Patent Office, signal to the public that the applicant has surrendered subject matter, the court saw no reason to treat them differently.<sup>62</sup>

Third, the Federal Circuit determined what range of equivalents, if any, would be available to amended claim elements subject to prosecution history estoppel,<sup>63</sup> a question that divided the court.<sup>64</sup> The eight-member majority claimed that the Supreme Court never directly addressed this question.<sup>65</sup> After analyzing several Supreme Court cases, including *Warner-Jenkinson*, the majority concluded that the Supreme Court only resolved the question of whether prosecution history estoppel applied, but did not address the scope of equivalents available after the estoppel.<sup>66</sup> The majority went on to “independently decide the issue.”<sup>67</sup>

They acknowledged that the majority of their own precedent had applied a “flexible bar” approach in deciding the scope of the equivalents.<sup>68</sup> Under that approach, claim amendments do not bar the doctrine of equivalents, but the available range of equivalents is limited by estoppel.<sup>69</sup> Nevertheless, the *Festo* majority chose to follow the stricter standard applied in *Kinzenbaw v. Deere & Co.*, where the court refused to apply the doctrine of equivalents to a claim element narrowed by amendment.<sup>70</sup> The majority concluded that, based on the Federal Circuit’s long experience, the “flexible bar” approach was “unworkable.”<sup>71</sup> Emphasizing the paramount importance of the notice function and the need for certainty as to the scope of patent claims,<sup>72</sup> the majority proposed a “complete bar” approach, under which no range of equivalents is available for an element amended for patentability reasons.<sup>73</sup> The majority reasoned that with a “complete bar,” technological advances that would have otherwise lain in the unknown, undefined zone around the literal terms of a narrowed claim will not go wasted and undeveloped due to fear of litigation.<sup>74</sup> As for the

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62. *Id.*

63. *Id.* at 569.

64. *Id.* at 598 (Michel, J., dissenting); *Id.* at 619 (Rader, J., dissenting); *Id.* at 620 (Linn, J., dissenting); *Id.* at 630 (Newman, J., dissenting).

65. *Id.* at 569.

66. *Id.* at 569-71.

67. *Id.* at 571.

68. *Id.* at 572-74.

69. *See, e.g.,* *Modine Mfg. Co. v. United States Int’l Trade Comm’n.*, 75 F.3d 1545, 1555-56 (Fed. Cir. 1996).

70. 741 F.2d 383, 389 (Fed. Cir. 1984).

71. *Festo III*, 234 F.3d at 575.

72. *Id.*

73. *Id.* at 569.

74. *Id.* at 576-77.

reduced protection for patentees under the “complete bar,” the majority cursorily concluded that the benefits to patentees under the “flexible bar” do not outweigh the costs of uncertainty.<sup>75</sup>

Four judges dissented to the “complete bar” approach.<sup>76</sup> Judge Michel wrote a particularly lengthy dissent in which he stated that the “complete bar” approach contradicts settled law.<sup>77</sup> To support his opinion, he cited numerous cases that, according to him, were overturned by the majority’s ruling.<sup>78</sup>

Finally, the Federal Circuit addressed voluntary, unexplained claim amendments. Following *Warner-Jenkinson*,<sup>79</sup> the court held that no range of equivalents is available to those amended elements.<sup>80</sup>

Based on this analysis, the court held that prosecution history estoppel applied to the amendments made to the two patents at issue, since the amendments were made to narrow the scope of the claims for reasons related to patentability.<sup>81</sup> Applying the “complete bar” approach, the court easily concluded that no range of equivalents was available to the two amended claim elements, reversing the district court’s ruling.<sup>82</sup> The Federal Circuit’s adoption of the “complete bar” approach stood in sharp contrast to the “flexible bar” approach that had been applied for over a century, affecting the potential scope of a vast majority of patents currently in force.<sup>83</sup> The magnitude of the controversy in the patent community caused by this decision once again caught the attention of the Supreme Court.

### C. THE SUPREME COURT’S ANALYSIS

Although the Supreme Court agreed with the Federal Circuit that a narrowing amendment made to satisfy any requirement of the Patent Act gives rise to estoppel, the Court unanimously vacated the Federal Circuit’s

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75. *Id.* at 578.

76. *Id.* at 598-642 (Michel, J., Rader, J., Linn, J., Newman, J., dissenting).

77. *Id.* at 612.

78. *Id.* at 613-619.

79. 520 U.S. 17, 33 (1997).

80. *Festo III*, 234 F.3d at 578.

81. *Id.* at 591.

82. *Id.*

83. See, e.g., William M. Atkinson, Bruce J. Rose & John A. Wasleff, *Was Festo Really Necessary?*, 83 J. PAT. & TRADEMARK OFF. SOC’Y 111 (2001); Belvis, *supra* note 4; Faith S. Fillman, *Doctrine of Equivalents: Is Festo the Right Decision for the Biomedical Industry?*, 33 ST. MARY’S L.J. 493 (2002). Since the vast majority of patents currently in force have amended claims, the “complete bar” approach greatly reduces the scope of protection to those patents.

“complete bar” approach.<sup>84</sup> While the Court acknowledged the importance of certainty and clarity in defining the boundary of patent rights, it also recognized the impreciseness of language in fully describing an invention.<sup>85</sup> Since a narrowing amendment may demonstrate what the claim is not, but may still fail to capture precisely what the claim is,<sup>86</sup> the Court concluded that the original basis for adopting the doctrine of equivalents still inheres in amended claims.<sup>87</sup> The Court also found no precedent supporting the sweeping “complete bar” approach adopted by the Federal Circuit and was mindful of the settled expectations of the inventing community.<sup>88</sup> Since inventors who amended their claims under the previous regime had no reason to believe they were conceding all equivalents, the Court found “no justification for applying a new and more robust estoppel to those who relied on prior doctrine.”<sup>89</sup>

Following *Warner-Jenkinson*, the Court retained the limited version of the “complete bar” in situations where the patentee is unable to explain the reason for an amendment. In addition, when prosecution history estoppel applies to an amended element, the Court placed the burden on the patentee to show that the amendment does not surrender the particular equivalent in question.<sup>90</sup> The Court provided three scenarios where the patentee can satisfy that burden: 1) the equivalent was unforeseeable at the time of the application; 2) the rationale underlying the amendment bears no more than a tangential relationship to the equivalent in question; or 3) the patentee could not reasonably be expected to have described the insubstantial substitution in question.<sup>91</sup>

Applying these principles to the case at bar, the Court determined that the amendments were made for a reason relating to patentability. It held that the question is not whether estoppel applies, but what territory the amendments had surrendered. It therefore remanded the case to the Federal Circuit for further proceedings.<sup>92</sup>

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84. *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, 122 S. Ct. 1831, 1839-41 (2002), *rev'g* 234 F.3d 558 (Fed. Cir. 2000) (*en banc*).

85. *Id.* at 1837.

86. *Id.* at 1841.

87. *Id.* (“[T]here is no more reason for holding the patentee to the literal terms of an amended claim than there is for abolishing the doctrine of equivalents altogether and holding every patentee to the literal terms of the patent.”).

88. *Id.*

89. *Id.*

90. *Id.* at 1842.

91. *Id.*

92. *Id.*

### III. DISCUSSION

The Supreme Court in *Festo* addressed two issues relating to prosecution history estoppel and the doctrine of equivalents: 1) what kinds of claim amendment trigger prosecution history estoppel and 2) if prosecution history estoppel applies to an amended claim element, what is the range of equivalents available to that claim element?

#### A. NARROWING AMENDMENT

The Supreme Court agreed with the Federal Circuit that any narrowing amendment made to satisfy the Patent Act, including §§ 101, 102, 103 and 112, might give rise to prosecution history estoppel.<sup>93</sup> Although in a majority of earlier cases prosecution history estoppel was applied in the context of amendments made to avoid prior art references, it is reasonable to apply the same rationale to other narrowing amendments. The key term here is “narrowing.” If a patentee narrows her claim scope to obtain the patent, then she relinquished the original broad claim. Therefore, she should at least be barred from broadening her narrowed claim *to the full extent of her original broad claim* through the doctrine of equivalents. To hold otherwise would permit “backdoor patenting,” seriously undermining the notice function of the patent system.<sup>94</sup>

The full extent of the original broad claim, however, may not be clearly defined. If an examiner’s rejection is based on indefiniteness under § 112,<sup>95</sup> then the scope of the original term is probably uncertain. Consider, for example, a patentee that originally used the term “substantially parallel,” and later removed “substantially” in response to patent examiner’s indefiniteness rejection. Although the term “substantially parallel” has an uncertain scope, it certainly has a larger scope than “parallel,” and should be considered a narrowing amendment. The uncertainty of the

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93. *Id.* at 1839-40.

94. Preventing “backdoor” patenting is a principle function of prosecution history estoppel. *See, e.g.,* Shepard v. Carrigan, 116 U.S. 593, 598 (1886) (stating that an applicant, by accepting a narrowed claim in order to get the patent, is bound by it and “cannot enlarge her patent by argument, so as to cover elements not falling within its terms, and which she had explicitly abandoned”); Leggett v. Avery, 101 U.S. 256, 259 (1879) (“The allowance of claims once formally abandoned by the applicant, in order to get his letters-patent through, is the occasion of immense frauds against the public.”). The Court went one step further in *Festo* in stating that courts might still need to resort to the estoppel doctrine even if the purpose for an amendment is unrelated to patentability. *Festo*, 122 S. Ct. at 1839.

95. 35 U.S.C. § 112 (2000) (“The specification should conclude with one or more claims particularly pointing out and distinctly claiming the subject matter which the applicant regards as his invention.”).

original scope, however, renders it difficult to clearly determine the surrendered subject matter. The patentee probably did not intend to abandon any scope by such an amendment. Limiting the patentee to literally “parallel” in this situation, as required by the Federal Circuit’s “complete bar” approach, is arguably unfair to the patentee. The Supreme Court’s adoption of a more flexible approach alleviates this problem.

## B. THE “PRESUMPTIVE BAR” APPROACH

The Supreme Court’s approach can be called a “presumptive bar.” According to the Court, a patentee’s narrowing amendment may be presumed to be a general disclaimer of the territory between the original claim and the amended claim, therefore barring a claim of equivalence to anything falling within that territory.<sup>96</sup> However, in contrast to the Federal Circuit’s “complete bar” approach, the Supreme Court allowed the patentee to rebut this presumption of estoppel by showing that the amendment does not surrender the particular equivalent in question.<sup>97</sup> The Supreme Court therefore reopened the door to the doctrine of equivalents to amended claim elements. However, the burden may not be easy for the patentee to meet, and the Court’s guiding tests—the foreseeability, tangential relationship and reasonableness tests—by no means provide a clear standard.

### 1. *The Foreseeability Test*

The Court provided that an amendment cannot reasonably be viewed as surrendering a particular equivalent when the equivalent was unforeseeable at the time the patent application was filed.<sup>98</sup> The Court adopted this test as a middle ground between the traditional “flexible bar” approach and the Federal Circuit’s “complete bar” approach, to better balance the patent law’s protection and notice functions.<sup>99</sup> A foreseeability test does have the potential to be fair, objective, and workable, overcoming the failings of both the “complete bar” and the “flexible bar.”<sup>100</sup> However, the foreseeability test proposed by the *Festo* court suffers from several problems.

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96. *Festo*, 122 S. Ct. at 1842.

97. *Id.*

98. *Id.*

99. The Court largely adopted the foreseeability test recommended in an amicus brief filed on behalf of the Institute of Electrical and Electronics Engineers (IEEE) (No. 00-1543), rewritten for publication in Conigliaro, *supra* note 6, at 1064-65.

100. *Id.* at 1069.

a) The *Festo* Foreseeability Test Conflicts with the Doctrine of Equivalents in *Graver Tank*

The Court in *Graver Tank* regarded the case as a perfect example in which to apply the doctrine of equivalents, because it was well known, and certainly foreseeable, by those having ordinary skill in the art, that manganese silicate “performs substantially the same function in substantially the same way to obtain the same result” as magnesium silicate in electric welding compositions.<sup>101</sup> Foreseeability is thus a touchstone for the Court to invoke the doctrine of equivalents to forgive the patentee’s inadvertent omissions in claim drafting.<sup>102</sup> In contrast, according to the *Festo* court, “[t]he patentee, as the author of the claim language, may be expected to draft claims encompassing readily known equivalents.”<sup>103</sup> Thus, the *Festo* court turned *Graver Tank*’s foreseeability test on its head, making foreseeability the standard for barring the application of the doctrine of equivalents.

One might reconcile the two cases by pointing out that in *Graver Tank*, the claim was not amended, while in *Festo*, the Court was addressing amended claims. However, this distinction does not warrant a contradictory application of the foreseeability standard. First, drafting original claims and amending claims serve a common function. Both represent the effort of the patentee to correctly define the scope of protection for the underlying invention. As the *Festo* court stated, while a rejection informs the patentee that a particular claim is too broad to be patentable, she may still fail to define the appropriate claim scope during amendment.<sup>104</sup> The patentee’s ability to draft an appropriate claim does not improve greatly after a rejection based on patentability. Therefore, if the patentee is denied application of the doctrine of equivalents to unclaimed foreseeable variations following amendment, the same standard should apply to original claims.

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101. *Graver Tank & Mfg. Co. v. Linde Air Prod. Co.*, 339 U.S. 605, 608 (1950).

102. Of note is that in *Graver Tank*, the patentee was originally allowed broader claims that covered manganese silicate, but these claims were later invalidated during litigation. See *Graver Tank*, 339 U.S. at 616 (Black, J., dissenting). Therefore the patentee’s failure to literally claim manganese silicate in the remaining valid claims may be argued to not result from inadvertency, but rather from PTO’s wrongful grant of the broad claims. See *id.* at 615. Had the PTO rejected these broad claims during prosecution, the patentee would have had an opportunity to amend the claims to literally claim manganese silicate. See *id.* at 617. It can be argued that declining patentee the protection of the doctrine of equivalents in this situation is too harsh. See *id.* However, the majority opinion in *Graver Tank* did not take this fact into consideration at all. *Id.* at 618.

103. *Festo*, 122 S. Ct. at 1842.

104. *Id.* at 1841 (stating that a narrowing amendment may still fail to precisely capture what the claim covers).

Second, applying a higher standard to claim amendments than to original claims exacerbates the problem of potentially inconsistent examination of patent applications at the U.S. PTO. Reasonable minds may differ as to whether particular claim language satisfies the patent laws' requirements, and whether a claim should be amended often depends on opinions of individual patent examiners. The fact that patent examiners are overburdened and have limited time to examine each application further increases the likelihood of a less-than-uniform application of the standards for patentability.<sup>105</sup> Amendments in many cases are simply a patentee's strategy to get the patent issued without staging a lengthy appeal against the examiner. With the contradictory application of the foreseeability test to amended and unamended claims, an amendment will not only reduce an original claim's literal scope, but also *eliminate* all "foreseeable" equivalents, thus dealing a "double blow" to the scope of a claim. On the other hand, an unamended claim will be *entitled* to both its original literal scope and its full range of "foreseeable" equivalents. Therefore, inconsistency among individual patent examiners as to when amendments are required could translate into large discrepancies in the scope of protection provided by an amended claim versus an unamended claim. These arguably arbitrary discrepancies are unfair to individual patentees.

Also, the opposite roles that foreseeability plays in amended and unamended claims unduly emphasize the importance of the prosecution procedure. Two identical inventions, simply because of differences in prosecution history, may end up with very different values to the patentee. Assume, for example, the claim in *Graver Tank* had been originally drafted to cover all metal silicates. Assume further that this claim was rejected for lack of enablement, and then amended to cover only alkaline earth metal silicates. Based on the *Festo* reasoning, manganese silicate would have been barred as an equivalent under prosecution history estoppel because it was a foreseeable alternative. In contrast, since the original claim was actually drafted to only cover alkaline earth metal silicates, the *Graver Tank* court applied the doctrine of equivalents to cover manganese silicate, a foreseeable substitution.<sup>106</sup> This discrepancy in claim scope focuses on procedural formality rather than substance. To preserve the doctrine of

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105. The total average time an examiner spends on an application is only eighteen hours. Mark A. Lemley, *Rational Ignorance at the Patent Office*, 95 NW. U.L. REV. 1495, 1500 (2001). In addition, Professor Lemley found that litigated patents are held invalid forty-six percent of time. In fact, Professor Lemley suggested that it is more cost effective to the society to have a rational ignorance in the PTO than to examine every patent with greater care. *Id.*

106. *Graver Tank*, 339 U.S. at 612.

equivalents, applicants will have to take greater care in drafting original claims to avoid amendments, and to choose appeal over amendment when facing rejections. Such practice will certainly increase the cost of patent prosecution. As a result, it will reward applicants with greater financial resources.<sup>107</sup>

b) A Uniform Foreseeability Test Strikes a Reasonable Balance

The tension between the protection and the notice functions of the patent law demands a balanced approach. Unbalanced emphasis on either function at the expense of the other will undermine the main purpose of the patent law to “promote the Progress of Science and useful Arts.”<sup>108</sup> The “complete bar” approach dramatically favors the notice function over the patent protection function. The traditional “flexible bar” approach, on the other hand, lacks the necessary measure of certainty as to the scope of patent rights.<sup>109</sup> The foreseeability test provides a framework for a standard that rests reasonably on a middle ground.

However, the courts cannot take full advantage of the merits of the foreseeability test while *Graver Tank* applies the test in a contradictory manner to unamended claims. Compared to the traditional “flexible bar” approach, where “depending on the nature and purpose of an amendment, it may have a limiting effect from great to small to zero,”<sup>110</sup> the *Festo* foreseeability test provides a more workable standard. It may not be the bright-line rule that the *en banc* Federal Circuit wanted, but it is arguably a step in the right direction. To provide consistency and to better balance the protection and notice functions of the patent law, a uniform *Festo* foreseeability test should be put in place irrespective of the amendment history of the claims.<sup>111</sup>

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107. See discussion *infra* Part III.C.

108. U.S. CONST. art. I, § 8, cl. 8.

109. See Conigliaro, *supra* note 6, at 1059-63.

110. *Hughes Aircraft Co. v. United States*, 717 F.2d 1351, 1363 (Fed. Cir. 1983).

111. In fact, Judge Rader in his concurring opinion in *Johnson & Johnston Assocs. v. R.E. Service Co.*, 285 F.3d 1046, 1056-58 (Fed. Cir. 2002), had already proposed a foreseeability test to guide the general application of the doctrine of equivalents in contradiction to the teachings of *Graver Tank*. His proposal was opposed by Judge Lourie. *Id.* at 1063-64 (Lourie, J., concurring). See *infra* text accompanying note 116. See also *Sage Prods. Inc. v. Devon Indus., Inc.*, 126 F.3d 1420 (Fed. Cir. 1997) (holding that the patentee should bear the cost of its failure to seek protection for the foreseeable alteration of its claimed structure). Because of the special circumstances in *Graver Tank*, see *supra* text accompanying note 102, if the Court is reluctant to overrule *Graver Tank*, it should at least limit its ruling to the very narrow scenario that a broad claim encompassing the equivalent in question was originally granted by the PTO.

While a uniform *Festo* foreseeability test places a heavier burden on the patentee to claim every foreseeable equivalent, the patentee is the best party to bear that burden. Nobody knows the invention better than the patentee. The foreseeability test as applied in *Graver Tank* in effect used the doctrine of equivalents to forgive inadvertent omissions in patent drafting, which overly emphasized the protection function at the expense of public notice. In addition, the application of the *Festo* foreseeability test to original claims is not as harsh to patentees as it appears, since patentees have the additional protection of the *Festo* reasonableness test.<sup>112</sup>

c) The *Festo* Court Failed to Give Clear Guidelines as to the Administration of the Test

In addition to the inconsistency of the foreseeability test with the Court's *Graver Tank* opinion, the *Festo* court also failed to provide guidance as to the administration of the test. For example, the Court is inconsistent as to the timing of the test. At one point in its opinion, the Court expressed that a narrowing amendment should not be deemed to relinquish equivalents unforeseeable at the time of the amendment,<sup>113</sup> while later in the opinion the test seems to apply at the time of application.<sup>114</sup> However, the time between application and amendment may be several years apart, and the equivalents unforeseeable at the time of application may be foreseeable at the time of amendment. From the spirit of the Court's reasoning, it seems more logical to apply the foreseeability test at the time of amendment, which action triggers prosecution history estoppel.

In addition, it is not clear who should determine whether an equivalent is foreseeable or not. To promote consistency and increase predictability, it is probably better for a judge to decide. Some commentators have suggested a pretrial "Festo hearing," either together with or separate from a Markman hearing, to address the foreseeability issue.<sup>115</sup> However, because patents are technical documents and meant to be understood by persons with ordinary skill in the art, presumably such persons should determine the foreseeability of the equivalent in question. Since a judge is often not a person with ordinary skill in the art, expert witnesses will likely be needed

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112. See discussion *infra* Part III.B.3.

113. *Festo*, 122 S. Ct. 1831, 1841 (2002) ("There is no reason why a narrowing amendment should be deemed to relinquish equivalents unforeseeable *at the time of the amendment* and beyond a fair interpretation of what was surrendered.") (emphasis added).

114. *Id.* at 1842 ("The equivalence may have been unforeseeable *at the time of the application.*") (emphasis added).

115. See, e.g., Frank J. Derosa & Steven E. Halpern, *Assessing Impact of the 'Festo' Cases*, N.Y.L.J., July 29, 2002, at s4, col. 3 (2002).

in trials to help determine the foreseeability issue. However, expert witnesses on both sides are likely to present competing views, and a crucial issue in the determination becomes credibility, which is traditionally left to a jury.<sup>116</sup>

Although courts are familiar with foreseeability issues in other types of cases, such as foreseeability in common law negligence, foreseeability in the determination of reliance in contracts, or foreseeability in the context of limiting damages,<sup>117</sup> foreseeability of equivalents provides a unique challenge to the courts due to the frequent complexity of the underlying technology. Deciding whether a particular consequence is foreseeable due to negligence is probably different from deciding whether a particular variant of a DNA sequence is foreseeable.<sup>118</sup> Courts' experience with foreseeability determination in nonpatent cases is helpful, but may not provide enough guidance in the patent context.

This lack of guidance will likely lead to confusion and inconsistency in the early applications of the foreseeability test, which has already emerged in the district courts.<sup>119</sup> In two cases concerning infringement of

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116. Judge Lourie in his concurring opinion in *Johnson & Johnston*, 285 F.3d at 1063-64, opposed Judge Rader's proposal of using a foreseeability test to guide the scope of the doctrine of equivalents. *See supra* text accompanying note 111. One of his reasons is that foreseeability test will make adjudication of the doctrine of equivalents more complicated. In his opinion, foreseeability is not solely a question of law.

117. *See Conigliaro, supra* note 6, at 1065.

118. One reason that the Federal Circuit easily applied a foreseeability test in *Sage Products, Inc. v. Devron Indus., Inc.*, 126 F.3d 1420 (Fed. Cir. 1997), might be that the patent involved was easily understandable by a layperson. The patent at issue in *Sage Products* claimed a disposal container for hazardous medical waste, including hypodermic needles. *Id.* at 1422.

119. *See, e.g.*, *Glaxo Wellcome v. IMPAX Labs., Inc.*, 220 F. Supp. 2d 1089 (N.D. Cal. 2002); *Smithkline Beecham Corp. v. Excel Pharmaceuticals, Inc.*, 214 F. Supp. 2d 581 (E.D. Va. 2002); *Glaxo Wellcome, Inc. v. EON Labs Mfg., Inc.*, No. 00 Civ. 9089 (LMM), 2002 U.S. Dist. LEXIS 14923 (S.D.N.Y. Aug. 13, 2002). The three cases arose from the same patent on the sustained release of an anti-depression drug. The patentee narrowed several claims by the addition of a specific sustained release agent, HPMC, through amendment. Excel used PVA, and both EON and IMPAX used HPC, instead of HPMC, as the sustained release agent. The Northern District of Virginia held that even if the use of PVA was unforeseeable at the time of amendment, the patentee should have tried to draft a category claim that encompasses PVA. *EXCEL*, 214 F. Supp. 2d at 592. The Northern District of California held that the use of HPC was foreseeable to anyone skilled in the art at the time of amendment and the patentee was barred from using the doctrine of equivalents. *IMPAX*, 220 F. Supp. 2d. at 1095. In contrast, the Southern District of New York held that whether the use of HPC was foreseeable at the time of amendment is a triable question of fact that precludes summary judgment. *EON*, 2002 U.S. Dist. LEXIS 14923 at \*13-14.

the same patent by the same equivalent, the Northern District of California had no problem granting a summary judgment on the issue of foreseeability, while the Southern District of New York held that a jury determination was proper.<sup>120</sup> Reconsidering *Festo* on remand, the Federal Circuit has asked the parties to submit briefs and has sought *amicus curie* briefs regarding what function a jury should play in determining whether a patent owner can rebut the presumption of estoppel.<sup>121</sup>

Furthermore, for the test to achieve the appropriate balance, the Federal Circuit must apply the test sensibly. The Federal Circuit still has the opportunity to limit the test in a way that resembles a “complete bar.” For example, the Federal Circuit may view all currently available technology as foreseeable. Even later developed technologies may be viewed as not entirely unforeseeable. As one commentator puts it, “[l]anguage is nearly always available to describe an invention—in hindsight.”<sup>122</sup> If the Federal Circuit embraces this line of reasoning, then the foreseeability test will become “the complete bar by another name.”<sup>123</sup> Development of case law in this area is therefore critical to the viability of the test, and the Supreme Court should keep a close eye on future cases from the Federal Circuit.

## 2. *The Tangential Relationship Test*

In addition to unforeseeable equivalents, the Supreme Court provided two other situations where the presumption of estoppel can be rebutted: (1) where the amendment bears only tangential relationship to the equivalent in question, and (2) where it is unreasonable to expect the patentee to have claimed the equivalent in question.<sup>124</sup> The Court provided even less guidance for the application of these two tests.

The Court did not specify what it considers to be a tangential relationship, and no judicial precedent speaks to this issue. The most logical reading of this test is that a “tangential” amendment does not narrow the scope of a claim in a way that affects the equivalent in question. For example, if the amendment limits the size of an element, and the equivalent in question only differs from the claimed element in its weight, the amendment may bear a tangential relationship to that equivalent. The district court in

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120. See *supra* text accompanying note 119.

121. *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, 304 F.3d 1289 (Fed. Cir. 2002).

122. Steve J. Frank, *Festo, Schmesto!*, IEEE SPECTRUM, July 2002, at 39.

123. *Festo*, 122 S. Ct. 1831, 1842 (2002).

124. *Id.*

*Vardon Golf Co. v. Karsten Manufacturing Corp.* adopted this interpretation.<sup>125</sup>

### 3. *The Reasonableness Test*

The reasonableness test bears many similarities to the foreseeability test, and thus raises many of the same issues. As with the reasonableness test, the Federal Circuit must decide whether a judge or a jury should decide reasonableness.<sup>126</sup> Unlike the foreseeability test, however, whose major application may involve later developed technologies, the reasonableness test focuses on currently available equivalents. This test potentially softens the harsh standard that may be inherent in the foreseeability test. After all, it may be unreasonable to require the patentee to exhaust every arguably foreseeable equivalent in the world. Therefore if the patentee *reasonably* misses some, she will not be punished. While this is an equitable idea, there is almost no precedent in patent law to guide its application. Without a clear standard, this test is no less uncertain than the “flexible bar.”

As with the foreseeability test, this test should also be applied to unamended claims. If only reasonable omissions can be recaptured by the doctrine of equivalents following narrowing amendments, the same standard should be applied to original claims. The reasoning advanced earlier against a double standard in the foreseeability test applies with equal force here. For example, the omission of manganese silicate from the claims in *Graver Tank*<sup>127</sup> was most likely unreasonable, since it was a well-known equivalent to magnesium silicate in electric welding compositions at the time of application,<sup>128</sup> and it could have been easily captured by a literal claim. Only a uniform application of the foreseeability and reasonableness tests will achieve the balancing goal intended by the *Festo* court.

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125. No. 99 C 2785, 2002 U.S. Dist. LEXIS 11802 (N.D. Ill. June 27, 2002). In a patent infringement action concerning golf clubs, the court held that the amendments focused primarily on structural explanations and descriptions on the club, not the ring and dot elements in question.

126. See *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, 304 F.3d 1289 (Fed. Cir. 2002) (holding that the claim amendment made to a patent on golf club focused primarily on structural explanations and descriptions on the club, not the ring and dot elements in question).

127. *Graver Tank & Mfg. Co. v. Linde Air Prod. Co.*, 339 U.S. 605, 610 (1950).

128. *Id.* at 610-11.

### C. Effect of *Festo* on Patent Prosecution: Greater Burdens on Patentees

The Supreme Court's *Festo* decision is a relief to patent prosecutors fearing the burdens imposed by the Federal Circuit's "complete bar" approach. However, the "presumptive bar" still differs from the traditional "flexible bar," though not as drastically as the "complete bar." To what extent the door of the doctrine of equivalents is kept open to amended claims largely depends on the Federal Circuit's interpretation of the three Supreme Court tests. In any event, *Festo* places a heavier burden than before on the shoulders of patent prosecutors, especially when facing rejections from the patent examiner: if the claim element is amended, any *foreseeable* equivalent that may *reasonably* be included in claims will be lost forever if not literally captured.

Because *Festo*'s foreseeability test is applied to amended but not unamended claims, patentees may employ three strategies to maximize the protection of the doctrine of equivalents: keeping applications "alive," appealing rejections, and drafting original claims with more care.<sup>129</sup> First, a patentee may try to keep the application "alive" by filing continuation applications, which keeps the door open for the addition of new claims to recapture an omitted equivalent so long as the original disclosure supports the new claims. However, this strategy requires additional costs, and the amended claims might still be held invalid due to laches if the patentee has waited too long to amend.<sup>130</sup>

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129. After the Federal Circuit's *Festo III* decision, many commentators proposed various patent prosecution strategies to preserve the doctrine of equivalents, but some of the proposed strategies are unlikely to succeed. For example, in Steven H. VerSteege, *Parallel Application to Preserve the Doctrine of Equivalents in a Post Festo World*, 84 J. PAT. & TRADEMARK OFF. SOC'Y 341 (2002), the author proposed a strategy to file a broad and a narrow application for the same invention. He suggested that any amendments made to the broad application can be rewritten on a clean slate on the narrow application, therefore preserving the doctrine of equivalents on the narrow application. *Id.* at 364-67. However, the Federal Circuit has specifically stated that the relevant prosecution history includes not only the application but also the parent and grandparent applications. *See* Mark I Mktg. Corp. v. R.R. Donnelley & Sons Co., 66 F.3d 285, 291 (Fed. Cir. 1995). Similarly, starting with a narrow claim and broadening the scope of the claim to the point of rejection by the examiner will not help either, because prosecution history estoppel applies with equal force to all claims with the same limitation. *See* Intermatic Inc. v. Lamson & Sessions Co., 273 F.3d 1355, 1366-67 (Fed. Cir. 2001). Canceling instead of amending the broad claims is equally unavailing, since the Federal Circuit still considers the scope of the cancelled broad claim as abandoned by the patentee. *See* Diversitech Corp. v. Century Steps, Inc., 850 F.2d 675, 681 (Fed. Cir. 1988).

130. *See* Symbol Tech., Inc. v. Lemelson Med., Educ. & Research Found., 277 F.3d 1361 (Fed. Cir. 2002).

Second, instead of amending the claims, a patentee may choose to appeal the examiner's rejection, especially for important inventions. Winning an appeal will prevent the necessity for amending, and will ensure the protection of the full force of the doctrine of equivalents under *Graver Tank*. Again, appeal requires increased financial and time commitment. With the increased risk of forfeiting the protection of the doctrine of equivalents, more applications may warrant appeal.

Finally, the best cause of action is to submit, whenever possible, a set of well-thought claims from the very beginning, thus avoiding unnecessary rejection from the examiner. This strategy requires a substantial amount of prior art research before submitting the application to the PTO, and demands high claim drafting skills on the part of the patent prosecutor. Employing this strategy will significantly increase cost in the front end, so it may not be practical for every patent application. Therefore, it is best reserved for potentially high value inventions.

Ultimately, all three strategies require additional prosecution costs, thereby favoring patentees with greater financial resources. A uniform application of the foreseeability and reasonableness tests to both amended and unamended claims would render such strategies unnecessary. Although better claims still afford better protection, the difference in claim scopes between amended and unamended claims, artificially enhanced by applying contradictory foreseeability tests to the two types of claims, will disappear, and the bias in favor of patentees with financial resources will also be reduced. Consequently, the patent law's purpose to promote progress of science and useful arts would be better served.

#### IV. CONCLUSION

*Festo* is a seminal decision that will profoundly affect patent law adjudication. It clarifies the circumstances where prosecution history estoppel should be triggered, and provides a new set of tests, the foreseeability, tangential relationship and reasonableness tests, to govern the interaction of the doctrine of equivalents and prosecution history estoppel. This new set of tests is potentially more balanced than either the "flexible bar" approach or the "complete bar" approach. However, the tests are not self-implementing and require the Federal Circuit to interpret sensibly their metes and bounds. How to apply the tests fairly and consistently may not be an easy task. One problem of the foreseeability test is its inconsistency with *Graver Tank*. To better serve the patent community and the public, a uniform application of the foreseeability test is necessary, and *Graver Tank* should be overruled. Similarly, the reasonableness test should also be

applied uniformly in both amended and unamended claims. Finally, the scope of the doctrine of equivalents will be narrower under the *Festo* tests than under the “flexible bar” approach, and the burden is greater on the patent prosecutor to draft better claims for maximum protection.

# HOLMES GROUP, INC. V. VORNADO AIR CIRCULATION SYSTEMS, INC.

By C.J. Alice Chen

## I. BACKGROUND

### A. The Federal Circuit's (Not-So-)Exclusive Jurisdiction Over Patent Cases

The U.S. Court of Appeals for the Federal Circuit possesses “exclusive jurisdiction” over all appeals from cases where the district court’s jurisdiction is, at least partly, based upon patent law.<sup>1</sup> The Federal Circuit is the only U.S. Court of Appeals with a jurisdictional grant based upon subject matter, rather than geography.<sup>2</sup> Congress purposefully created the Federal Circuit in 1982,<sup>3</sup> with specific subject matter grants of jurisdiction, to promote uniformity and efficiency in applying certain areas of the law, such as patent law.<sup>4</sup> However, under 28 U.S.C. §§ 1295(a)(1) and 1338(a), a case will be appealable to the Federal Circuit only where the district court’s jurisdiction, “in whole or in part,”<sup>5</sup> “aris[es] under any Act of Congress relating to patents.”<sup>6</sup> Since patent cases often involve issues in addition to those relating to patent law, it is often unclear whether the district

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1. 28 U.S.C. § 1295(a)(1) (2000) (“The United States Court of Appeals for the Federal Circuit shall have exclusive jurisdiction – (1) of an appeal from a final decision of a district court of the United States . . . if the jurisdiction of that court was based, in whole or in part, on section 1338 of this title . . .”). Section 1338, in turn, grants U.S. district courts original jurisdiction over actions arising under patent law, amongst other intellectual property (“IP”) laws. *Id.* § 1338.

For more specific Federal Circuit jurisdictional grants for appeals of interlocutory decisions, appeals from the Board of Appeals and Interferences of the U.S. Patent and Trademark Office (“USPTO”), see 28 U.S.C. §§ 1295(a)(4), 1292(c).

2. Joseph R. Re, *Brief Overview of the Jurisdiction of the U.S. Court of Appeals for the Federal Circuit Under § 1295(a)(1)*, 11 FED. CIR. B.J. 651, 652 (2001).

3. John Donofrio & Edward C. Donovan, *Christianson v. Colt Industries Operating Corp.: The Application of Federal Question Precedent to Federal Circuit Jurisdiction Decisions*, 45 AM. U.L. REV. 1835, 1836 (1996) (citing Federal Courts Improvement Act of 1982, Pub. L. No. 97-164, 96 Stat. 25).

4. *See Re*, *supra* note 2, at 652. In addition to cases arising under the patent law, Congress also consolidated jurisdiction over all cases that previously were appealed to the Court of Claims and the Court of Customs and Patent Appeals (“CCPA”) by transferring that exclusive jurisdiction over to the new Federal Circuit. *See id.* at 653-54.

5. 28 U.S.C. § 1295(a)(1).

6. *Id.* § 1338(a).

court's jurisdiction is based upon patent law. As a result, "the issue of whether an action should be appealed to the Federal Circuit or the regional circuit court is often murky."<sup>7</sup> In addition to the difficulty in determining whether an appeal to the Federal Circuit is appropriate, Congress compromised its own effort to induce uniformity and efficiency in the application of patent laws by making Federal Circuit jurisdiction dependent upon district court jurisdiction. 28 U.S.C. § 1338 grants to the Federal Circuit "jurisdiction of any civil action arising under any Act of Congress relating to patents," borrowing the phrase "arising under" from 28 U.S.C. § 1331.<sup>8</sup> The Supreme Court has interpreted "arising under" jurisdiction using the well-pleaded complaint rule for both general federal question and Federal Circuit jurisdiction, thereby forcing regional circuits to apply patent law in cases where the patent issues are asserted by the defendant as defenses or counterclaims, rather than by the plaintiff.<sup>9</sup> Hence, despite Congress' desire to create uniformity in the application of patent law, not all cases involving patent disputes will be appealed to the Federal Circuit.

#### **B. The Supreme Court Determines "Arising Under" Jurisdiction Using the Well-Pleaded Complaint Rule**

The Plaintiff, as the master of the complaint, chooses whether or not to invoke Federal Circuit jurisdiction by fashioning the complaint to include, or not to include, a claim that "arises under" a federal patent statute.<sup>10</sup> For an action to properly arise under a federal patent statute, "the plaintiff must set up some right, title, or interest under the patent laws, or at least make it appear that some right or privilege will be defeated by one con-

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7. Donofrio & Donovan, *supra* note 3, at 1837.

8. Section 1331 grants U.S. district courts federal question jurisdiction: "The district courts shall have original jurisdiction of all civil actions arising under the Constitution, laws, or treaties of the United States." 28 U.S.C. § 1331 (2000).

9. See discussion *infra* Parts I.B-C, III; see also *Holmes Group, Inc. v. Vornado Air Circulation Sys., Inc.*, 122 S. Ct. 1889, 1893-94 (2002) (holding that the well-pleaded complaint rule does not allow counterclaims to serve as a basis for federal question, and hence Federal Circuit, jurisdiction); *Christianson v. Colt Indus. Operating Co.*, 486 U.S. 800, 809 (1988) (holding that cases raising patent issues only as defenses do not arise under the patent law for purposes of Federal Circuit jurisdiction).

10. See 8 DONALD S. CHISUM, CHISUM ON PATENTS § 21.02[1][a][v] (2002); see also *Fair v. Kholer Die & Specialty Co.*, 228 U.S. 22, 25 (1913) ("Of course the party who brings a suit is master to decide what law he will rely upon and therefore does determine whether he will bring a 'suit arising under' the patent or other law of the United States by his declaration or bill.").

struction, or sustained by the opposite construction of these laws.”<sup>11</sup> Not only does the patent law claim have to be disclosed on the face of the complaint, “unaided by the answer,”<sup>12</sup> but “[i]ndeed, the complaint itself will not avail as a basis of jurisdiction in so far as it goes beyond a statement of the plaintiff’s cause of action and anticipates or replies to a probable defense.”<sup>13</sup>

In *Christianson v. Colt Industries Operating Company*,<sup>14</sup> the Supreme Court reaffirmed its previously-stated rule that Federal Circuit “arising under” jurisdiction exists only where a well-pleaded complaint establishes the federal patent law cause of action.<sup>15</sup> In the interest of “[l]inguistic consistency,”<sup>16</sup> the Court held that the “arising under” language in § 1338, upon which § 1295 depends in granting Federal Circuit jurisdiction over patent cases, must be interpreted to rely on the same well-pleaded complaint rule that the Court uses in determining § 1331 federal question jurisdiction.<sup>17</sup> Justice Brennan, writing for the Court, cited to his previous opinion in *Franchise Tax Board of California v. Construction Laborers Vacation Trust for Southern California*,<sup>18</sup> where he extensively discussed federal question jurisdiction under § 1331, and the “arising under” language found therein.<sup>19</sup> The body of case law culminating in *Christianson* ultimately concludes that cases where patent law is not an element of one of the well-pleaded claims, but is raised in a defense or in other collateral

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11. *Pratt v. Paris Gas Light & Coke Co.*, 168 U.S. 255, 259 (1897) (holding that the contract action for assumpsit did not arise under patent law, although a defense of patent invalidity was invoked).

12. *Gully v. First Nat’l Bank*, 299 U.S. 109, 113 (1936) (referring to § 1331 district court jurisdiction).

13. *Id.*

14. 486 U.S. 800 (1988).

15. *Id.* at 809 (citing the Federal Circuit’s opinion in *Christianson v. Colt Industries Operating Co.*, 822 F.2d 1544, 1553-56 (Fed. Cir. 1987), for the proposition that the Federal Circuit has jurisdiction in a patent case only where the complaint establishes a federal patent law “cause of action or that the plaintiff’s right to relief necessarily depends on resolution of a substantial question of federal patent law, in that patent law is a necessary element of one of the well-pleaded claims”).

16. *Id.* at 808.

17. *Id.* at 808-09.

18. 463 U.S. 1 (1983).

19. *Id.* at 8-28 (discussing the history of § 1331 “arising under” jurisdiction, and concluding that the claims to enforce state tax levies against an ERISA-covered employee benefit plan, and state declaratory action to declare validity of such levies, did not arise under federal law). Justice Stevens, in *Merrell Dow Pharmaceuticals, Inc. v. Thompson*, also cited *Franchise Tax Board* in referencing the well-pleaded complaint rule to determine federal question jurisdiction. 478 U.S. 804, 808 (1986) (“A defense that raises a federal question is inadequate to confer federal jurisdiction.”).

fashion, do not arise under an “Act of Congress relating to patents”<sup>20</sup> for the purposes of § 1295(a)(1)—Federal Circuit—jurisdiction.<sup>21</sup>

### C. Aftermath of *Christianson*

Post-*Christianson*, the Federal Circuit resisted the application of a strict interpretation of the *Christianson* holding in cases dealing with § 1295(a)(1) jurisdiction and continued to construe its jurisdiction broadly.<sup>22</sup> Distinguishing *Christianson* as not involving a compulsory counterclaim of patent infringement,<sup>23</sup> the Federal Circuit took jurisdiction in *Aerojet-General Corp. v. Machine Tool Works, Oerlikon-Buehrle Ltd.*<sup>24</sup> The court reasoned that a compulsory counterclaim is, at the very least, its own well-pleaded claim, and that had the counterclaim been filed in a separate, independent complaint, it would clearly invoke Federal Circuit jurisdiction.<sup>25</sup> The Federal Circuit concluded that its assertion of jurisdiction over cases where the patent claim exists only as a nonfrivolous compulsory counterclaim does not violate the well-pleaded complaint rule.<sup>26</sup> The *Aerojet-General* opinion relied on legislative history indicating that Congress intended the Federal Courts Improvement Act of 1982<sup>27</sup> (herein-

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20. 28 U.S.C. § 1338(a) (2000).

21. See, e.g., *Caterpillar Inc. v. Williams*, 482 U.S. 386 (1987) (holding that a defensive allegation of federal law preemption of plaintiff's state employment law claims was insufficient to arise under federal law for federal question jurisdiction); *Phillips Petroleum Co. v. Texaco Inc.*, 415 U.S. 125 (1974) (holding that since the federal Natural Gas Act and Helium Act Amendments only serve to overcome potential defenses to the state law claims, they do not give rise to federal question jurisdiction). Cf. *Merrell Dow Pharms.*, 478 U.S. at 817 (5-4) (holding that invocation of a federal statute under an element of a state law claim, where Congress has not created a federal right of action under the statute, “does not state a claim ‘arising under the Constitution, laws, or treaties of the United States’”).

22. See *Aerojet-General Corp. v. Machine Tool Works, Oerlikon-Buehrle Ltd.*, 895 F.2d 736, 745 (Fed. Cir. 1990) (*en banc*) (holding that Federal Circuit had jurisdiction over nonpatent law cases involving a nonfrivolous compulsory counterclaim for patent infringement, because the counterclaim makes the district court jurisdiction depend, in part, on 28 U.S.C. § 1338). Cf. *Leatherman Tool Group Inc. v. Cooper Indus., Inc.*, 131 F.3d 1011, 1014-15 (Fed. Cir. 1997) (transferring the case to the 9th Circuit because the patent law defense, raised as a declaratory judgment counterclaim, was insufficient to give rise to jurisdiction “arising under” a federal patent statute).

23. According to the Fed. R. Civ. P. 13(a), a compulsory counterclaim “arises out of the transaction or occurrence that is the subject matter of the opposing party's claim and does not require for its adjudication the presence of third parties of whom the court cannot acquire jurisdiction.” Fed. R. Civ. P. 13(a).

24. 895 F.2d 736 (Fed. Cir. 1990).

25. *Id.* at 742.

26. *Id.*

27. Pub. L. No. 97-164, 96 Stat. 25 (1982).

after “FCIA”) to “alleviate the serious problems of forum shopping”<sup>28</sup> and “reduce the widespread lack of uniformity and uncertainty of legal doctrine that existed in the administration of patent law.”<sup>29</sup> In light of the clear legislative intent behind the formation and specific grant of subject matter jurisdiction in the FCIA, the Federal Circuit concluded that “the Justices [in *Christianson*] did not intend to make a rigid application of the well-pleaded complaint rule a Procrustean bed for this court’s jurisdiction.”<sup>30</sup>

The Federal Circuit applied the *Aerojet-General* holding in several subsequent cases,<sup>31</sup> prompting the Supreme Court to revisit the issue of Federal Circuit jurisdiction in *Holmes Group, Inc. v. Vornado Air Circulation Systems, Inc.*<sup>32</sup> In *Holmes Group*, the Supreme Court held that a defendant may not invoke Federal Circuit subject matter jurisdiction by asserting a patent law counterclaim, applying essentially the same reasoning used in finding that a defendant may not invoke Federal Circuit jurisdiction under § 1295(a)(1) by asserting a patent law defense to nonpatent claims.<sup>33</sup> *Holmes Group* clearly overrules *Aerojet-General*, and may render much of the Federal Circuit’s other precedents invalid as well.<sup>34</sup>

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28. *Aerojet-General Corp.*, 895 F.2d at 744 n.7 (quoting S. REP. NO. 97-275, at 29 (1981)) (internal quotations omitted).

29. *Aerojet-General Corp.*, 895 F.2d at 744 n.7 (quoting H.R. REP. NO. 97-312, at 20, 23 (1981)) (internal quotations omitted).

30. *Aerojet-General Corp.*, 895 F.2d at 741.

31. Following *Aerojet-General Corp.*, the Federal Circuit proceeded to decide cases dominated by nonpatent claims, even after all patent claims had extinguished. *See, e.g.*, *Crater Corp. v. Lucent Techs.*, 255 F.3d 1361, 1369 (Fed. Cir. 2001) (citing *Leatherman Tool Group Inc. v. Cooper Indus., Inc.*, 131 F.3d 1011 (Fed. Cir. 1997), for the proposition that the district court has supplemental jurisdiction over a state law claims that arise out of the same controversy as the patent claims that the district court has original jurisdiction over, even after patent infringement claim is dismissed); *DSC Communications Corp. v. Pulse Communications, Inc.*, 170 F.3d 1354, 1358-59 (Fed. Cir. 1999) (asserting jurisdiction over copyright case based on defendant’s nonfrivolous patent counterclaim); *Hunter Douglas, Inc. v. Harmonic Design, Inc.*, 153 F.3d 1318, 1331 (Fed. Cir. 1998), *overruled on other grounds by* *Midwest Indus., Inc. v. Karavan Trailers, Inc.*, 175 F.3d 1356 (Fed. Cir. 1999) (affirming district court’s continued assertion of jurisdiction over cases where federal patent law claims were dismissed, and only state law claims remained, and thus confirming their own subject matter jurisdiction over the case); *Nobel-pharma AB v. Implant Innovations, Inc.*, 141 F.3d 1059, 1066-73 (Fed. Cir. 1998) (affirming the district court’s ruling on both the original patent claim as well as the antitrust counterclaim).

32. 122 S. Ct. 1889 (2002).

33. *Id.* at 1893-94; *see also* discussion *infra* Part II.D.

34. *See* discussion *infra* Part III.B-C (discussing the impact of *Holmes Group* on regional circuit and state court authority over patent claims).

## II. CASE SUMMARY

### A. Factual Background

The Holmes Group, Inc. ("Holmes"), Duracraft Corp. ("Duracraft"), and Vornado Air Circulation Systems, Inc. ("Vornado") are all in the business of selling fans and heaters with spiral grill designs.<sup>35</sup> Vornado's founders obtained a utility patent for their specialized fan grill in 1990,<sup>36</sup> and "a reissue patent expanding their claims, including those that involved the arcuate-shaped grill vane structure."<sup>37</sup> Duracraft and Holmes designed around Vornado's patent, and manufactured and sold fans very similar in design to Vornado's spiral grill, but not directly infringing Vornado's patent,<sup>38</sup> forcing Vornado to pursue other avenues to stop Duracraft and Holmes from using the spiral grill design.

### B. Vornado I

Vornado began by suing Duracraft for trade dress infringement in the District of Kansas.<sup>39</sup> The district court awarded Vornado trade dress protection for the spiral grill design, determining that the structure was non-functional.<sup>40</sup> The Tenth Circuit, however, reversed the district court's injunction because it "effectively prevents defendant Duracraft Corp. from ever practicing the full invention embodied in the patented fans . . . after Vornado's utility patents expire," which, in the Tenth Circuit's view, violated patent policy.<sup>41</sup> The Tenth Circuit's conclusion that "the inability freely to copy significant features of patented products after the patents expire impinges seriously upon the patent system's core goals"<sup>42</sup> led them to "hold that where a disputed product configuration is part of a claim in a utility patent, and the configuration is a described, significant inventive aspect of the invention . . . so that without it the invention could not fairly be said to be the same invention, patent law prevents its protection as trade

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35. *Holmes Group*, 122 S. Ct. at 1892.

36. U.S. Patent No. 4,927,324 (issued May 22, 1990).

37. *Vornado Air Circulation Sys. v. Duracraft Corp.*, 58 F.3d 1498, 1500 (10th Cir. 1995) [hereinafter *Vornado I*]; see also U.S. Patent No. RE34, 551 (issued Feb. 22, 1994).

38. *Vornado I*, 58 F.3d at 1501.

39. *Vornado Air Sys., Inc. v. Duracraft Corp.*, No. 92-1453-WEB, 1995 U.S. Dist. LEXIS 20104 (D. Kan. Nov. 29, 1995), *rev'd*, 58 F.3d 1498 (10th Cir. 1995) (rejecting Vornado's trade dress claim).

40. *Vornado I*, 58 F.3d at 1499-1500.

41. *Id.* at 1500.

42. *Id.* at 1508.

dress, even if the configuration is nonfunctional.”<sup>43</sup> Hence, Vornado’s utility patent prevented them from obtaining trade dress protection against Duracraft for their spiral grill design.<sup>44</sup>

### C. Holmes Group

#### 1. *The District Court Decision*

Having failed to obtain trade dress protection in the Tenth Circuit, Vornado chose a different route in attacking Holmes: Vornado issued a press release accusing Holmes of trade-dress infringement<sup>45</sup> and filed a complaint against Holmes with the International Trade Commission (“ITC”) claiming that Holmes’ products infringed Vornado’s trade dress. In response to Vornado’s complaint to the ITC, Holmes brought a declaratory and injunctive relief action in the U.S. District Court for the District of Kansas.<sup>46</sup> Holmes asked for a declaration that Holmes’ products do not infringe Vornado’s trade dress, and an injunction “restraining [Vornado] from accusing it of trade-dress infringement in promotional materials.”<sup>47</sup> The district court agreed with Holmes that “[t]he elements of collateral estoppel are clearly satisfied,”<sup>48</sup> and “found that Vornado was collaterally estopped from arguing trade dress infringement, because of the Tenth Circuit’s earlier decision [in *Vornado I*],”<sup>49</sup> despite the Federal Circuit’s express rejection of *Vornado I* in *Midwest Industries, Inc. v. Karavan Trailers, Inc.*<sup>50</sup>

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43. *Id.* at 1510 (citation omitted).

44. *See id.*; *see also Holmes Group*, 122 S. Ct. at 1892.

45. *Federal Circuit Jurisdiction Is Debated in Briefs for Upcoming Supreme Court Case*, 63 PATENT, TRADEMARK & COPYRIGHT J. (BNA) (No. 1563) 388, Mar. 8, 2002, available at <http://subscript.bna.com/SAMPLES/ptc.nsf/ca856c3562d5d50b852564e60009cbc6/335da6d4f573f08185256b75007cdfc5?OpenDocument> (last visited February 11, 2003) [hereinafter *Federal Circuit Jurisdiction Debated*].

46. *See Holmes Group, Inc. v. Vornado Air Circulation Sys., Inc.*, 93 F. Supp. 2d 1140, 1141 (D. Kan. 2000); *Holmes Group*, 122 S. Ct. at 1892.

47. *Holmes Group*, 122 S. Ct. at 1892.

48. *Holmes Group*, 93 F. Supp. 2d at 1142-43.

49. *Cases and Recent Developments*, 12 FED. CIR. B.J. 135, 194; *see also Holmes Group*, 93 F. Supp. 2d at 1144 (“Under principles of collateral estoppel, the ruling in *Vornado I* bars Vornado from re-litigating the same issue in this action.”).

50. 175 F.3d 1356 (Fed. Cir. 1999).

The Tenth Circuit stands alone in . . . ruling that trade dress protection is unavailable for a product configuration that is claimed in a patent and is a ‘described, significant inventive aspect’ of the patented invention, even if the configuration is nonfunctional. . . . As we view the interaction between patent law and the Lanham Act, that is not a sufficient basis on which to deny Lanham Act protection to trade dress . . . .

Vornado's answer to Holmes' declaratory judgment action also contained a compulsory counterclaim alleging patent infringement.<sup>51</sup> The district court granted the declaratory judgment and injunction that Holmes sought, and stayed proceedings relating to the patent infringement counterclaim pending decision on the declaratory judgment and injunction on appeal.<sup>52</sup>

## 2. *The Federal Circuit Decision*

Vornado appealed to the Federal Circuit, and Holmes' challenged the Federal Circuit's jurisdiction.<sup>53</sup> Notwithstanding the jurisdictional challenge, the Federal Circuit vacated and remanded the district court's ruling for further consideration, in light of *TrafFix Devices, Inc. v. Marketing Displays, Inc.*,<sup>54</sup> a Supreme Court decision that overruled the Tenth Circuit's holding in *Vornado I*.<sup>55</sup> Holmes filed for a writ of certiorari with the Supreme Court to re-assert their challenge to the Federal Circuit's exercise of jurisdiction.<sup>56</sup>

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*Id.* at 1364; *see also Holmes Group*, 93 F. Supp. 2d at 1143 ("The court concludes that this clear conflict in the substantive law of the circuits does not require, nor does it warrant, a refusal to apply the law of collateral estoppel in this action.").

51. *Holmes Group*, 122 S. Ct. at 1892.

52. *Id.*

53. *Id.*

54. 532 U.S. 23 (2001). *TrafFix Devices* involved a trade dress dispute, similar to *Vornado I* and *Holmes Group*; however, the relevant patent had been rendered irrelevant by its expiration, and the Court held that while a utility patent does not *per se* prevent the patentee from also obtaining trade dress protection, a utility patent that covered a specific design element constituted strong evidence that the design element was functional, and therefore not qualified for trade dress protection. *Id.* at 26, 31. *Marketing Displays, Inc.* could not overcome this presumption of functionality, created by their expired patent on the invention, and thus could not obtain trade dress protection. *Id.* at 32. In contrast, in *Vornado I*, the district court found that the spiral grill design was nonfunctional, and this finding remained undisputed by the Tenth Circuit, which reversed on different grounds. *See discussion supra* Part II.A-B. Instead, the Tenth Circuit ruled that trade dress protection is not available for designs covered by utility patents, "even if the configuration is nonfunctional," *Vornado I*, 58 F.3d at 1510, a statement that is clearly contradicted by the Supreme Court's holding in *TrafFix Devices*.

55. *Id.* at 28-31 (resolving the Circuit split on the issue of "whether the existence of an expired utility patent forecloses the possibility of the patentee's claiming trade dress protection in the product's design," against *Vornado I*'s holding that trade dress protection is foreclosed, although placing a heavy burden on the patentee to show nonfunctionality); *see also Holmes Group*, 122 S. Ct. at 1892 (stating *TrafFix*'s overruling of *Vornado I*).

56. *Holmes Group*, 122 S. Ct. at 1892.

## D. Supreme Court Decision

The Supreme Court granted certiorari, and ultimately held that the Federal Circuit improperly asserted jurisdiction in vacating and remanding *Holmes Group*, and remanded the case back to the Court of Appeals for the Tenth Circuit.<sup>57</sup> Justice Scalia authored the majority opinion, citing to the Court's reasoning in *Christianson*, and strictly construing the Federal Circuit's grant of jurisdiction under §§ 1295(a) and 1338. Justice Stevens concurred, showing the same hesitation towards adopting a strict formalist approach to determining "arising under" jurisdiction as he did in *Christianson*. Justice Ginsburg concurred separately, joined by Justice O'Connor, hailing the *Aerojet-General* rule granting the Federal Circuit jurisdiction over all cases involving compulsory patent law counterclaims, with the proviso that the patent law claim be adjudicated in the lower courts. Thus, Justices Ginsburg and O'Connor would have disagreed with the majority outcome had the district court entertained Vornado's compulsory patent law counterclaim against Holmes.

### 1. Scalia's Majority Opinion

The majority opinion disregarded a decade worth of Federal Circuit reasoning on the subject of Federal Circuit jurisdiction, and stuck hard and fast to a strict interpretation of the *Christianson* holding. The Court reiterated the rule set forth in *Christianson*, that in order to "arise under" the patent law, the § 1338 basis for federal district court jurisdiction must be found in the plaintiff's complaint, which applies the same test under § 1338 as under § 1331.<sup>58</sup> Therefore, "a counterclaim—which appears as part of the defendant's answer, not as part of the plaintiff's complaint—cannot serve as the basis for 'arising under' jurisdiction."<sup>59</sup>

The Court cited to previous cases where federal questions arose as defenses, quoting its previous opinions as stating that "federal jurisdiction exists 'only when a federal question is presented on the face of the *plaintiff's* properly pleaded complaint,'"<sup>60</sup> and "'whether a case arises under

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57. *Id.* at 1895.

58. Compare 28 U.S.C. § 1338(a) with 28 U.S.C. § 1331 (2000) (conferring jurisdiction for "civil actions arising under" specified bodies of law: "any Act of Congress relating to patents" in the former, and "the Constitution, laws, or treaties of the United States" in the latter). See also *Christianson v. Colt Indus. Operating Corp.*, 486 U.S. 800, 808 (1988) (requiring that the same test be used to determine whether the case "arises under" for both § 1338(a) and § 1331, for 'linguistic consistency[s]' sake).

59. *Holmes Group*, 122 S. Ct. at 1894.

60. *Id.* at 1893 (quoting *Caterpillar Inc. v. Williams*, 482 U.S. 386, 392 (1987)).

federal patent law 'cannot depend upon the answer.'"<sup>61</sup> From these precedents, the Court reasoned that counterclaims cannot provide the basis for jurisdiction under § 1338 because counterclaims are brought by defendants in their answer to the complaint.

The Court declined Vornado's invitation to determine "arising under" jurisdiction differently for the Federal Circuit, seeing their duty as "determin[ing] what the words of the statute must fairly be understood to mean" rather than "determin[ing] what would further Congress's goal of ensuring patent-law uniformity."<sup>62</sup> Applying a different rule for § 1338 would violate the Court's "longstanding policies"<sup>63</sup>: (1) the plaintiff, as "the master of the complaint," should be able to choose the appropriate forum; (2) removal doctrine requires that the federal courts respect the independence of the state governments, and "expand[ing] the class of removable cases" would impinge upon state independence; (3) the well-pleaded complaint doctrine has become a clear and easy rule for resolving jurisdictional conflicts, and creating a separate rule for the Federal Circuit would "undermine the clarity and ease of administrat[ing]" the doctrine.<sup>64</sup> For these reasons, the Court concluded that the well-pleaded complaint rule, as applied for § 1331, should be accordingly applied in determining Federal Circuit jurisdiction, which is conferred by § 1295(a), and reliant upon § 1338(a);<sup>65</sup> thus, patent counterclaims cannot give rise to Federal Circuit jurisdiction.

## 2. *Stevens' Concurrence*

Just as in *Christianson*, Justice Stevens' concurrence remained opposed to a formalistic determination of appellate jurisdiction based upon the original complaint filed in the action.<sup>66</sup> Stevens disagreed with the majority's "statement that an interpretation of the 'in whole or in part' language of § 1295(a)(1) to encompass patent claims alleged in a compulsory

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61. *Holmes Group*, 122 S. Ct. at 1894 (quoting *Fair v. Kohler Die & Specialty Co.*, 228 U.S. 22 (1913)).

62. *Holmes Group*, 122 S. Ct. at 1895.

63. *Id.* at 1894.

64. *Id.*

65. *Id.* at 1894-95.

66. *Compare id.* at 1895-97 (Stevens, J., concurring) (noting that "the jurisdiction of the court of appeals is not 'fixed' until the notice of appeal is filed," and agreeing to a rule that "limits the Federal Circuit's exclusive jurisdiction to those cases in which the patent claim is alleged in either the original complaint or an amended pleading filed by the plaintiff") with *Christianson v. Colt Indus. Operating Co.*, 486 U.S. 800, 823-24 (1988) (Stevens, J., concurring) ("Congress' goal of ensuring that appeals of patent-law claims go to the Federal Circuit would be thwarted by determining that court's appellate jurisdiction only through an examination of the complaint as initially filed. That approach would enable an unscrupulous plaintiff to manipulate appellate court jurisdiction . . .").

counterclaim providing an independent basis for the district court's jurisdiction would be a 'neologism' that would involve 'an unprecedented feat of interpretive necromancy,'"<sup>67</sup> because he felt that Judge Markey's opinion in *Aerojet-General Corp.* constituted "well-reasoned precedent."<sup>68</sup> Justice Stevens also noted that since "jurisdiction of the court of appeals is not 'fixed' until the notice of appeal is filed," the Federal Circuit should have jurisdiction to hear cases where patent claims are alleged in amended pleadings filed by plaintiff, and not just where patent claims appear in the original complaint.<sup>69</sup> However, he was content to settle for a rule that Federal Circuit jurisdiction is limited to cases where a "patent claim is alleged in either the original complaint or an amended pleading filed by the plaintiff,"<sup>70</sup> in order to preserve the plaintiff's choice of forum, and "maintain[] clarity and simplicity in rules governing appellate jurisdiction."<sup>71</sup>

### 3. Ginsburg's Concurrence

Justice Ginsburg, joined in her opinion by Justice O'Connor, also praises Judge Markey's opinion in *Aerojet-General*, but was not as quick as Justice Stevens to settle with Scalia's majority rule restricting Federal Circuit jurisdiction to cases where patent claims are found in an original or amended complaint.<sup>72</sup> Ginsburg agreed with *Aerojet-General's* liberal interpretation of § 1295(a)(1), if not quite with the more liberal exercise of jurisdiction in *Holmes Group*. She argued that if "a compulsory counterclaim 'arises under' federal patent law *and is adjudicated on the merits* by a federal district court," then the Federal Circuit should have exclusive appellate jurisdiction over the case.<sup>73</sup> Ginsburg concurred with the majority decision only because the patent counterclaim in *Holmes Group* was never actually adjudicated.<sup>74</sup>

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67. *Holmes Group*, 122 S. Ct. at 1896.

68. *Id.*

69. *Id.*

70. *Id.*

71. *Id.* at 1897.

72. See discussion *supra* Part II.D.2.

73. *Holmes Group*, 122 S. Ct. at 1898 (emphasis added).

74. *Id.*

### III. DISCUSSION

#### A. A Plaintiff's Right to Choose the Forum Versus Uniformity in the Patent Law

Critics of *Holmes Group* agree with Stevens' statement that the Federal Circuit's en banc opinion in *Aerojet-General* was thorough, sound, and well-reasoned precedent.<sup>75</sup> *Aerojet-General* addresses all the concerns that Scalia raises in *Holmes Group*, and harmonizes the legislative history behind § 1295(a)(1), the Supreme Court's ruling in *Christianson*, and the well-pleaded complaint rule with the Federal Circuit's assertion of jurisdiction on the basis of a nonfrivolous compulsory patent law counterclaim.<sup>76</sup> According to *Aerojet-General*, the well-pleaded complaint rule is preserved in allowing compulsory patent counterclaims to be appealed to the Federal Circuit because "it states a separate cause of action unquestionably 'arising under' (indeed created by) a patent statute," and is thereby "a separate, well-pleaded claim with its own jurisdictional basis [under] section 1338."<sup>77</sup> The same cannot be said for patent defenses, which may not be stated as separate, independent claims, and cannot provide independent bases for jurisdiction; therefore the Federal Circuit's reasoning does not contradict *Christianson*, which involved a patent issue raised as part of a defense to trade secret misappropriation.<sup>78</sup> Finally, the *Aerojet-General* court concluded that the above interpretation of § 1295(a)(1) "accords with the Congressional intent manifest in the legislative history of the FCIA," that of "increasing nationwide uniformity in certain fields of national law."<sup>79</sup> Thus it appeared that the Federal Circuit,

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75. See Janice M. Mueller, "Interpretive Necromancy" or Prudent Patent Policy? The Supreme Court's "Arising Under" Blunder in *Holmes Group v. Vornado*, 2 J. MARSHALL REV. INTELL. PROP. L. 57, 66-68 (2002) (criticizing the Supreme Court's decision in *Holmes Group* and favoring the Federal Circuit's reasoning in *Aerojet* instead), available at <http://www.jmls.edu/ripl/vol2/issue1/mueller.pdf> (last visited Feb. 11, 2003); see also *Federal Circuit Jurisdiction Debated*, *supra*, note 45 (summarizing the D.C. Bar Association's amicus brief argument, in support of Vornado's procedural position, that predicating Federal Circuit jurisdiction on a patent counterclaim "is consistent with the well-pleaded complaint rule and Supreme Court precedent").

76. *Aerojet-General Corp. v. Machine Tool Works, Oerlikon-Buehrle Ltd.*, 895 F.2d 736, 741-45 (Fed. Cir. 1990).

77. *Id.* at 742.

78. See *id.* at 741 ("The Court's focus on the 'well-pleaded complaint rule' was, of course, perfectly appropriate in *Christianson*, where there was no counterclaim arising under a federal patent statute. Indeed, this court had employed the same analysis when the case was here.")

79. *Aerojet-General Corp.* 895 F.2d at 744. Markey cites the Supreme Court opinion in *Community For Creative Non-Violence v. Reid*, 490 U.S. 730, 749-50 (1989), for

in *Aerojet-General*, had found an interpretation of the statute that furthered Congress's intent to increase uniformity in the patent law, without violating the well-pleaded complaint rule.

However, the *Holmes Group* majority apparently was unsatisfied with the *Aerojet-General* court's reasoning, and was concerned that the well-pleaded complaint rule would be compromised by allowing "a defendant to remove a case brought in state court under state law, thereby defeating a plaintiff's choice of forum, simply by raising a federal counterclaim," which in turn would compromise the federal government's "due regard for the rightful independence of state governments."<sup>80</sup> Moreover, the Court reasoned that the plaintiff's ultimate right to choose a forum for the litigation, the main policy behind the well-pleaded complaint rule, prevailed over Congress's general policy for enacting the FCIA—to increase uniformity in the patent law.<sup>81</sup> In declining to extend the Federal Circuit's "arising under" jurisdiction to include jurisdiction over compulsory patent counterclaims, Scalia unsurprisingly adhered to a textual, literal style of interpretation, stating that the Court's "task here is not to determine what would further Congress's goal of ensuring patent-law uniformity, but to determine what the words of the statute must fairly be understood to mean," thereby refusing to give credence to even clear, express Congressional intent.<sup>82</sup> Thus, the *Holmes Group* majority pits patent law policy against a strict interpretation of "arising under" jurisdiction based on the well-pleaded complaint rule and its policy of preserving the plaintiff's right to choose a forum. Much of the *Holmes Group* commentary follows suit by also focusing on the well-pleaded complaint rule.<sup>83</sup> However, a broader analysis of the *Holmes Group* holding reveals other forces in conflict with patent policy, forces not discussed in any of the *Holmes Group* opinions, but that are nonetheless at play in the decision.

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the proposition that "a construction that undermines a statute's goal cannot stand." *Id.* at 745.

80. *Holmes Group*, 122 S. Ct. at 1894 (quoting *Shamrock Oil & Gas Corp. v. Sheets*, 313 U.S. 100, 109 (1941)).

81. Federal Courts Improvement Act of 1982, Pub. L. No. 97-164, 96 Stat. 25 (1982).

82. *Holmes Group*, 122 S. Ct. at 1895 (continuing on to declare that the term "arising under" will always be "a term familiar to all law students as invoking the well-pleaded-complaint rule," and that if a broader meaning were to be attributed to "arising under" jurisdiction in order to accord with Congressional intent, "the phrase would [simply] be some neologism [to] justify our adverting to the general purpose of the legislation").

83. See, e.g., Mueller, *supra*, note 75; *Federal Circuit Jurisdiction Debated*, *supra*, note 45, n.79.

## B. Restoring Regional Circuit Authority Over Nonpatent Law

*Holmes Group* directly overrules *Aerojet-General*, where the two conflicting policies are the plaintiff's right to choose a forum and Congress's desire to increase uniformity in the patent law; however, the *Holmes Group* decision largely affects cases in which the Federal Circuit's exercise of jurisdiction impinges upon regional circuit authority to decide nonpatent law claims, such as antitrust, trade dress, and state-law contract claims.<sup>84</sup> Originally, the Federal Circuit, in *Atari, Inc. v. JS&A Group, Inc.*,<sup>85</sup> acknowledged that "Congress' passage of the FCIA . . . reflects its expectation that this court would not appropriate or usurp for itself a broad guiding role for the district courts beyond . . . the substantive law of patents."<sup>86</sup> Until 1989, the Federal Circuit obeyed this mandate, and applied regional circuit law to nonpatent law issues.<sup>87</sup> However, in 1989, the Federal Circuit panel in *Nobelpharma AB v. Implant Innovations, Inc.* departed from its tradition, and applied its own law in deciding an antitrust counterclaim.<sup>88</sup> The court, upon its authority over the patent infringement suit, eliminated a plaintiff's immunity from antitrust liability to the extent that such immunity conflicted with patent law.<sup>89</sup> *Nobelpharma* was not discarded as an exception, or lapse in judgment by a single Federal Circuit panel, but was embraced by the Federal Circuit, which continued to follow *Nobelpharma* in *Midwest Industries, Inc. v. Karavan Trailers, Inc.*,<sup>90</sup> over-

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84. See James W. Dabney, *Holmes v. Vornado: A Restatement of the "Arising Under" Jurisdiction of Federal Courts*, NYSBA Bright Ideas (N.Y. State Bar Ass'n), October 2002, at 5-6, available at <http://www.pennie.com/content/ItemContent/52FT/article.pdf> ("In the late 1990s . . . the Federal Circuit . . . held that it would start fashioning its own substantive liability rules for antitrust, trade dress, and other claims over which it had only pendent or nonexclusive jurisdiction"); see also *Nobelpharma AB v. Implant Innovations, Inc.*, 141 F.3d 1059, 1067 (Fed. Cir. 1998) (characterizing the issue of "[w]hether conduct in the prosecution of a patent is sufficient to strip a patentee of its immunity from the antitrust laws [as] one of those issues that clearly involves [the Federal Circuit's] exclusive jurisdiction over patent cases").

85. 747 F.2d 1422 (Fed. Cir. 1984).

86. *Id.* at 1438.

87. See, e.g., *Hunter Douglas*, 175 F.3d at 1333 (applying Ninth Circuit law in determining a mixed patent and state law issue).

88. *Nobelpharma*, 141 F.3d at 1068.

89. *Id.* at 1067-68 (reasoning that not only should the Federal Circuit have exclusive jurisdiction over the matter, but that they "should decide these issues as a matter of Federal Circuit law, rather than rely on various regional precedents" because such antitrust claims are usually raised as counterclaims to patent infringement suits). The court ultimately affirmed the lower court's decision to take away *Nobelpharma*'s immunity from antitrust liability. *Id.* at 1072.

90. 175 F.3d 1356, 1358-59, 1361 (Fed. Cir. 1999) (holding that the Federal Circuit should apply its own law in deciding matters of mixed patent and nonpatent law, and in

ruling its previous decisions applying regional circuit law to nonpatent claims, *Hunter Douglas, Inc. v. Harmonic Design, Inc.* in particular.<sup>91</sup> Thus, while the *Holmes Group* majority supported its holding by pitting the well-pleaded complaint rule against Congress' intent behind the FCIA, and finding in favor of the well-pleaded complaint rule, a more persuasive and directly-conflicting policy that they do not address is the preservation of regional circuit authority over nonpatent law claims.

### C. Immediate Effects of *Holmes Group*

The Federal Circuit explicitly and summarily acknowledged *Holmes Group* as overruling *Aerojet-General* in a recent case, *Telcomm Technical Services, Inc. v. Siemens Rolm Communications, Inc.*,<sup>92</sup> where it transferred the case to the Eleventh Circuit, citing *Holmes Group* for its lack of subject matter jurisdiction over the case.<sup>93</sup> *Telcomm* resembled *Aerojet-General* and *Holmes Group* in that the case involved a patent counterclaim, rather than a patent defense, and had a mixture of patent and nonpatent issues.<sup>94</sup> In *Telcomm*, Judge Gajarsa's opinion gave complete and utter deference to Scalia's *Holmes Group* decision: "In the Supreme Court's intervening decision in *Holmes Group*, it held that the well-pleaded complaint rule endures no necromancy that would vest the statutory phrase "arising under" with a meaning that encompasses appellate jurisdiction for a case to be heard in the Federal Circuit based on a patent infringement counterclaim."<sup>95</sup> *Telcomm* is the first Federal Circuit decision to follow *Holmes Group*, and exemplifies the immediacy of *Holmes Group's* effect on the Federal Circuit's docket. *Telcomm* signifies a sharp turn in the recent flow of Federal Circuit case law broadening its jurisdictional authority, and an acknowledgment by the Federal Circuit that they may have let their jurisdictional tide wash too far over the jurisdiction of other courts.<sup>96</sup>

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this case, whether principles of patent law foreclose Midwest's Lanham Act and state trademark law claims)

91. *Id.* at 1359

92. 295 F.3d 1249 (2002).

93. *Hunter Douglas*, 295 F.3d at 1251-52 ("See *Aerojet-General Corp. v. Machine Tool Works, Oerlikon-Buehrle, Ltd.* . . . overruled by *Holmes Group*, 122 S. Ct. at 1893.").

94. *Telcomm Technical Svc.*, 295 F.3d at 1251.

95. *Id.* at 1252 (citing *Holmes Group*, 122 S.Ct. at 1895).

96. See e.g., *Federal Circuit Jurisdiction Debated*, *supra*, note 45 ("Holmes argued that Federal Circuit law on the scope of its appellate jurisdiction has overreached the bounds of Sections 1295(a)(1) and 1338(a) as interpreted by *Christianson v. Colt Indus. Operating Corp.*").

While scholars predict that the actual number of cases affected by the *Holmes Group* decision will not be great,<sup>97</sup> the impact of *Holmes Group* “has been swift and dramatic”<sup>98</sup> and “multifaceted,”<sup>99</sup> and the cases will be “relatively high profile.”<sup>100</sup> *Holmes Group* not only overruled *Aerojet-General’s* jurisdictional holding, but also “overrules a substantial body of precedent holding that state courts lack jurisdiction to hear counterclaims arising under federal patent or copyright law,”<sup>101</sup> whereas previously, state courts were only allowed to decide patent issues and questions, but not *claims*.<sup>102</sup> Thus, *Holmes Group* sanctions state and regional appellate court decisions on patent law claims at the same time that it prohibits Federal Circuit decisions on nonpatent law claims.

In addition, *Holmes Group* casts doubt on the precedential value of all the recent Federal Circuit cases deciding mixed questions of nonpatent and patent laws—particularly the numerous cases addressing clashes between antitrust and patent laws.<sup>103</sup> It remains to be seen whether the regional circuit and state appellate courts should or will apply their own pre-*Nobelpharma* law to mixed patent and nonpatent law claims. Moreover, it is unclear whether they should or will apply their own patent case law, from before the early 1980s, to the patent claims that will appear on their benches by way of counterclaims to nonpatent causes of action, or whether they will rely on the rich, if sometimes confusing, body of patent law that the Federal Circuit has produced in the last two decades.

*Holmes Group* “(1) strengthens the traditional right of plaintiffs to choose their law and forum; . . . (3) reduces forum-shopping opportunities between the Federal Circuit and regional courts of appeals on nonpatent claims; (4) restores regional circuit authority over cases commenced under antitrust, copyright, trade dress, contract, or other nonpatent law; and (5) expands the power of state courts to decide the entirety of cases properly

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97. Mueller, *supra*, note 75, at 69.

98. Dabney, *supra* note 84, at 3.

99. *Id.* at 6.

100. Mueller, *supra* note 75, at 69.

101. Dabney, *supra* note 84, at 4 & n.15 (citing to state cases from Delaware, Florida, New York and Ohio).

102. *Id.* at 4 & n.16.

103. *E.g.*, *CSU, LLC v. Xerox Corp.* 203 F.3d 1322 (Fed. Cir. 2000) (deciding a patent infringement counterclaim in the context of an antitrust case); *Midwest Indus., Inc. v. Karavan Trailers, Inc.*, 175 F.3d 1356, 1358-59, 1361 (Fed. Cir. 1999) (applying Federal Circuit law to claims involving mixed patent, copyright and state law issues); *Nobelpharma AB v. Implant Innovations, Inc.*, 141 F.3d 1059, 1068 (Fed. Cir. 1998) (applying Federal Circuit law to claims involving a tension between antitrust and patent law).

brought before them under nonfederal law.”<sup>104</sup> On the other hand, it contradicts the stated Congressional intent behind the Federal Circuit’s grant of jurisdiction according to the FCIA; increases forum-shopping opportunities on patent claims; and bucks much of the hard work expended by the Federal Circuit in perfecting a broad view of their jurisdiction, thereby upsetting much of the Federal Circuit precedent. Ultimately, while scholars and practitioners may couch the decision as beneficial to state and regional federal appellate courts, in preserving and restoring authority that those courts have been gradually relinquishing to the Federal Circuit during the past two decades, the state and regional circuit courts may feel not relief, but confusion and burden as a result of having to decide patent claims again.<sup>105</sup>

#### IV. CONCLUSION

The Supreme Court has made it clear that when balanced against other rights and authorities, such as the right of the plaintiff to choice of forum, the goal of preserving uniformity in patent law loses.<sup>106</sup> Although not explicit in the Supreme Court’s opinion in *Holmes Group*, the regional circuit courts’ authority over nonpatent law issues has incidentally won a victory over the Federal Circuit’s authority over patent issues as well.<sup>107</sup> While the *Holmes Group* mandate is clear, and the Federal Circuit is obediently abiding by its rule, its effects will be far-reaching and tumultuous, as regional courts, both in the state and federal system, dust the cobwebs off old regional patent law and re-enter the realm of deciding patent law claims.

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104. Dabney, *supra* note 84, at 6.

105. See Mueller, *supra* note 75, at 69-70 (describing the patent related questions, arising from *Holmes Group*, that state and regional circuit courts will have to resolve, and quoting a statement, in *The Recorder*, from Edward Reines, a partner at Weil, Gotshal & Manges in Redwood Shores, California: “The clear losers in this case are the appellate judges around the country who thought that with the creation of the Federal Circuit they would not have to hear another patent case—with all the esoteric questions of law and technology that tend to come with them.”). For that matter, patent litigators that have become comfortable with, and knowledgeable in, the Federal Circuit case law will have to cope with case law stemming from all eleven circuits. *Id.*

106. *Holmes Group*, 122 S. Ct. at 1895 (“Our task here is not to determine what would further Congress’s goal of ensuring patent-law uniformity, but to determine what the words of the statute must fairly be understood to mean”); Mueller, *supra* note 75, at 67.

107. See discussion, *supra*, Part III.B.



## SCHEIBER V. DOLBY LABORATORIES, INC.

By Kelly Hershey

Peter Scheiber, inventor of the “surround sound” stereo technology, agreed to license use of his patents to Dolby Laboratories, Inc., at a low royalty rate over a long period of time, rather than a higher rate for a shorter period of time. Even though this entailed royalty payments extending beyond expiration of some of the licensed patents, Dolby suggested this arrangement in hopes of passing the more palatable royalty rate along to its customers. However, Dolby later refused to pay the royalties on patents that expired. In *Scheiber v. Dolby Laboratories, Inc.*,<sup>1</sup> the Seventh Circuit held that the patent licensing contract, spreading Dolby’s cheaper royalty payments over a period extending beyond the term of some of Scheiber’s patents, constituted patent misuse,<sup>2</sup> following *Brulotte v. Thys Co.*<sup>3</sup>

Despite its own holding, the *Scheiber* opinion invited the Supreme Court to overturn their prior controlling precedent by repeating an argument made in the *Brulotte* dissent, as well as subsequent lower court opinions and law review articles. In *Scheiber*, Judge Posner opined that the *Brulotte* holding was based not on patent law, but on “a free-floating product of a misplaced fear of monopoly . . . that was not even tied to one of the antitrust statutes.”<sup>4</sup>

*Scheiber* highlights the tension at the interface of our patent and anti-trust laws. The patent system grants monopoly rights of limited duration to inventors,<sup>5</sup> whereas the antitrust laws define and regulate illegal monopolies. The limit on the duration of the monopoly right under the patent is fundamental to the compromise between the goal of providing economic incentives for inventors to invent and the social desire to have useful inventions accessible to the people. Though the patent and antitrust laws are in some tension based on the limited monopoly right vested in a patentee,

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1. 293 F.3d 1014 (7th Cir. 2002).

2. *Scheiber*, 293 F.3d at 1016.

3. 379 U.S. 29, 33-34 (1964) (holding that post-expiration royalty payments are per se illegal extensions of the patent monopoly).

4. *Scheiber*, 293 F.3d at 1018.

5. The power to regulate the patent system stems from the Constitution: “The 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.” U.S. CONST. art. I, § 8, cl. 8.

the ultimate goal of each is to increase the long-term economic welfare of the public.

This Note examines the arguments raised in *Scheiber*, and evaluates the strength of the *Brulotte* precedent in the context of recent changes in patent law and antitrust enforcement guidelines. Part I discusses the complexity of the interplay between patent and antitrust laws, including a summary of how this complexity played out in *Brulotte*. Part II describes the *Scheiber* holding. Part III analyzes *Brulotte* in the contemporary context, and ultimately concludes that the per se rule against post-expiration royalties should be replaced with a rule of reason approach.

## I. BACKGROUND

### A. The Interface Between Patent and Antitrust Laws

Because the patent system grants a monopoly right to inventors,<sup>6</sup> it is potentially in tension with antitrust laws. The act of possessing a monopoly is not inherently unlawful;<sup>7</sup> however the Sherman Act outlaws monopolies gained through anticompetitive practices, and monopolists with market power who engage in anticompetitive activities designed to expand that power.<sup>8</sup> Achieving a monopoly through a patent is not unlawfully anticompetitive, but some uses of the patent monopoly may constitute improper expansions of that monopoly power.

Despite seemingly opposite approaches, the antitrust and patent laws have the common goal of increasing the economic welfare of the public.<sup>9</sup> The limited monopoly granted to the patentee is envisioned as promoting the long-term competitiveness of innovation in the market. The patent system encourages investment in the creation of a good that otherwise would not be on the market by allowing monopoly control for a period of years. Antitrust analyses compare consumer welfare under monopoly control versus competitive conditions. Thus, the patent and antitrust laws handle

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6. *Id.*

7. *United States v. Aluminum Co. of Am.*, 148 F.2d 416, 432 (2d Cir. 1945).

8. The Sherman Act provides: "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." 15 U.S.C. § 2 (2000). A firm that can raise prices above competitive levels without losing customers to competitors in the relevant market is deemed to have a monopoly. ROBERT P. MERGES ET AL., *INTELLECTUAL PROPERTY IN THE NEW TECHNOLOGICAL AGE* 1102-03 (2d ed. 2000).

9. See PHILLIP AREEDA & LOUIS KAPLOW, *ANTITRUST ANALYSIS* 415 (5th ed. 1997) ("The two regimes are in substantial harmony. Both ultimately seek to benefit the public—one through technological progress and the other through competition.").

two different market phases, so to speak: patent law facilitates entry of new products into the market, and antitrust law advocates a competitive environment for production of a good once the inventor has been sufficiently rewarded for her invention.

It can be challenging for the courts to maintain the balance between patent and antitrust laws. Neither patent nor antitrust laws wholly “trump” one another—despite the monopoly right conferred to the patentee, the patentee does not have the right to violate antitrust laws.<sup>10</sup> For example, antitrust laws limit the patentee’s power to license under certain conditions.<sup>11</sup>

Professor Kaplow has noted:

Most formulations that seek to mediate the patent-antitrust conflict begin by asking whether the restrictive practice in question results in excessive profits to the patentee or merely permits the patentee to realize part of the reward appropriate to the patent. Thus, although the premise has never been fully explicit, courts and commentators appear to have thought that patent-antitrust doctrine should be determined by reference to a specific level of aggregate reward.<sup>12</sup>

As determination of the appropriate level of aggregate reward is challenging, it is difficult for the courts to evaluate whether a given practice, questionable under antitrust law, should be allowed as a reasonable reward to a patentee.

## B. Patent Misuse

The patent misuse doctrine was developed to regulate the intersection of the patent and antitrust laws. Under this equitable defense, a court may refuse to enforce a licensing term if, though the restriction itself may not violate antitrust law, it draws “anticompetitive strength from the patent right, and thus [is] deemed to be contrary to public policy.”<sup>13</sup> The patent misuse doctrine tries to limit two basic behaviors: (1) expansion of patent rights beyond their statutorily granted scope, and (2) use of the patent to

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10. *See, e.g., United States v. Line Material Co.*, 333 U.S. 287, 308 (1948) (noting that it is “well settled that the possession of a valid patent or patents does not give the patentee any exemption from the provisions of the Sherman Act beyond the limits of the patent monopoly.”).

11. AREEDA & KAPLOW, *supra* note 9, at 417. *See also infra* Part II.C.

12. Louis Kaplow, *The Patent-Antitrust Intersection: A Reappraisal*, 97 HARV. L. REV. 1813, 1818 (1984).

13. *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700, 704 (Fed. Cir. 1992).

undermine competition.<sup>14</sup> These limitations are important in maintaining the “integrity of the patent system.”<sup>15</sup>

Patent misuse is inextricably linked to antitrust law, and draws heavily on its philosophy. Behaviors constituting patent misuse often violate antitrust laws as well.<sup>16</sup> Alternatively, a finding of an antitrust violation has in many cases been grounds for a patent misuse holding.<sup>17</sup> However, the two doctrines are not coextensive. Patent misuse may penalize conduct falling short of an antitrust violation; therefore, the analyses are not interchangeable.<sup>18</sup> Not every element of an antitrust violation is required for a finding of patent misuse. For instance, a party alleging patent misuse need not have standing based on a showing of personal harm, whereas a party bringing an antitrust suit must.<sup>19</sup>

It is difficult for a patentee to know which behaviors patent misuse will punish that antitrust law will not. Under patent misuse analysis, practices may (1) be *per se* legal, (2) require balancing of their pro-competitive benefits and anticompetitive potential under the rule of reason rubric, or (3) be *per se* illegal. The Supreme Court has held that under the rule of reason,

the finder of fact must decide whether the questioned practice imposes an unreasonable restraint on competition, taking into account a variety of factors, including specific information about the relevant business, its condition before and after the restraint was imposed, and the restraint’s history, nature and effect.<sup>20</sup>

Where the behavior is within the scope of the patent grant, and not unreasonably anticompetitive, the behavior does not constitute patent misuse.<sup>21</sup>

Patent licensing terms are often at issue in patent misuse cases. A patentee has the right to grant an exclusive or non-exclusive license to practice her invention.<sup>22</sup> Licensing is generally considered pro-competitive, as

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14. HERBERT HOVENKAMP ET AL., *INTELLECTUAL PROPERTY & ANTITRUST* 3-7 (2002).

15. *Id.* at 3-8.

16. *Id.* at 3-2.

17. *Id.*

18. *USM Corp. v. SPS Techs., Inc.*, 694 F.2d 505, 512 (1982) (noting that “one still finds plenty of statements in judicial opinions that less evidence of anticompetitive effect is required in a misuse case than in an antitrust case”).

19. *Morton Salt Co. v. G.S. Suppiger Co.*, 314 U.S. 488, 494 (1942).

20. *State Oil Co. v. Khan*, 522 U.S. 3, 10 (1997) (citing *Arizona v. Maricopa County Med. Soc.*, 457 U.S. 332, 343 & n.13 (1982)).

21. *Mallinckrodt*, 976 F.2d at 706.

22. 35 U.S.C. § 261 (2000).

it affords some competition in producing an otherwise exclusive product. However, certain conditions attached by the patentee to the licensing agreements may constitute patent misuse. Part I.C *infra* discusses patent misuse in the context of patent licensing.

Per se legal licensing practices include non-use of, and refusal to license, the patented technology.<sup>23</sup> Questionable practices include tying where the patentee does not have market power in the tying product's market,<sup>24</sup> package licenses and non-metered royalties, grantback clauses, field-of-use restrictions, horizontal arrangements (including patent pools and cross licenses), and price discrimination.<sup>25</sup> Per se illegal behaviors include most price-fixing, tying arrangements where the patentee has market power in the tying product market (here, the tying product is the patented product), and arrangements involving post-patent expiration royalties.<sup>26</sup>

### C. Tying and the Presumption of Market Power in the Patentee

"Tying is by far the most common basis for a patent misuse allegation."<sup>27</sup> In the patent licensing arena, tying occurs when a patentee licenses one product (the "tying product") contingent upon the licensing of another product (the "tied product"). There are many tying scenarios: tying can occur with patented or unpatented products; the tied product can be for use with or without the tying product; the licensor may or may not have market power in the tying or tied product market; and the licensee may or may not want the tied product.<sup>28</sup>

When a patentee has market power in the tying product (the patented product), economists are leery, because traditional leveraging theory suggests that the patentee's market power in the tying product may be used to improperly increase, or "leverage," her patent monopoly power in the market of the tied product.<sup>29</sup> Such leveraging would disrupt the natural flow of competition otherwise prevailing in the tied product market, potentially leading to decreased consumer welfare.

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23. 35 U.S.C. § 271(d)(4) (2000) (instructing courts not to withhold remedies for patent infringement because a patentee has "refused to license or use any rights to the patent").

24. For an explanation of tying terms, see *infra* Part I.C.

25. HOVENKAMP ET AL., *supra* note 14, at 3-12 to 3-34.

26. *Brulotte v. Thys Co.*, 379 U.S. 29, 32 (1964); *Va. Panel Corp. v. Mac Panel Co.*, 133 F.3d 860, 869 (1997).

27. HOVENKAMP ET AL., *supra* note 14, at 3-12.

28. AREEDA & KAPLOW, *supra* note 9, at 686.

29. Louis Kaplow, *Extension of Monopoly Power Through Leverage*, 85 COLUM. L. REV. 515, 515 (1985).

The validity of the notion that tying allows one to “leverage” her way into a new market has been a subject of heated debate. The “Chicago School” view of tying is that a monopolist has a fixed amount of power, and the way in which that power is expended will usually not change the fixed amount of power gained through the tying product.<sup>30</sup> Indeed, Judge Posner argues, in *Scheiber*, that “the idea that you can use tying to lever your way to a second . . . monopoly is economic nonsense.”<sup>31</sup> Nonetheless, when a patentee has market power in the patented-product market, tying remains per se patent misuse.

Tying is at heart an antitrust inquiry. To establish per se unlawful tying under the Sherman Act, it must be shown that: (1) the tying and tied products are distinct; (2) purchase of the tying product is contingent upon purchase of the tied product; (3) the tying product's market power appreciably restrains free competition in the tied product's market; and (4) a “not insubstantial” amount of commerce in the tied product is affected.<sup>32</sup>

As for factor three, the Court has reasoned that a patent holder is inherently a monopolist in the patented-product market, as the patent gives the patentee the right to exclude others from practicing her invention.<sup>33</sup> This reasoning results in a presumption of the patentee's market power in the patented product. The judicially created presumption of market power has been criticized almost unanimously by commentators,<sup>34</sup> partly because, “[m]ost patents cover . . . products which are only a small subset of a product market . . . . Only where an innovation creates an entirely new market, or represents a quantum advance in an old one, is the patent likely to confer an economic monopoly.”<sup>35</sup> In line with this criticism some district courts, as well as the Court of Appeals for the Federal Circuit, which has exclusive appellate jurisdiction over patent cases,<sup>36</sup> have hesitated to presume a patentee's market power in their patented-product markets.

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30. *Id.* at 515-18 (1985) (describing the Chicago School position).

31. *Scheiber v. Dolby Labs. Licensing Corp.*, 293 F.3d 1014, 1020 (7th Cir. 2002). For a rebuttal to the argument that leveraging theory is dead, see Louis Kaplow, *supra* note 29.

32. *See* *N. Pac. Ry. Co. v. United States*, 356 U.S. 1, 5-6 (1958).

33. *See, e.g., United States v. Loew's, Inc.*, 371 U.S. 38, 45-46 (1962) (“The requisite economic power is presumed when the tying product is patented or copyrighted. This principle grew out of a long line of patent cases which had eventuated in the doctrine that a patentee who utilized tying arrangements would be denied all relief against infringements of his patent.”) (citations omitted).

34. *See, e.g., MERGES ET AL.*, *supra* note 8, at 1111.

35. *Id.* at 1110.

36. *See, e.g., Abbot Labs. v. Brennan*, 952 F.2d 1346, 1354-55 (Fed. Cir. 1991) (noting that “a patent does not of itself establish a presumption of market power in the

Additionally, a 1988 amendment to 35 U.S.C. § 271(d) requires market power in the tying market before patent misuse can be used as a defense in a patent infringement case. Section 271(d) now provides:

No patent owner otherwise entitled to relief for infringement or contributory infringement of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having done one or more of the following: . . . (5) conditioned the license of any rights to the patent or the sale of the patented product on the acquisition of a license to rights in another patent or purchase of a separate product, *unless, in view of 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.*<sup>37</sup>

By requiring exploration into the facts to see whether the patentee has market power, the amendment implicitly overrules the presumption of a patentee's market power in the patented product.

Another powerful recent move away from the presumption of market power is in the 1995 United States Antitrust Guidelines for the Licensing and Acquisition of Intellectual Property. These guidelines were issued jointly by the Federal Trade Commission and the Antitrust Division of the Department of Justice, the enforcers of the antitrust laws. The guidelines provide:

The Agencies will not presume that a patent, copyright, or trade secret necessarily confers market power upon its owner. Although the intellectual property right confers the power to exclude with respect to the *specific* product . . . there will often be sufficient . . . close substitutes for such product . . . to prevent the exercise of market power.<sup>38</sup>

The patent misuse doctrine is based in large part on concerns about anticompetitive powers arising out of rights conferred on a patentee by virtue of her patent. The analysis of anticompetitive behavior is primarily

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antitrust sense"), *cert denied*, 505 U.S. 1205 (1992); *A.I. Root Co. v. Computer/Dynamics, Inc.*, 806 F.2d 673, 676 (6th Cir. 1986) (holding that "we reject any absolute presumption of market power for copyright or patented product"); *Mitsubishi Elec. Corp. v. IMS Tech. Inc.*, No. 96 C 499, 1997 U.S. Dist. LEXIS 15350, at \*16 (N.D. Ill. Sept. 29, 1997) (holding that "a patent is not sufficient, by itself, to indicate market power").

37. 35 U.S.C. § 271(d)(5) (2000) (emphasis added).

38. *Antitrust Guidelines for the Licensing of Intellectual Property*, at 4, available at <http://www.usdoj.gov/atr/public/guidelines/ipguide.pdf> (Apr. 6, 1995).

an antitrust analysis. If those enforcing the antitrust laws do not consider tying, where the patentee does not have market power, inherently anti-competitive, then it makes sense that the patent misuse analysis also should not consider such behavior inherently anticompetitive.

If a tying arrangement is not per se illegal, antitrust law requires application of the rule of reason test to determine whether the arrangement is an unreasonable restraint on competition.<sup>39</sup> As noted earlier, the patent misuse doctrine is based in large part on concerns about a patentee's use of her patent to undermine competition.<sup>40</sup> Therefore, the central inquiry should be whether competitors are foreclosed from the market due to tying arrangements. In the rule of reason analysis, the pro-competitive benefits are compared with anticompetitive harms, to determine whether or not to preclude the behavior.<sup>41</sup> In *Brulotte*, the Court fielded the complex interface between antitrust principles and patent rights.

#### D. *Brulotte v. Thys Co.*

In *Brulotte*, relying on a tying analogy, the Court held that post-expiration royalties accruing, for post-expiration use of a patent, expanded the monopoly power of the patentee beyond that rightfully conveyed by the patent; thus, the royalty provision was per se illegal.<sup>42</sup>

*Brulotte* sold a number of hop-picking machines to the defendants, and licensed their use. The license included a fixed royalty payment per season of use. The term of the license was not limited to the terms of the patents, thus payment of the royalties would extend beyond the expiration of all seven patents incorporated in the invention, if the licensee continued to use the machines after the patents expired. The United States Supreme Court rejected the lower court's finding that the extended period was merely "a reasonable amount of time over which to spread the payments for the use of the patent,"<sup>43</sup> holding instead that "a patentee's use of a royalty agreement that projects beyond the expiration date of the patent is unlawful per se."<sup>44</sup> The Court noted that the purchase price for the machines was a flat sum, and there was no difference in the amount of per-season royalty payments or other constraints in the licensing agreement

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39. See 10 PHILLIP E. AREEDA ET AL., ANTITRUST LAW ¶ 1741b (1996); See also, e.g., HOVENKAMP ET AL., *supra* note 14, at 3-10 to 3-11.

40. See *supra* note 14 and accompanying text.

41. HOVENKAMP ET AL., *supra* note 14, at 3-11.

42. *Brulotte v. Thys Co.*, 379 U.S. 29, 31 (1964).

43. *Id.* at 32. (quoting *Thys Co. v. Brulotte*, 62 Wash. 2d 284, 291 (1963)).

44. *Id.* at 32.

before, relative to after, expiration of the patents at issue.<sup>45</sup> It held that a license agreement term that “allows royalties to be collected which accrued after the last of the patents . . . [has] expired” is illegal.<sup>46</sup> The Court reasoned that “[t]he royalty payments due for the post-expiration period [were] by their terms for use during that period, and [were] not deferred payments for use during the pre-expiration period.”<sup>47</sup> Though *Brulotte* did not reference the patent misuse doctrine, post-expiration royalties have been “accepted into the canon of patent misuse.”<sup>48</sup>

Importantly, in *Zenith Radio Corp. v. Hazeltine Research, Inc.*, the Court noted that in *Brulotte* it “[r]ecogniz[ed] that the patentee could lawfully charge a royalty for practicing a patented invention prior to its expiration date and that the payment of this royalty could be postponed beyond that time.”<sup>49</sup> Thus, according to the Court, they held in *Brulotte* that to continue extracting royalties based on use of the patented technology after the patent’s expiration was a per se illegal extension of the patent monopoly, but not that the patentee was prohibited from collecting money from its licensees after expiration of the patent.

The *Brulotte* Court relied primarily on a tying analogy for its holding,<sup>50</sup> but did not elaborate on or explain the analogy. Presumably the extended royalty payment expanded the patentee’s monopoly power beyond the monopoly period (the “tying product”) to a post-expiration market (the “tied product”), where the patentee otherwise could not exert power.<sup>51</sup>

## II. CASE SUMMARY

Peter Scheiber licensed to Dolby the rights under a number of patents claiming the “surround sound” technology, as part of a settlement agreement resulting from a prior infringement suit. In negotiating the royalty rate, Dolby suggested that in exchange for a lower royalty rate, it would rather pay royalties on all licensed patents until the expiration of the last patent. In this way Dolby could pass the lower royalty expense to its sublicensees. Scheiber accepted this arrangement,<sup>52</sup> and Dolby subsequently refused to pay royalties on patents that had expired, precipitating this suit.

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45. *Id.* at 31-32.

46. *Id.* at 30, 33-34.

47. *Id.* at 31.

48. HOVENKAMP ET AL., *supra* note 14, at 3-24.

49. 395 U.S. 100, 136 (1969).

50. *Brulotte*, 379 U.S. at 33.

51. See discussion *infra* Part III.

52. *Scheiber v. Dolby Labs. Licensing Corp.*, 293 F.3d 1014, 1016 (7th Cir. 2002).

Relying on *Brulotte*, the trial court granted summary judgment to Dolby. Scheiber appealed to the Seventh Circuit.

Judge Posner upheld the trial court's summary judgment against Scheiber under the *Brulotte* precedent, describing *Brulotte* as "indistinguishable" from the case at issue.<sup>53</sup> As *Brulotte* had been neither explicitly nor implicitly overruled, he noted that the Seventh Circuit could not disregard a Supreme Court decision "no matter how dubious its reasoning."<sup>54</sup> Posner argued, however, that post-expiration royalty payments did not extend the patent term, as the patentee no longer had the right to exclude others from making or using the product, and therefore logically should not be held as patent misuse.<sup>55</sup> "[I]t is a detail whether [the patentee] extracts [royalties] at a higher rate over a shorter period of time or a lower rate over a longer period of time."<sup>56</sup>

Judge Posner also questioned the logic of *Brulotte's* reasoning. *Brulotte* either assumed that the parties were not aware of the effect of a patent's expiration, thereby rendering them incapable of valuing this factor in negotiations for licensing terms, or that they had unequal bargaining power. Judge Posner was more inclined to consider the parties sufficiently sophisticated to incorporate knowledge of expiration of the patent(s) at issue into negotiations surrounding the licensing agreement.<sup>57</sup>

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53. *Id.* at 1017.

54. *Id.* at 1018.

55. *Id.* At 1017

56. *Id.*

57. Judge Posner rejected Scheiber's reliance on the amendment to § 271(d), *see supra* Part II.C., as a defense to patent misuse in licensing cases because the statute on its face applies only to infringement claims, rather than breaches of patent licensing contracts. *Scheiber*, 293 F.3d at 1019-20.

Judge Posner also rejected Scheiber's attempted use of the "unclean hands" defense against Dolby's patent misuse counterclaim. Scheiber argued that, since it had been Dolby's idea to have the longer-term, lower royalty rate, Dolby should not be allowed to claim patent misuse based on this term. *Id.* at 1021. Judge Posner reasoned that to allow the unclean hands defense would undermine the policy of the patent misuse doctrine. *Id.* at 1022.

Interestingly, Judge Posner offered an alternative theory of the case under which he proposed that the plaintiff might have recovered the post-expiration royalties: contract restitution. *Id.* at 1022-23. Though it is an appealing solution under contract law, it seems likely that the Court, using the same reasoning Judge Posner applied in the preceding paragraph, would also suborn contract law to the patent misuse doctrine.

### III. DISCUSSION

Posner could have reasoned in favor of Scheiber, if he interpreted the rate schedule as reflecting post-expiration collection of pre-expiration use, and relied upon discussions in *Brulotte* and *Hazeltine* where the Court explicitly recognized the patentee's right to postpone collection of royalties, which had accrued while the patent was valid, until after the patent's expiration.<sup>58</sup> Under the reasoning in *Brulotte*, later reiterated in *Hazeltine*, such an arrangement would have been legal. Indeed, that is just what a district court in Delaware recently found.<sup>59</sup> Instead, Posner's opinion directly challenges the Supreme Court's reasoning in *Brulotte*.

Posner's arguments encompass a broader right than postponement of collection of royalties, however, he argues for the patentee's right to have post-expiration royalties in general, provided they survive the rule of reason analysis. As post-expiration royalties are within the domain of patent misuse, and the patent misuse doctrine is concerned with both anticompetitive harm and the appropriate aggregate reward under patent law, this Note analyzes that the patentee's right to exact post-expiration royalties under both areas of the law.

In *Brulotte*, the Court relied on a tying analogy in holding that post-expiration royalties are per se illegal.<sup>60</sup> Following *Brulotte*, lower courts have held post-expiration royalties to be per se patent misuse.<sup>61</sup> However, post-expiration royalties should instead be subject to a rule of reason analysis. First, under *Brulotte*'s tying analogy, whether post-expiration royalties are patent misuse should be subject to a rule of reason analysis, particularly as recent developments in patent law suggest that a patentee is no longer presumed to have market power in the patented-product market. Second, post-expiration royalty arrangements do not inherently undermine competition. Third, there is no inevitable extension of the patent monopoly when post-expiration royalties accrue, therefore such arrangements should not constitute per se patent misuse.

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58. *Brulotte v. Thys Co.*, 379 U.S. 29, 30-31 (1964); *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100, 136 (1969). See *supra* notes 46-49 and accompanying text.

59. *Bayer AG v. Housey Pharm., Inc.*, 228 F. Supp. 2d 456, 472-73 (D. Del. 2002).

60. *Brulotte*, 379 U.S. at 33.

61. See, e.g., *Scheiber*, 293 F.3d at 1017.

**A. When a Patentee Does Not Have Market Power in the Patented Product, Post-Expiration Royalties Are Not Per Se Illegal Under a Tying Analogy**

If viewed as a tying practice, *Scheiber's* post-expiration royalties are not per se anticompetitive under the antitrust rubric.<sup>62</sup> First, the tying and tied products are not separate products—they are physically the *self-same* product. Second, purchase of the tying, pre-expiration product is not contingent upon purchase of the tied product, which was the same product in the post-expiration market. Dolby could have taken higher royalties for a shorter period of time, instead of lower royalties for a period extending beyond the patent term, and yet Dolby itself requested the term entailing post-expiration royalties.<sup>63</sup> It cannot be compellingly argued that Dolby was coerced into this agreement, or that Dolby had to accept the tied product along with the tying product. Third, the § 271(d) amendment makes clear that a patentee will not be presumed to have market power in the patented-product market, an argument that was not considered in *Scheiber*.<sup>64</sup> Fourth, whether the post-expiration royalty arrangement has an effect on a substantial amount of commerce in the tied product market requires case-by-case analysis, which was also not addressed in *Scheiber*.

Where an arrangement is not a per se unlawful tying, a rule of reason analysis is undertaken to resolve whether or not a licensing term is an unreasonable restraint on trade.<sup>65</sup> Rule of reason analyses must consider the

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62. See text accompanying note 32, *supra*, for the elements of per se unlawful tying.

63. *N. Pac. Ry. Co. v. United States*, 356 U.S. 1, 1 n.4 (1958) (“Of course where the buyer is free to take either product by itself there is no tying problem even though the seller may also offer the two items as a unit at a single price.”); see AREEDA & KAPLOW, *supra* note 9, at 706 (“It should be obvious that nothing in antitrust law or policy forbids a person from purchasing two products from a single supplier. Nor is the supplier forbidden from offering two products to a single customer or from normal persuasion.”).

64. See note 37 and accompanying text.

65. See AREEDA ET AL., *supra* note 39, at ¶ 1742b:

Normally when an element of per se tying is unproven, the rule of reason remains available in reserve . . . For the separate products element, the implications are not so clear cut. The rule-of-reason backstop is unavailable at least in the sense that no tying claim can be made out if the allegedly bundled items constitute a single product under the rule of reason. In such a case the defendant, even if he has monopoly power, has not tied two products together but has simply sold some quantity of a single product at a given price. Nonetheless, often an arrangement that escapes tying scrutiny will constitute exclusive dealing or some other agreement that triggers rule-of-reason scrutiny. (emphasis and references removed).

pro-competitive benefits relative to anticompetitive harms of a practice in determining whether or not to allow it.

### **B. Post-Expiration Royalties Do Not Necessarily Undermine Competition**

Under the weighing of the relative benefits and harms in the rule of reason analysis, three pro-competitive benefits spring to mind. First, as the licensee in *Scheiber* recognized, a lower royalty rate over a longer period of time allows a company to charge more competitive prices, thereby attracting its customers from competing technologies in the pre-expiration market. Second, a lower price may allow more businesses to afford to license and use the technology, thereby increasing competition for the same product in the pre-expiration market. Third, after expiration of the patent, higher prices from licensees bound by the continued royalty obligation may encourage entry into the market by new firms, thereby increasing competition for the same product in the post-expiration market.<sup>66</sup>

Perhaps the most intuitive anticompetitive harm is that licensees having to pay continued royalties may be locked into an old technology after the patent expires, if they are unable to *also* afford to license newer technologies.<sup>67</sup> Yet, is a firm not responsible for forecasting its costs and profits based on business deals voluntarily undertaken? The goal of the anti-trust laws is to have producers competing for customers, such that customers have a choice in the market, thereby forcing competitors to be more efficient and keep prices low. The goal is not to keep all possible competitors in the market, regardless of whether they make fiscally irresponsible decisions. Companies do not have an inherent right to continue to exist. Companies falling prey to the potential “lock-in” harm will be an inspiration to future firms, who will consider this outcome in their negotiations with patentees. It is for the market to decide the reasonable reward due a patentee for her invention.<sup>68</sup>

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Though I agree with the above analysis, the *Brulotte* Court did analogize post-expiration royalties to tying, and, as such, a rule of reason analysis should be considered here.

66. Note that this assumes no substantial barriers to entry into the market other than the existence of the patent.

67. See HOVENKAMP ET AL., *supra* note 14, at 3-26 to 3-27.

68. Beyond a tying analysis, per se illegal rules in antitrust law are reserved for situations in which there is no conceivable situation in which there could be a pro-competitive benefit. See *Broad. Music v. Columbia Broad. Sys.*, 441 U.S. 1, 8 (1979). The remaining antitrust question would therefore be: Is there a situation where there could be pro-competitive benefits for a royalties accruing after expiration of a patent? Some potential benefits have been described above.

In short, there are pro-competitive justifications for allowing post-expiration royalties, especially where they accrued during pre-expiration use. Though there are potential anticompetitive harms, courts should apply a balancing test under the rule of reason, rather than *Brulotte's* per se rule.

**C. There is No Inevitable Extension of the Patent Monopoly, and Therefore No Per Se Patent Misuse**

Even if post-expiration royalties fail to be a violation under the tying analogy, the patent misuse doctrine can reach farther than antitrust laws. As mentioned previously, classic patent misuse cases involve use of the patented product to gain an extension of the monopoly granted by the patent over another market. The first case applying the principle of patent misuse was *Motion Picture Patents Co. v. Universal Film Manufacturing Company*.<sup>69</sup> In *Motion Picture Patents*, the patentee tied use of their patented movie projector (the tying product) with the requirement that licensees only use film manufactured by the patentee (the tied product) in the projector for as long as the projector was in use, regardless of the patent term.<sup>70</sup> The Court found the attempt to expand the patent monopoly into the film market to be illegal.<sup>71</sup>

Patent misuse findings like *Motion Picture Patents*, where the patentee ties the use of a patented movie projector with the use of non-patented film, for a period extending in perpetuity, make some sense. Allowing such a licensing term would allow the patentee to use the patent to gain an advantage in another product market—one potentially extending in perpetuity, beyond the patent term for the projector. However, the abovementioned situation differs from post-expiration royalties, which are not anti-competitive in the sense of extending power into another market. Additionally, as Judge Posner noted, post-expiration royalties do not allow the patentee to prolong her constitutionally granted right to exclude others from making, using or selling the claimed invention.<sup>72</sup> While true, this may not fully embrace the patent misuse doctrine's concern over use of a patent to undermine competition.<sup>73</sup>

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69. 243 U.S. 502 (1917).

70. *Id.* at 506.

71. *Id.* at 515.

72. *Scheiber v. Dolby Labs. Licensing Corp.*, 293 F.3d 1014, 1017 (7th Cir. 2002).

73. The patent misuse doctrine tries to limit two basic behaviors: (1) expansion of patent rights beyond their statutorily granted scope, and (2) use of the patent to undermine competition. HOVENKAMP ET AL., *supra* note 14, at 3-8.

For instance, use of the patent to undermine competition has traditionally been analyzed under the leveraging theory.<sup>74</sup> Leveraging theory has been battered and torn since *Brulotte* was decided. Critics of leveraging theory, such as the Chicago School, argue that a firm's power is a fixed sum to be extracted in one way or another; however, regardless of the manner of extraction, the amount is fixed. Therefore, a possessor of market power in one market will not be able to extract any "extra" power other than that already warranted. Some note that, "in almost every instance where the Supreme Court found patent misuse in these older [tying] cases, more recent scholarship suggests a legitimate reason for the licensing term that led to the finding of misuse."<sup>75</sup>

Kaplow, a supporter of leveraging theory, counters that this argument is deceiving, as the repercussions of a fixed amount of power can be different in different situations. He analogizes leveraging to a person with a stick of dynamite, who will cause more or less damage depending upon where the dynamite is employed.<sup>76</sup> Perhaps a variation on Kaplow's criticism is that our models of the reasonable benefit to the patentee are based largely on "one-shot patents," and fail to embrace continued, cumulative innovation (or acquisition of rights to such innovation) by an entity, resulting in control of the industry, and additional barriers to entry into the market.<sup>77</sup>

Though both criticisms are troubling, the effect of practices on barriers to entry is a part of the rule of reason analysis, and the rule of reason analysis remains an appropriate tool for determining the anticompetitive effects of post-expiration royalties. The *per se* rule assumes that the person has the stick of dynamite somewhere critical, whereas this is not always the case. The rule of reason inquiry is more fair to the patentee, more in keeping with modern commentators about the way markets work, and more in keeping with the changes in our laws.

#### IV. CONCLUSION

Commentators, some lower courts, the Federal Trade Commission and the Antitrust Division of the Department of Justice, have moved away

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74. See discussion *supra* Part III.C.

75. ROBERT MERGES & JOHN DUFFY, *PATENT LAW AND POLICY: CASES AND MATERIALS* 1359 (3d ed. 2002).

76. Kaplow, *supra* note 29, at 515-16.

77. See Peter S. Menell, *Intellectual Property: General Theories*, in 2 *ENCYCLOPEDIA OF LAW & ECONOMICS* 129, 140-141 (Boudewijn Bouckaert & Gerrit de Geest eds., 2000).

from a presumption of market power in the patentee.<sup>78</sup> Moreover, with the § 271(d)(5) amendment, a tying arrangement where the tying product is patented is no longer a bar to recovery in an infringement suit, except where the patentee has market power in the tying product market.<sup>79</sup> If Congress intended to presume a patentee's market power in the market of the patented product, § 271(d)(5) would be rendered superfluous.<sup>80</sup> Limiting the statutory defense to infringement suits would curtail the statute's helpfulness to plaintiffs such as Scheiber, who will usually be suing under a contract theory rather than patent infringement.<sup>81</sup> However, as the presumption of market power in a patentee is judicially created, in light of the signal from Congress, courts should also require a showing of market power in the patentee before holding post-expiration royalties to be per se patent misuse. As lower courts are both allowing and not allowing post-expiration royalties, the Supreme Court needs to resolve the issue, and hopefully replace *Brulotte's* per se rule with a rule of reason approach.

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78. See *supra* notes 16-19 and accompanying text.

79. See *supra* note 37 and accompanying text.

80. Judges will have to be guided by antitrust standards pertaining to the concept of market power in the patent misuse setting, as the patent statute does not discuss it. See Kenneth J. Burchfiel, *Patent Misuse and Antitrust Reform: Blessed Be the Tie?* 4 HARV. J. L. & TECH. 1, 26 (1991). The author states:

[M]arket power in the market for the tying patented product or process must be shown before the patent may be held unenforceable due to a tying license. This standard, which is adapted from antitrust law, is by express direction of Congress not confined to any particular definition found in antitrust precedent, but is essentially openended. Based on the refusal of the House to accept the Senate proposal for a full antitrust standard, and case law establishing that patent misuse may be found in the absence of an antitrust violation, it is clear that the amendments establish an intermediate requirement between the former per se rule and the elements required for an antitrust tying violation.

*Id.* at 23.

81. One might speculate that, where a licensee refuses to pay royalties on a single expired patent, and where multiple patents were licensed, some of which still within their statutory lifespan, the statutory defense may be of help. Courts are split as to whether or not this practice constitutes patent misuse prior to expiration of the last patent at issue. HOVENKAMP ET AL., *supra* note 14, at 3-25.

## NONOBVIOUSNESS: LIMITATIONS ON EVIDENTIARY SUPPORT

*By Joshua McGuire*

Assume that a method of telepathy has recently been invented and patented. Does a method for exchanging telephone numbers using telepathy deserve a patent? How about a method for group conferencing through telepathy? Although intuition tells us that the latter ideas are trivial once the underlying technology of telepathy is understood, patent applications based on these ideas are unlikely to be rejected under the current standard of nonobviousness.

To obtain a patent, one must have patentable subject matter that is useful, novel, nonobvious, and adequately described;<sup>1</sup> however, the standard for a nonobvious invention is often difficult to apply. Innovations typically are a unique and creative combination of elements present in separate prior references.<sup>2</sup> For these innovations to be found nonobvious, there must be no prior “teaching, suggestion, or motivation to combine the references” to produce the claimed invention.<sup>3</sup> Unfortunately, what constitutes suggestion, teaching, or motivation in a nonobviousness determination is unclear. Traditionally, suggestion or motivation to combine may be found in either the references themselves or the general knowledge possessed by one of ordinary skill in the art.<sup>4</sup> Recent Federal Circuit decisions, however, have indicated that suggestion or motivation to combine must be present in the cited prior art references to support a finding of obviousness.<sup>5</sup> This limitation not only constricts the available evidentiary support of an obviousness finding by excluding the knowledge possessed

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1. See 35 U.S.C. §§ 101-03, 112 (2000).

2. See *Reeves Instrument Corp. v. Beckman Instruments, Inc.*, 444 F.2d 263, 270 (9th Cir. 1971) (noting that “the vast majority [of mechanical or electrical devices], if not all, involve the construction of some new device (or machine or combination) from old elements”).

3. See *In re Rouffet*, 149 F.3d 1350, 1355 (Fed. Cir. 1998).

4. A third less common source for the motivation to combine is in the nature of the problem. *Id.* at 1355 (“Although the suggestion to combine references may flow from the nature of the problem, the suggestion more often comes from the teachings of the pertinent references, or from the ordinary knowledge of those skilled in the art that certain references are of special importance . . .”).

5. See *In re Lee*, 277 F.3d 1338, 1344 (Fed. Cir. 2000) (holding that “‘specific hint or suggestion in a particular reference’ to support the combination” of references was necessary to avoid legal error in a finding of obviousness); see also *In re Thrift*, 298 F.3d 1357, 1364 (Fed. Cir. 2002).

by a person skilled in the art, it further ignores the reality that the cited references are often only a subset of a larger pool of relevant references.<sup>6</sup> The larger pool consists of references that are not utilized by examiners because they are not easily accessible, seemingly irrelevant, or the Patent and Trademark Office (“PTO”) simply does not have the resources to review them all.<sup>7</sup>

Consequently, a nonobviousness standard requiring that suggestions or motivation to combine references be in the references themselves, allows seemingly trivial developments to receive patents after advancements in collateral technology enable the new developments,<sup>8</sup> such as in the telepathy example provided earlier. Despite the novelty of these developments, often based upon significant technological advances, persons skilled in the relevant arts may find the developments obvious. These parasitic incremental developments<sup>9</sup> are often well known in other contexts, and patentees simply implement them within the context of a new technology. This Note refers to this phenomenon as the collateral-technology problem.<sup>10</sup> If the PTO issues parasitic incremental patents and the courts uphold them, the patents will cause harm to competition and diminish patent quality. Business methods and software are contemporary examples of developments associated with the advancement of collateral technologies; and consequently, both are susceptible to the collateral-technology problem. When patentees merely perform established business methods in conjunction with the Internet, a collateral technology, such developments are often deemed nonobvious, and therefore patentable.<sup>11</sup> Adhering to the requirement that an obviousness determination be based on a specific teaching, suggestion, or motivation in the prior art, may potentially exacerbate the collateral-technology problem. The PTO will issue more patents associ-

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6. See Julie E. Cohen & Mark A. Lemley, *Patent Scope and Innovation in the Software Industry*, 89 CAL. L. REV. 1, 42-43 (2001).

7. Resources include time, money, and patent examiners.

8. “Collateral technology” is a term used to describe innovations that serve as catalysts for additional developments, which use the original innovation. See *Henkels & McCoy, Inc. v. Elkin*, 455 F.2d 936, 937 (3d Cir. 1972) (holding the invention obvious, in light of changes in market demand and the collateral technology of plastic coatings).

9. The term “parasitic incremental” describes developments that are associated with advancements in collateral technology, but are simply obvious applications of the new technology to other contexts.

10. See Ron Laurie & Robert Beyers, *The Patentability of Internet Business Methods: A Systematic Approach to Evaluating Obviousness*, 4 J. INTERNET LAW 11 (2001), available at [http://www.gewf.com/gcc/graycary-c/news--arti/journal/0501\\_jil.doc\\_cvt.htm](http://www.gewf.com/gcc/graycary-c/news--arti/journal/0501_jil.doc_cvt.htm) (last visited Mar. 31, 2003) (discussing the collateral technology problem and related issues).

11. See *infra* notes 72-84 and accompanying text.

ated with advances in collateral technology, despite the trivial nature of the inventions, because it is difficult to find prior art references that support a finding of obviousness in newly emerging fields; and courts will uphold the patents, applying the same standard for obviousness as the PTO.<sup>12</sup>

This Note addresses the types of evidentiary support that courts and the PTO may use to substantiate the existence of a suggestion to combine elements found in various references, and the effects of limiting the evidentiary support on developments associated with significant advancements in collateral technologies. Part I describes how the nonobviousness requirement developed, and the current uncertainty regarding what evidentiary support the PTO and courts may use to buttress a finding of obviousness. Part II discusses first, why a bright-line rule requiring the presence of specific suggestions to combine in prior art references is not workable in the new collateral-technology context, due to the absence of prior art; and second, how parasitic incremental patents cause harm to competition and diminish patent quality. Part II suggests that an alternative to the bright-line rule is to rely on the general knowledge of a person of ordinary skill in the art to support a finding of obviousness. Finally, the Note concludes by suggesting that expert affidavits and testimony supplying evidence concerning the general knowledge of a person skilled in the art will alleviate some of the problems associated with the lack of prior art for developments associated with significant advances in technology.

## I. BACKGROUND

### A. The Development of the Nonobviousness Requirement

Although the patent statutes did not contain any requirements for nonobviousness until 1952,<sup>13</sup> common law had long before imposed such a requirement on patentable inventions. As early as 1850, in *Hotchkiss v. Greenwood*, the Supreme Court held that a patent claiming a combination of old elements was not valid if its creation only required the “skill . . . possessed by an ordinary mechanic acquainted with the business.”<sup>14</sup>

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12. Manual of Patent Examining Procedure § 2141 (8th ed. 2001) (“Patent examiners carry the responsibility of making sure that the standard of patentability enunciated by the Supreme Court and by the Congress is applied in each and every case.”).

13. In 1952, Congress codified a nonobviousness requirement. 35 U.S.C. § 103 (2000).

14. 52 U.S. (11 How.) 248, 267 (1850) (finding the mere substitution of superior materials in the manufacture of a doorknob to be “the work of the skilful [sic] mechanic, not that of the inventor”).

Later, *Mast, Foos & Co. v. Strover Manufacturing Co.*<sup>15</sup> created a significant refinement to the standard of inventiveness as applied to a combination of old elements, by establishing a presumption that the hypothetical skilled mechanic was fully aware of all the relevant prior art.<sup>16</sup> The Court stated, “we cannot say that the application of this old device to a use which was only new in the particular machine to which it was applied, was anything more than would have been suggested to an intelligent mechanic, who had before him the patents to which we have called attention.”<sup>17</sup> The Court went on to hold that although it was unlikely that any mechanic familiar with the relevant technology was aware of all the prior devices, it should be presumed that the hypothetical skilled mechanic had perfect knowledge of all of the relevant prior art.<sup>18</sup>

In 1952, Congress passed the Patent Act,<sup>19</sup> which codified the common law practice with regard to nonobviousness:

A patent may not be obtained . . . 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.<sup>20</sup>

In 1966, the Supreme Court considered the statutory nonobviousness requirement for the first time, in *Graham v. John Deere Co.*<sup>21</sup> The Court articulated a general approach to the nonobviousness requirement involving three factual inquiries: “the scope and content of the prior art are to be determined; differences between the prior art and the claims at issue are to be ascertained; and the level of ordinary skill in the pertinent art resolved.”<sup>22</sup> The Court also noted that secondary considerations, such “as commercial success, long felt but unsolved needs, failure of others, etc.,” may have relevance in a finding of nonobviousness.<sup>23</sup> Even with the guidance of these factors, the Court acknowledged that determining what was

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15. 177 U.S. 485 (1900).

16. *Id.* at 493 (finding a patent for a windmill’s modified spur wheel to be invalid for lack of inventiveness because the patented modification had been previously well known in other machinery).

17. *Id.* at 493-94.

18. *Id.* at 494.

19. Pub. L. No. 82-593, 66 Stat. 792 (1952) (codified as amended in scattered sections of 35 U.S.C.).

20. 35 U.S.C. § 103(a) (2000).

21. 383 U.S. 1 (1966).

22. *Id.* at 17.

23. *Id.* at 17-18.

obvious would be difficult;<sup>24</sup> conceding that the question of what is obvious is unlikely to produce agreement in many factual circumstances. However, because the difficulties involved are similar to the ones experienced by courts in determinations of negligence or scienter, the Court determined that the nonobviousness inquiry also was amenable to a case-by-case development.<sup>25</sup>

## B. The Uncertainty in the Federal Circuit's Jurisprudence

By the time of the 1952 Patent Act, Congress was in favor of a strong patent system.<sup>26</sup> In creating the Federal Circuit, Congress again expressed a desire to stabilize and add uniformity and definiteness to the law of invention.<sup>27</sup> However, the Federal Circuit's nonobviousness jurisprudence has become anything but definite. Although the Federal Circuit has considered several times how to apply the nonobviousness standard, it is still unclear what may constitute the basis for suggestion or motivation to combine.

Cases that address what evidentiary support may be used to substantiate a finding of "suggestion to combine prior art references" fall into two categories: cases that require cited references to contain specific statements suggesting or motivating the combination for a finding of obviousness, and cases that do not.<sup>28</sup>

### 1. *Cases that Require Cited References to Contain Specific Statements Suggesting Combination*

Some cases have held that references specifically suggesting, teaching, or motivating a combination of known elements in creating the claimed invention, are necessary for a finding of obviousness. *Symbol Technologies, Inc. v. Opticon, Inc.*,<sup>29</sup> involving a patent that claimed a hand-held "aim and shoot" bar code reader, is one recent example. The inventor accomplished the "aim and shoot" aspect of the machine by holding the reader's handle, aiming at a bar code using a sight, and squeezing a trigger.<sup>30</sup> After the trigger is depressed, a laser beam sweeps laterally across

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24. *Id.* at 18.

25. *Id.*

26. The legislative history of § 103 indicates a desire to stabilize and add "uniformity and definiteness" to the law of invention. S. REP. NO. 82-1979, at 6 (1952).

27. *See* H. REP. NO. 97-312 at 20-23 (1981).

28. Note that the two categories do not fall in chronological order, which reflects the Federal Circuit's continued confusion regarding the requirement despite the passage of time. *See infra* notes 29-63 and accompanying text.

29. 935 F.2d 1569 (Fed. Cir. 1991).

30. *Id.* at 1577.

the bar code to read it.<sup>31</sup> The prior art included a patent for a similar gun-like scanner, but it had to be manually moved across the bar code as it read.<sup>32</sup> Other references included bar code readers with scanning heads that had beams that swept across the bar code, but did not have triggers or sights.<sup>33</sup> The court held that the claimed invention was nonobvious because none of the cited prior art references disclosed or suggested the “aim and shoot” feature,<sup>34</sup> stating that courts “do not ‘pick and choose among the individual elements of assorted prior art references to recreate the claimed invention,’ but rather, [they] look for ‘some teaching or suggestion in the references to support their use in the particular claimed combination.’”<sup>35</sup>

The Federal Circuit adhered to this reasoning in *In re Lee*,<sup>36</sup> holding that citations to references that suggest or motivate the combination are necessary for a finding of obviousness.<sup>37</sup> The invention claimed a method of automatically displaying to a user, through a demonstration program, how to adjust the visual and audio functions of a video display device, such as a monitor.<sup>38</sup> The examiner rejected the application as obvious in light of two prior art references: the Nortrup reference, describing a television set that had a menu display for adjustment of visual and audio functions, although not including a demonstration mode, and the Thunder-chopper Handbook, which included a demonstration mode showing how to play a video game, but did not mention the adjustment of visual or au-

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31. *Id.* at 1572.

32. *Id.* at 1578.

33. *Id.* at 1577.

34. *Id.* at 1577-78. (“Thus, a person of ordinary skill in the art, having all of the teachings of the considered references before him, would have found no ‘teaching or suggestion in the references’ of the invention claimed,” citing *Smithkline Diagnostics, Inc. v. Helena Lab. Corp.*, 859 F.2d 878, 887 (Fed. Cir. 1988)).

35. *Id.* at 1576 (citing *Smithkline Diagnostics*, 859 F.2d at 887).

36. 277 F.3d 1338 (Fed. Cir. 2002).

37. *See id.* at 1344. A later case, *In re Thrift*, 298 F.3d 1357 (Fed. Cir. 2002), reaffirmed *Lee*, and upheld a finding of obviousness based on the presence of a “motivation to combine” the elements of the invention in the prior art references. Thrift’s invention was a browser system that enabled navigation of the Internet through a speech interface. 298 F.3d at 1360. The examiner rejected the application as obvious in light of prior art references, one of which described an invention that allowed one to navigate a network, and another which described a speech interface that served as a navigation tool. *Id.* at 1361-62. The court found that the motivation to combine the reference was present in the text of each reference, noting, “Recently, in [*Lee*], we held that the Board’s reliance on ‘common knowledge and common sense’ did not fulfill the agency’s obligation to cite references to support its conclusions.” *Id.* at 1364 (quoting *Lee*, 277 F.3d at 1344).

38. *Lee*, 277 F.3d at 1340.

dio functions.<sup>39</sup> The examiner reasoned that a skilled artisan would have motivation to combine the two references because “the demonstration mode is just a programmable feature which can be used in many different devices for providing automatic introduction by adding the proper programming software.”<sup>40</sup> In addition, one would be motivated to combine because “the automatic demonstration mode is user friendly and it functions as a tutorial.”<sup>41</sup> The PTO Board of Patent Appeals and Interferences (Board) upheld the examiner’s rejection. However, the court held that the examiner did not adequately explain the source of motivation to combine, criticizing the Board and the patent examiner for not citing to particular references that contained such suggestion or motivation.<sup>42</sup> The court found that the Board erroneously relied on “common knowledge and common sense” in rejecting Lee’s application,<sup>43</sup> and that the examiner’s conclusory statements were based on “subjective belief and unknown authority.”<sup>44</sup> The court determined that it was legal error for the Board to reject “the need for ‘any specific hint or suggestion in a particular reference’ to support the combination” of the prior art references.<sup>45</sup>

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39. *Id.* at 1341.

40. *Id.*

41. *Id.* at 1343 (internal quotations omitted).

42. *Id.* at 1344-45.

43. *Id.* at 1344 (internal quotations omitted).

44. *Id.* at 1343-44.

45. *Id.* at 1344 (quoting *In re Fritch*, 972 F.2d 1260 (Fed. Cir. 1992)). However, *Fritch* held that “the examiner can satisfy the burden of showing obviousness of the combination ‘only by showing some objective teaching in the prior art or that knowledge generally available to one of ordinary skill in the art would lead that individual to combine the relevant teachings of the references,’” thereby describing two ways to support a finding of obviousness. *Fritch*, 972 F.2d at 1265. This appears to conflict directly with the *Lee* court’s statement that the need for a specific suggestion in cited references is absolute.

To add to the confusion about whether cited references are necessary, the *Lee* court noted that general knowledge could be used in a finding of obviousness, stating that “when [the examiner and Board] rely on what they assert to be general knowledge to negate patentability, that knowledge must be articulated and placed on the record.” *Lee*, 277 F.3d at 1345. Unfortunately, no standards were set to define what type of articulated statements would be sufficient. The consequences from this lack of definiteness may be seen in *Thrift*, where the court stated that the obviousness finding was upheld because of the examiner’s articulated reasoning. A close inspection of the *Thrift* examiner’s reasoning and the *Lee* examiner’s reasoning does not reveal a significant difference. In their reasonings, both examiners proffered the motivation of increasing user-friendliness. Compare *Thrift*, 98 F.3d at 1362 (“[T]he speech interface to the Web . . . is user friendly.”) with *Lee*, 277 F.3d at 1343 (“[T]he automatic demonstration mode is user friendly.”). Both examiners explained the advantage of the improvements, the only difference being that the examiner in *Thrift* went on to state the obvious fact that a speech

## 2. *Cases that Do Not Require Cited References to Contain Specific Statements Suggesting Combination*

In a separate line of cases, the Federal Circuit has held that an obviousness finding can be upheld even in the absence of specific references suggesting or motivating one to combine the features found in different prior art. In *In re Nilssen*, the court affirmed a finding of obviousness by the Board, even though the references cited lacked an explicit suggestion to combine.<sup>46</sup> The claimed invention was a means of disabling an oscillating inverter when the output current from the inverter exceeded a threshold limit.<sup>47</sup> The court rejected the inventor's argument for a "reality-based" definition of the hypothetical skilled person, who does not have complete knowledge of all relevant prior art, and his proposed nonobviousness rule requiring an express statement, in at least one cited reference, suggesting a combination with another specific reference.<sup>48</sup> Instead, the court decided that "for the purpose of combining references, those references need not explicitly suggest combining teachings, much less specific references,"<sup>49</sup> emphasizing that the standard using the hypothetical skilled person with complete knowledge of all the relevant prior art helps create a pragmatic approach to applying the standard of nonobviousness.<sup>50</sup>

More recently, in *Novo Nordisk of North America, Inc. v. Becton Dickinson & Co.*, the Federal Circuit found the claimed invention to be obvious even though there was no documented evidence of motivation to combine the references.<sup>51</sup> The contested patent was an insulin syringe with a narrow needle.<sup>52</sup> The prior art included a pen-shaped insulin syringe very similar to the patented one, but the reference did not describe the needle size.<sup>53</sup> Other references described the needle size, but claimed rotary syringes.<sup>54</sup> The accused infringer provided expert testimony that it was well known that reduction in needle size lessened the amount of pain, and that such

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interface allows easy access to the web because it "reduce[s] manual intervention." *Thrift*, 298 F.3d at 1362. This difference seems trivial, though. How speech recognition provides easier access to the web (by allowing less manual intervention) and how a demonstration mode provides better tutorials (by allowing real-time, graphic illustrations) are inherent in the concepts and should not have to be explained.

46. 851 F.2d 1401, 1403-04 (Fed. Cir. 1988).

47. *See id.* at 1402.

48. *Id.* at 1403.

49. *Id.*

50. *Id.* Unfortunately, the court did not describe this pragmatic approach.

51. 304 F.3d 1216 (Fed. Cir. 2002).

52. *Id.* at 1218.

53. *Id.*

54. *Id.* at 1218-19.

knowledge provides a motivation to combine the references.<sup>55</sup> The patentee pointed “to the absence of documentary evidence of motivation.”<sup>56</sup> However, the court stated that the testimonies of the defendant’s expert witnesses “are matters of weight and credibility,”<sup>57</sup> and held that there was substantial evidence for a jury to conclude that the known correlation between smaller needle size and pain reduction provided the motivation to narrow the needle.<sup>58</sup>

In a concurrence in *In re Oetiker*, Chief Judge Nies recognized the Federal Circuit’s lack of consistency regarding what constitutes evidentiary support for an obviousness finding, and reasoned that the precedent requires a less restrictive interpretation, allowing a finding of obviousness to be based on evidence outside the prior art references.<sup>59</sup> Citing *In re Nilssen*,<sup>60</sup> Chief Judge Nies reasoned that it was clearly wrong to require the PTO or the courts to base a finding of obviousness only on specific statements of motivation, teaching, or suggestion in prior art references.<sup>61</sup> He pointed to opinions that made findings of obviousness based on the teachings of the prior art taken as a whole, including the general knowledge injected by a person of ordinary skill in the art reviewing the references.<sup>62</sup> He concluded that “it is off the mark for litigants to argue, as many do, that an invention cannot be held to have been obvious unless a suggestion to combine prior art teachings is found *in* a specific reference.”<sup>63</sup>

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55. *Id.* at 1219.

56. *Id.*

57. *Id.*

58. *Id.*

59. *In re Oetiker*, 977 F.2d 1443, 1447-48 (Fed. Cir. 1992) (Nies, C.J., concurring) (reversing the examiner’s rejection of a patent for obviousness because there was no suggestion to combine in the prior art references).

60. 851 F.2d 1401 (Fed. Cir. 1988). *In re Nilssen* expressly rejects the need for references to explicitly suggest combining teachings. *Id.* at 1403 (“Our precedent . . . holds that for the purpose of combining references, those references need not explicitly suggest combining teachings, much less specific references.”); see *supra* text accompanying notes 46-50.

61. *Oetiker*, 977 F.2d at 1448.

62. *Id.* Chief Judge Nies illustrated his point with several cases, including *In re Gorman*, 933 F.2d 982, 986 (Fed. Cir. 1991) (“whether the teachings of the prior art, taken as a whole, would have made obvious the claimed invention”); *In re Young*, 927 F.2d 588, 591 (Fed. Cir. 1991) (“what the combined teachings . . . would have suggested to one of the ordinary skill in the art”); *Uniroyal, Inc. v. Rudkin-Wiley Corp.*, 837 F.2d 1044, 1051 (Fed. Cir. 1988) (noting that “the prior art as a whole must suggest the desirability . . . of making the combination”), *cert. denied*, 488 U.S. 825 (1988).

63. *Oetiker*, 977 F.2d at 1448 (emphasis original).

## II. DISCUSSION

Proponents for a bright-line rule might argue that requiring citations to references that suggest or motivate the combination is necessary to prevent hindsight analysis. However, such a bright-line rule is not feasible in the context of new collateral technologies, especially with respect to business methods and software patents, two areas most likely to produce parasitic incremental patents. Part II.A explains that the primary problem with a bright-line rule is that it presumes availability of prior art references, which does not accord with the reality of the PTO's examination process. Part II.B discusses the potential harms that may be caused by parasitic incremental patents covering trivial applications of old ideas to new technology, most importantly, harms to competition and the public concern over patent quality. Finally, Part II.C proposes an alternative rule relying on the general knowledge possessed by a person of ordinary skill in the relevant art, by using expert testimony, to determine whether a certain combination is obvious.

### A. A Bright-Line Rule Erroneously Presumes the Availability of Prior Art

The most significant problem with a bright-line rule requiring documented suggestions in references is that it necessitates the existence and accessibility of those very references. At the beginning of a truly innovative technological advancement, very little prior art related to the technology at issue will exist. Although such innovation is often followed by an explosive exploitation of its application in various fields, it takes time for such developments to be implemented, documented, or patented.

This problem is illustrated, and somewhat exacerbated, in the business method and software context. Business methods and software algorithms were considered unpatentable subject matter until recently;<sup>64</sup> therefore, little prior art, in the form of patents, has arisen in these two areas.<sup>65</sup> The non-patent prior art that does exist may not be easily accessible, such as previous iterations of business methods that are not published, but are embedded in company policies and practices.<sup>66</sup> Likewise, software documentation is often limited to online Frequently Asked Question website pages

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64. *See* State St. Bank & Trust Co. v. Signature Fin. Group, Inc., 149 F.3d 1368, 1374-75 (Fed. Cir. 1998) (finding that software algorithms, when applied in a useful way, are not unpatentable under the mathematical algorithm exception, and that there is no "business method" exception to patentability), *cert denied*, 525 U.S. 1093 (1999).

65. *See* Rochelle Cooper Dreyfuss, *Are Business Method Patents Bad for Business?*, 16 SANTA CLARA COMPUTER & HIGH TECH. L.J. 263, 269 (2000).

66. *Id.*

and developer specifications.<sup>67</sup> Until the 1990's, software was traditionally protected by copyright, which has special deposit exemptions for the source code, making even publicly registered software code hard to obtain.<sup>68</sup>

Even if prior art exists and is accessible, locating relevant prior art after advancements in collateral technologies presents an acute problem for patent examiners during the initial review of a patent application. Because the developments at issue are associated with nascent collateral technologies, examiners trained in the relevant new fields are rare. Consequently, examiners, who lack experience with the technology, will have a harder time finding and recognizing prior art, and will issue rejections much less frequently based on their lack of information and experience. The first software patents suffered from just this problem. During the 1980's and for much of the 1990's, examiners reviewing software patent applications were operating outside their field of expertise.<sup>69</sup> The PTO hired its first examiner with a computer science degree in 1995.<sup>70</sup> Admittedly,<sup>71</sup> many of the patents issued in that time period should have been rejected.

## **B. Issuance of Parasitic Incremental Patents Will Cause Great Harm**

A bright-line rule combined with a lack of accessible prior art will create an environment ripe for issuance of harmful parasitic incremental patents. Based on incomplete prior art research, and applying a strict, bright-line threshold for nonobviousness favoring patent applicants, the PTO will issue, and courts will uphold, parasitic incremental patents due to the lack of available references containing suggestions for the combinations at issue. In turn, these patents are likely to harm competition and be of inferior quality.

### *1. Harm to Competition*

New collateral technologies are associated with growing fields, which necessarily need patent monopoly rights to incentivize the pioneering, and

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67. Cohen & Lemley, *supra* note 6, at 42.

68. See Patent, Trademarks, and Copyrights, 37 CFR § 202.20(c)(2)(vii) (2002).

69. See Scott Thurm, *A Flood of Web Patents Stirs Dispute Over Tactics*, WALL ST. J., Oct. 9, 1998, at B1.

70. Cohen & Lemley, *supra* note 6, at 11.

71. See Declan McCullagh, *Patent Office Swamped – “Hurting Technology”*, ZDNET NEWS, Oct. 16, 2002, available at <http://zdnet.com.com/2100-1106-962182.html> (last visited Nov. 14, 2002) (“‘We were granting 65 or 70 percent of these things,’ patent office chief James Rogan said at an event at the conservative Heritage Foundation. ‘Now the rejection rate is around 65 or 70 percent.’”).

truly original, inventions. On the other hand, parasitic incremental patents protecting trivial inventions can stifle innovation and competition. Amazon's "1-Click" patent<sup>72</sup> is a familiar example of a seemingly parasitic incremental patent that threatens to carve out a broad chunk of cyberspace technology.<sup>73</sup> The patent claims a method and system for ordering items in a network environment, such as the Internet, with a "single action."<sup>74</sup> This innovation purportedly solved the common problem of users abandoning potential purchases from Internet businesses because of frustration or confusion, induced by the number of actions required to purchase an item.<sup>75</sup> The district court, in an opinion that was later vacated, issued an injunction barring barnesandnoble.com ("BN") from using a similar online ordering system, which also only required a single action to purchase.<sup>76</sup> At the preliminary injunction stage, BN argued that Amazon's "1-Click" patent was invalid on the grounds of obviousness, partially basing its defense on its expert's testimony that he had previously developed an online ordering system called the Web Basket, which allowed users to accumulate items into a virtual shopping basket and purchase the items after several confirmation steps.<sup>77</sup> BN argued that the existence of the Web Basket, combined with the knowledge of one of ordinary skill in the art, rendered Amazon's patent obvious.<sup>78</sup> Granting the injunction, the district court dismissed BN's obviousness defense, stating that "there is insufficient evidence in the record regarding a teaching, suggestion, or motivation in the prior art that would lead one of ordinary skill . . . to combine the references."<sup>79</sup> The court labeled the expert's testimony as "conclusory statements that prior art references teach one of ordinary skill in the art the invention."<sup>80</sup> The district court applied a bright-line rule, finding that BN did

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72. U.S. Patent No. 5,960,411 (issued Sept. 28, 1999) [hereinafter the '411 Patent].

73. See *Amazon.com, Inc. v. Barnesandnoble.com, Inc.*, 239 F.3d 1343 (Fed. Cir. 2001) (finding Amazon.com carried its burden for the preliminary injunction against Barnesandnoble.com by demonstrating the likelihood of success on infringement, but vacating the preliminary injunction and remanding the case for further proceedings based on the substantial questions raised as to the validity of the patent).

74. The '411 Patent, col. 10, ll. 16-36; *Amazon.com*, 239 F.3d at 1347.

75. *Amazon.com*, 239 F.3d at 1347-48.

76. See *id.* at 1350.

77. *Amazon.com, Inc. v. Barnesandnoble.com, Inc.*, 73 F. Supp. 2d 1228, 1233 (W.D. Wash. 1999) (issuing a preliminary injunction against barnesandnoble.com).

78. See *id.*

79. *Id.*

80. See *Amazon.com*, 239 F.3d at 1364. The district court also found that the expert's testimony that he had never personally thought to modify his Web Basket to perform "1-click" ordering, negated his testimony that there was suggestion for an ordinary skilled artisan to combine the prior art references. *Id.*

not sufficiently challenge the nonobviousness of Amazon's patent,<sup>81</sup> and issued a preliminary injunction against BN preventing it from using its one-action system for ordering.<sup>82</sup> The district court's application of a bright-line rule to nonobviousness findings permitted Amazon's patent to harm competitors like BN. The preliminary injunction occurred during the Christmas holiday shopping season and likely cost BN sales,<sup>83</sup> the expense of modifying its online ordering system to avoid infringement, and negative publicity.<sup>84</sup> On appeal, the Federal Circuit stated that the district court did not properly address the Web Basket testimony, and ruled that the district court's approach was erroneous as a matter of law.<sup>85</sup> In so holding, the Federal Circuit did not apply a bright-line rule, but instead found that a reasonable jury could have relied on expert testimony to render Amazon's patent obvious. Unfortunately, the Federal Circuit's ruling could not undo the harm caused by the preliminary injunction.

A bright-line rule results in a lowered standard for nonobviousness because the PTO will issue, and the courts will find, patents nonobvious due to the lack of references containing suggestions for combinations. This will make it especially difficult for small companies to compete against larger companies that usually have better resources, especially in fields vulnerable to the collateral technology problem.<sup>86</sup> If patents, especially parasitic incremental patents, are issued more freely because of the lowered nonobviousness standard, large companies may amass substantial patent portfolios for offensive attacks on smaller competitors.<sup>87</sup> Filing a patent application is relatively cheap when compared to the possible value of leveraging a patent against competitors; therefore, it is not unusual for large companies to file for patents on newly developed business practices.

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81. *Amazon.com*, 73 F. Supp. 2d at 1242.

82. *Id.* at 1249.

83. This assumption is supported by the advantage ascribed in the patent to Amazon's invention, namely preventing shoppers from abandoning their virtual baskets before the sale is complete. *See supra* note 75 and accompanying text.

84. *See Amazon.com*, 73 F. Supp. 2d at 1249 (holding BN may continue to offer its ordering system if it was modified to avoid infringement).

85. *Id.* at 1363-64. The Federal Circuit ruled that the district court should not have considered what the expert personally realized, but instead the relevant question was whether a hypothetical person skilled in the art would have been motivated to combine the prior art references to produce the claimed invention. *Id.* at 1364.

86. *See supra* notes 8-10 and accompanying text. This phenomenon is particularly important to new collateral technology fields because the existence of small or start-up companies is more pronounced in these fields, due to the innovative and emerging character associated with technological advancements.

87. *See* Robert E. Lyon & Christopher A. Vanderlaan, *Method Madness*, L.A. LAW. 28, Oct. 2000, at 53-54.

As accused infringers, small companies will probably not have the funds to challenge a growing number of parasitic incremental patents asserted against them, and larger companies may force them to either obtain licenses or shut down their businesses entirely. In bitter contrast, when small companies benefit from the lowered nonobviousness standard and obtain parasitic incremental patents, they are less able to capitalize on the patents because larger companies usually have the funds to outspend their smaller rivals in patent litigations, which in turn is an advantage to the larger companies in settlement negotiations.

While the PTO may issue fewer parasitic incremental patents in a particular field as time passes because the prior art field expands, the next advancement in collateral technology will again create the same set of problems, and every new field of technology will suffer the same hindrances to growth caused by the issuance of parasitic incremental patents.

## 2. *Public Concerns over Patent Quality*

The issuance and upholding of parasitic incremental patents, by the PTO and federal courts, respectively, also will have a negative effect on the integrity of both institutions, as public concerns over patent quality grow. Patents associated with new advances in collateral technologies are especially vulnerable to quality complaints because, without an extensive body of prior art, they tend to reward parasitic incremental innovations.<sup>88</sup> With a lowered nonobviousness bar, a simple combination of a known method, application, or product, and a new technology, may be rewarded with a patent monopoly.

Business methods and software are prime categories of patents replete with parasitic incremental patents, and unsurprisingly, a subsequent public outcry over patent quality has followed. One critic remarked that “[c]ommon business practices—like bargaining for a hotel room or speeding up a purchase—are automated by software and owners claim a ‘new’ invention. What a sneaky way to do business, taking patent laws to ridiculous extremes.”<sup>89</sup> A reader of *Forbes* magazine sarcastically commented on Jay Walker’s Priceline patent: “Cool! Jay Walker has apparently patented the ‘business method’ known as the Dutch auction—a method by which the U.S. Treasury sells hundreds of billions of dollars’ worth of securities each year.”<sup>90</sup>

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88. See *supra* notes 64-71 and accompanying text.

89. Jesse Berst, *How Patent Attorneys Are Stealing Our Future*, ZDNET ANCHOR DESK, at [http://www.zdnet.com/anchordesk/story/story\\_4364.html](http://www.zdnet.com/anchordesk/story/story_4364.html) (Jan. 18, 2000).

90. Byron L. Winn, *Readers Say*, FORBES, May 31, 1999, at 18.

The PTO has responded to this criticism by instituting a stricter review process for business method applications.<sup>91</sup> Patent examiners must search non-patent literature databases for prior art, and the business method applications are subject to a second level of review after an initial allowance.<sup>92</sup> This process reduced the rate of business method patent issuance to thirty to thirty-five percent of business method applications, as compared to sixty-five to seventy percent in the past.<sup>93</sup> Unfortunately, this rule is specific to business methods, and not the larger category of all incremental parasitic developments.

### C. An Alternative to the Bright-Line Rule

An alternative to the bright-line rule, intermittently applied by some courts and the PTO, is to permit findings of obviousness to be based on the general knowledge possessed by a person of ordinary skill in the relevant art. This flexible, case-specific rule finds support in the line of U.S. Supreme Court and Federal Circuit opinions that emphasize the importance of the general knowledge of one skilled in the art, over express suggestions to combine in prior art. One argument against the general-knowledge approach might be that hindsight analysis would render the nonobvious invention obvious. A clear articulation of the reasoning supporting a finding of motivation to combine should address the hindsight-analysis concern.

The Supreme Court's ruling in *Mast* supports the alternative rule. The Court held that the basis for an obviousness finding is whether a hypothetical ordinarily skilled mechanic, who was aware of all of the prior art, would be motivated to combine the relevant prior art.<sup>94</sup> This emphasis on the prior art as a whole, including the general knowledge of one skilled in the art, contrasts with the bright-line rule requiring statements suggesting the combination to be present in particular references. Also, the *Graham* court articulated three factual inquiries in determining the obviousness (or nonobviousness) of the subject matter.<sup>95</sup> The difficulty acknowledged by the court in determining each of the three inquiries<sup>96</sup> provides an appropriate counterpart for the potentially ambiguous determination of whether general knowledge provides suggestions for combination of the refer-

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91. See USPTO WHITE PAPER: AUTOMATED FINANCIAL OR MANAGEMENT DATA PROCESSING METHODS, available at <http://www.uspto.gov/web/menu/busmethp/class705.htm#d> (last visited Oct. 16, 2002).

92. See *id.*

93. McCullagh, *supra* note 71.

94. See *Mast, Foos & Co. v. Strover Mfg. Co.*, 177 U.S. 485, 494 (1900).

95. *Graham v. John Deere Co. of Kansas City*, 383 U.S. 1, 17 (1966).

96. *Id.* at 18.

ences. Had the court intended to apply a bright-line rule, no such difficulty would have been recognized. The nonobviousness inquiry would have ended with whether statements suggesting the combination can be found in references available to the PTO or the court.<sup>97</sup>

An approach taking into account the general knowledge of one of ordinary skill in the art also finds support in a line of Federal Circuit decisions. The court overtly stated in *Nilssen* that “for the purpose of combining references, those references need not explicitly suggest combining teachings, much less specific references.”<sup>98</sup> The court’s motivation was to avoid a reality-based test, where an ordinary mechanic skilled in the art would not have complete knowledge of the prior art, but instead would only be motivated to combine the references if presented with a specific suggestion in a reference.<sup>99</sup> However, the court found that using the hypothetical person skilled in the art, who has complete knowledge of the prior art, provided a practical approach to determining obviousness.<sup>100</sup> A bright-line rule requiring specific suggestions would establish the sort of reality-based test that the Supreme Court shied away from, and a test similar to the one avoided by the Federal Circuit in *Nilssen*.<sup>101</sup>

Support for moving away from a bright-line rule is also found in the Federal Circuit’s acceptance of expert testimony as substantial and objective evidence upon which to find an invention obvious. In *Novo*, the court dismissed the defendant’s argument that the plaintiff expert’s testimony was unsupported by documentation and conclusory.<sup>102</sup> Instead, the court found that there was substantial evidence that general industry knowledge

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97. Additionally, the third Graham factor—determining the level of ordinary skill in the pertinent art—implies that the bright-line rule requiring specific suggestions in particular references may not be necessary to a finding of obviousness. *See id.* at 17. What is obvious in high skilled fields may not be obvious in some low skill fields, therefore one can assume that high skilled fields are held to a more rigorous standard in a nonobviousness determination. *McGinley v. Franklin Sports, Inc.*, 262 F.3d 1339, 1351 (Fed. Cir. 2001) (“Where the level of skill is high, one may assume a keener appreciation of nuances taught by the prior art.”). If specific suggestions to combine in particular references are required for a finding of obviousness in both high and low skilled fields, then the third Graham factor becomes extraneous because, regardless of the skill level, the lack of a suggestion results in a nonobviousness finding. On the other hand, the factor would seem sensible if specific statements in prior art were not necessarily required for high skill fields, but were required for low skill ones.

98. *In re Nilssen*, 851 F.2d 1401, 1403 (Fed. Cir. 1988).

99. *See supra* notes 48-50 and accompanying text.

100. *Nilssen*, 851 F.2d at 1403.

101. *Id.*

102. *Novo Nordisk of N. Am., Inc. v. Becton Dickinson & Co.*, 304 F.3d 1216, 1219 (Fed. Cir. 2002).

regarding smaller needle size and pain reduction provided the necessary motivation for the combination of pen-shaped syringes and rotary syringes with smaller needles.<sup>103</sup> *Novo* indicates that expert testimony may provide evidence of a motivation to combine, thereby justifying a finding of obviousness without the presence of specific statements in the references suggesting the combination.

One argument against the use of general knowledge of a person skilled in the art in the nonobviousness inquiry is that hindsight may render the nonobvious obvious. The existence of a motivation to combine prior art references can be more clearly shown when there is a written reference suggesting the combination. A rejection of a patent application or a ruling of patent invalidity based on the text of a prior art reference cannot be doubted on the basis of the inaccuracy of hindsight. By contrast, if the suggestion to combine references is based on expert testimony, there may not be a documented source to rule out the possibility that the expert's opinion reflects hindsight bias.

The *Symbol Technologies* court expressed just this concern over the influence of hindsight.<sup>104</sup> The court emphasized that one should not use hindsight to “pick and choose among the individual elements of assorted prior art references to recreate the claimed invention,” but instead, should look for a suggestion in the references to support the combination of references to produce the claimed invention.<sup>105</sup> The *Lee* court also considered this a valid concern in its nonobviousness ruling, where the court found the examiner's statements, based on “subjective belief and unknown authority,” to be conclusory and inadequate.<sup>106</sup> The court quoted a previous case as stating, “Our case law makes clear that the best defense against the subtle but powerful attraction of a hindsight-based obviousness analysis is rigorous application of the requirement for a showing of the teaching or motivation to combine prior art references.”<sup>107</sup>

A way to ameliorate, if not completely resolve the hindsight problem, is suggested (though not elaborated on) in *Lee*—that courts should require a clear articulation of the reasoning supporting a finding of motivation to combine.<sup>108</sup> A clear articulation should contain at least three elements: (1)

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103. *See id.*

104. *Symbol Techs., Inc. v. Opticon, Inc.* 935 F.2d 1569, 1576 (Fed. Cir. 1991).

105. *Id.* at 1576 (citing *Smithkline Diagnostics, Inc. v. Helena Labs. Corp.*, 859 F.2d 878, 887 (Fed. Cir. 1988)).

106. *In re Lee*, 277 F.3d 1338, 1343-44 (Fed. Cir. 2002).

107. *Id.* at 1343 (quoting *In re Dembiczak*, 175 F.3d 994, 999 (Fed. Cir. 1999)) (internal quotations omitted).

108. *Id.* at 1345.

a statement of a specific principle motivating the combination of the references;<sup>109</sup> (2) objective proof that the principle exists;<sup>110</sup> and (3) an explanation of how the principle links the references together.<sup>111</sup> *Novo* provides an example of a specific principle motivating the combination: the reduction in needle size to reduce pain from injections provided the motivation to combine references.<sup>112</sup> Examiners or accused infringers could provide objective proof that the principle exists, through independent surveys, testimony or affidavits from those skilled in the art, showing that the principle had been discussed or noted in the past, or other documentation that may not qualify as prior art due to its private nature, such as laboratory notebooks. They should also give an explanation of how the principle links the prior art references together. Although the *Novo* court did not explicitly express why the “pain reduction provided the requisite motivation to narrow the needle,” it would not be difficult to infer an explanation.<sup>113</sup>

This articulation of the reasoning provides a basis from which to judge whether the general knowledge possessed by a person of ordinary skill would motivate a combination of the prior art references, or more specifically, whether and how the patentee was motivated by prior art to combine the elements found in the various references. The requirement to establish a specific principle motivating the combination<sup>114</sup> would mitigate the hindsight problem associated with the absence of specific statements in particular references by serving as a substitute for *ex ante* proof that can be supported by reasoning and objective evidence, if not by explicit references. The court may then decide on the validity of the reasoning and ob-

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109. *In re Rouffet*, 149 F.3d 1350, 1359 (Fed. Cir. 1998) (“even when the level of skill in the art is high, the Board must identify specifically the principle, known to one of ordinary skill, that suggests the claimed combination”).

110. *See Lee*, 277 F.3d at 1344 (stating that the issue of motivation to combine could “not be resolved on subjective belief and unknown authority”).

111. *See id.* at 1342 (“Not only must an agency’s decreed result be within the scope of its lawful authority, but the process by which it reaches that result must be logical and rational.”).

112. *Novo Nordisk of N. Am., Inc. v. Becton Dickinson & Co.*, 304 F.3d 1216, 1219 (Fed. Cir. 2002).

113. *See id.* For example, pen-shaped syringes were known and other types of syringes with smaller needles were known, so knowledge that a narrow needle reduces pain would motivate a hypothetical skilled artisan to combine the references in order to reduce the pain caused by the claimed pen-shaped syringe invention because needle users are pain adverse.

114. *See supra* note 109 and accompanying text.

jective evidence without the danger of having to accept expert opinions alone.<sup>115</sup>

### III. CONCLUSION

Both Supreme Court and Federal Circuit opinions indicate that specific suggestions to combine references need not be present in particular prior art references for a finding of obviousness. To the contrary, many cases hold that the knowledge of a person ordinarily skilled in the art may provide evidentiary support for a finding of obviousness. The ability to use the general knowledge of a person of ordinary skilled in the art to support an obviousness finding is crucial for preventing the issuance of incremental parasitic patents, which are likely to occur at the beginning stages of a technological advancement, because it can serve to connect the cited references in a verifiable way without the existence of an extensive and readily available pool of prior art.

Expert affidavits and testimony can and should be used in cases involving innovations associated with new technologies to support the existence of a motivation to combine references. Courts can minimize hindsight by requiring a clear articulation of a principle that would suggest the combination of the references, objective evidence that the principle exists, and an explanation of how the principle links the references together to produce the claimed invention.

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115. *See Lee*, 277 F.3d at 1345 (noting an absence of articulated reasoning based on authority could lead to the “‘haze of so-called expertise’ acquir[ing] insulation from accountability”).



## ENZO BIOCHEM, INC. V. GEN-PROBE, INC.

By Chandra Garry

In *Enzo Biochem, Inc. v. Gen-Probe, Inc.*,<sup>1</sup> (hereinafter “*Enzo*”) the Federal Circuit concluded, as a matter of first impression, that the written description requirement for genetic material may be satisfied by reference to a deposited nucleotide sequence.<sup>2</sup> Prior to *Enzo*, the written description requirement for biotechnology inventions was satisfied solely by a description of a DNA molecule’s nucleotide sequence. The *Enzo* decision appears to relax the separate heightened written description requirement for biotechnological inventions.<sup>3</sup> However, by essentially redefining the written description standard *Enzo* creates an obscure standard specific to genus claims that will be difficult to interpret. Adding to the confusion is the possibility that the court intended to limit *Enzo* to its facts. If not limited to its facts, *Enzo* will have important consequences for written description satisfaction of all biotechnological patents having genus claims.

### I. BACKGROUND

#### A. Judicial Interpretation of the Statutory Written Description Requirement

In the United States, the patent law system promotes advances in science and technology by providing a limited monopoly to inventors in exchange for the disclosure of the invention.<sup>4</sup> 35 U.S.C. § 112 sets the standards for disclosure, including the written description requirement:

The specification shall contain a written description of the invention, and the manner and process of making and using it, in such full, clear, concise, and exact terms as to enable any person skilled in the art to which it pertains, or with which it is most nearly connected, to make and use the same, and shall set forth

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1. 296 F.3d 1316 (Fed. Cir. 2002).

2. *Id.* at 1330.

3. Many sources state that a heightened written description requirement exists for biotechnological inventions. *See, e.g.*, Robert Schulman, *Better to Describe than Provide: Fed. Cir. Adopts One-Size-Fits-All Approach to Genetic Inventions*, 3 No. Pat. Strategy & Mgmt. 1 (2002); Janice M. Mueller, *The Evolving Application of the Written Description Requirement to Biotechnological Inventions*, 13 BERKELEY TECH. L.J. 615 (1998).

4. U.S. CONST. ART. I, § 8, cl. 8.

the best mode contemplated by the inventor of carrying out his invention.<sup>5</sup>

Courts interpret § 112 as involving three discreet requirements: (1) written description, (2) enablement, and (3) best mode.<sup>6</sup>

The 1991 opinion in *Vas-Cath Inc. v. Mahurkar* (“*Vas-Cath*”) provides a leading authority on the written description requirement.<sup>7</sup> The court clarified that, while the invention is by necessity the subject matter defined by the patent claims, the separate written description requirement serves to put the public in possession of the invention by providing a truthful representation as to the scope the claimed invention.<sup>8</sup>

The court in *Vas-Cath* declared that the purpose of the written description requirement “is broader than to merely explain how to ‘make and use’; the applicant must also convey . . . that, as of the filing date sought, he or she was in possession of the invention.”<sup>9</sup> The court explained that possession was shown if the disclosure reasonably conveyed to a person of ordinary skill in the art that the applicant *possessed* the claimed invention when the patent application was filed.<sup>10</sup> The court in *Vas-Cath* thus established the “possession” test as a means to secure the priority date of the invention.<sup>11</sup>

## **B. Evolution of a Heightened Written Description Requirement and Written Description Review of Originally Filed Claims for Biotechnology Patents**

The Federal Circuit developed a heightened written description standard for biotechnology patents in cases such as *Amgen Inc., v. Chugai Pharmaceutical Co.* (“*Amgen*”) in 1991,<sup>12</sup> *Fiers v. Revel* (“*Fiers*”) in

5. 35 U.S.C. § 112 (2000).

6. *In re Rushig*, 379 F.2d 990 (C.C.P.A. 1967) (separating the written description requirement from the enablement requirement for the first time); see 3 DONALD S. CHISUM, *CHISUM ON PATENTS* § 7.01 (2001).

7. *Vas-Cath Inc. v. Mahurkar*, 935 F.2d 1555, 1560 (Fed. Cir. 1991) (providing a well-reasoned standard to be applied after reviewing the courts’ previous decisions on the written description and responding to the district court’s comment that “[u]nfortunately, it is not so easy to tell what the law of the Federal Circuit is”).

8. *Id.* at 1560-61.

9. *Id.* at 1563-64.

10. *Id.* at 1563; see also Limin Zheng, Note, *Purdue Pharma v. Faulding*, 17 BERKELEY TECH. L.J. 95, at 106-07 (2002) (“What is required to show possession is worded broadly, and the court has administered this test flexibly stating that the Federal Circuit has yet to clearly define what ‘in possession’ means.”).

11. *Vas-Cath*, *supra* note 7, at 1562-64.

12. 927 F.2d 1200 (Fed. Cir. 1991).

1993,<sup>13</sup> and *The Regents of the University of California v. Eli Lilly and Company* (“*Lilly*”) in 1997.<sup>14</sup> These cases held that for patents involving DNA, a patentee cannot support a claim to a gene by only disclosing a method of its isolation.

In *Amgen*, a case that did not turn on satisfaction of the written description requirement, the court held that proof of conception required provision of a gene sequence.<sup>15</sup> In *Fiers*, the court imported the *Amgen* standard for conception into the written description requirement, reasoning that since “a conception of a DNA requires a precise definition . . . then a [written] description also requires that degree of specificity.”<sup>16</sup> After all, one cannot describe what one has not yet conceived, and if one needs the actual nucleotide sequence to establish conception, then presumably, one also needs it to fulfill the written description requirement.<sup>17</sup> As a result, the court in *Fiers* established a DNA-specific standard for satisfaction of the written description requirement but left open other ways to claim DNA.<sup>18</sup>

In *Lilly*, the court affirmed the earlier decisions, stating that “an adequate written description of a DNA”<sup>19</sup> requires more than “a mere statement that it is part of the invention and reference to a potential method for isolating it; what is required is a description of the DNA itself.”<sup>20</sup> While *Lilly* has been interpreted by the biotechnology community to mean that *only* a nucleotide sequence for claimed DNA would satisfy written description, the court also stated that a precise written description could be provided by “structure, formula, chemical name, or physical properties.”<sup>21</sup>

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13. 984 F.2d 1164 (Fed. Cir. 1993).

14. 119 F.3d 1559, 1568 (Fed. Cir. 1997).

15. *Amgen*, 927 F.2d at 1206 (stating that conception is the “formation in the mind of the inventor, of a definite and permanent idea of the complete and operative invention, as it is hereafter to be applied in practice”).

16. *Fiers*, 984 F.2d at 1171.

17. Harris A. Pitlick, *The Mutation on the Description Requirement Gene*, 80 J. PAT. & TRADEMARK OFF. SOC'Y 209, 223 (1998) (criticizing *Fiers* for wrongly importing the conception analysis under 35 U.S.C. § 102(g), which serves a different purpose, into the written description analysis under 35 U.S.C. § 112).

18. *Fiers*, 984 F.2d at 1169-70; *Mueller*, *supra* note 3, at 624 (“Prior to *Lilly*, written description of chemical and biotechnological compounds could be described in terms of their function, properties, method of making, or any other manner sufficient to convey possession by the inventor as of the application filing date.”).

19. *Lilly*, 119 F.3d at 1566.

20. *Id.* at 1566-67 (quoting *Fiers*, 984 F.2d at 1170).

21. *Id.* at 1566. *Cf. id.* at 1569 (supporting the narrow reading by the biotechnology community because the court states that a cDNA, requires the kind of “specificity usually achieved by means of the recitation of the sequence of nucleotides that make up the cDNA”).

The court, in *Lilly*, also broadens the heightened written description for biotechnological inventions by using the DNA-specific standard of *Fiers* to invalidate, not species, but genus claims filed as part of the original patent application. The court reviewed originally filed claims, even though these claims are typically subject to a strong presumption that an adequate written description was present when the application was filed.<sup>22</sup> Written description analysis is traditionally limited to review of the specification and later amended claims for the purpose of verifying the invention's priority date.

In cases involving emerging technologies that are difficult to describe, the patentee may enjoy greater opportunity to satisfy the written description due to the more extensive review of patent materials that include originally filed claims.<sup>23</sup> However, many commentators have criticized the *Lilly* decision as unduly replacing the traditional written description standard, as a test of an invention's priority date, with a less discreet standard that instead looks to the invention as a whole.<sup>24</sup>

### C. The Patent and Trademark Office Guidelines Provide a Universal Written Description Standard

The court in *Enzo* directs the Federal Circuit to follow the U.S. Patent and Trademark Office's ("PTO") Guidelines for Examination of Patent Applications ("*Guidelines*"), in the future.<sup>25</sup> The PTO created the *Guidelines* for § 112 in response to concerns raised by *Lilly* in an attempt to resolve uncertainty about written description satisfaction in the patent community.<sup>26</sup> While the *Guidelines* do not carry the force of law, they do represent the PTO's current understanding of the statutory requirements of

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22. *Id.* at 1566-68; see Guidelines for Examination of Patent Applications under the 35 U.S.C. § 112, ¶ 1 "Written Description" Requirement, 66 Fed. Reg. 1099, 1105, available at <http://www.uspto.gov/web/offices/com/sol/notices/utilexmguid.htm> (Jan. 5, 2001) [hereinafter *Guidelines*].

23. *Lilly*, 119 F.3d at 1568 (noting that the written description requirement was still not satisfied).

24. See generally Lisa A. Karczewski, *Biotechnological Gene Patent Applications: The Implications of the USPTO Written description Requirement Guidelines on the Biotechnology Industry*, 31 MCGEORGE L. REV. 1043, 1064-5 (2000) ("Since the addition of *Lilly* to the *Fiers v. Revel* decision, scholars and commentators alike have argued that the rulings are a radical departure from traditional description requirement jurisprudence.").

25. *Enzo*, 296 F.3d at 1324-25, 1328; see *Guidelines*, *supra*, note 22.

26. See *Guidelines*, *supra* note 22 "While the *Guidelines* are meant to be technology neutral, thirteen of the eighteen examples pertain to biotechnology inventions. This reflects the PTO's recognition of the particular concerns and uncertainties faced by those seeking to patent genetic material." *Id.*

the written description, and are believed “to be fully consistent with binding precedent.”<sup>27</sup>

In the *Guidelines*, the PTO attempts to close the gap between the traditional written description requirement announced in *Vas-Cath* and the heightened written description requirement for biotechnological inventions seen in *Lilly*. For example, the *Guidelines* distinguish between mature and emerging technologies, declaring that review of original claims should not be necessary for the former, but supporting *Lilly*'s review of original claims for the latter.<sup>28</sup> Using *Vas-Cath* as a framework, the PTO has carefully incorporated precedent set by several biotechnology cases to arrive at the current version of *Guidelines*.

The court in *Enzo* made over twenty references to the PTO's *Guidelines*, each time drawing upon its support for their reasoning.<sup>29</sup> This repeated reference to the *Guidelines* to address novel issues of law may indicate their future importance for resolution of emerging biotechnology patentability concerns.<sup>30</sup>

## II. CASE SUMMARY: ENZO BIOCHEM V. GEN-PROBE

### A. Facts

Enzo Biochem, Inc. (“Enzo”) was the assignee of U.S. Patent No. 4,900,659 (“the ‘659 patent”).<sup>31</sup> The ‘659 patent involved nucleic acid probes that preferentially hybridized to, and differentiated, the genetic material of the bacteria that causes gonorrhea—*N. gonorrhoeae*—from that of a closely related bacteria—*N. meningitides*.<sup>32</sup> The claimed nucleic acid probes comprised three sequences that preferentially hybridized to six common strains of *N. gonorrhoeae* over six common strains of *N. meningitides*.<sup>33</sup> These sequences had a “preferential hybridization ratio” of greater than fifty.<sup>34</sup> *Enzo* deposited these sequences in the form of recom-

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27. *Id.* at 1104-06.

28. *Id.* at 1106; *see Lilly*, 119 F.3d at 1568 (drawing reference to the appropriateness of a distinct written description for emerging technologies, stating that “where there is unpredictability . . . one skilled in the art may be found not to have been placed in possession of a genus.”).

29. *Enzo*, 296 F.3d at 1329.

30. *See id.*

31. U.S. Patent No. 4,900,659 (issued Feb. 13, 1990) [hereinafter “the ‘659 patent”].

32. *Enzo*, 296 F.3d at 1321.

33. *Id.*

34. In reference to the ‘659 patent, col. 12, ll. 60-65, a “preferential hybridization ratio” refers to the rate at which the probe deployed in the presence of both *N. gonorrhoeae* and *N. meningitides* will bind more readily to *N. gonorrhoeae*.

binant DNA molecules within *E. coli* bacterial hosts with the American Type Culture Collection ("ATCC").<sup>35</sup>

## B. The District Court

Enzo brought suit against Gen-Probe Inc., Chugai Pharma U.S.A., Inc., Chugai Pharmaceutical Co., Ltd., Biomerieux, Inc., and Becton Dickinson and Company (collectively "Gen-Probe") in the Southern District of New York, alleging infringement of the '659 patent.<sup>36</sup> The district court granted Gen-Probe's motion for summary judgment on the basis that claims one through six were invalid for failure to meet the written description requirement.

## C. The First Federal Circuit *Enzo* Decision

On first review, the Federal Circuit affirmed the district court decision.<sup>37</sup> It followed the district court's reasoning, stating that the '659 patent claims described the functional ability of the probes to hybridize to the bacterial DNA, but did not provide the DNA's nucleotide sequence.<sup>38</sup> These functional claims for DNA, without description of the nucleotide sequence, did not satisfy the written description requirement; and deposit alone did not provide the notice required for written description.<sup>39</sup> The court reviewed the originally filed claims, and decreased the importance of the traditional possession test of *Vas-Cath* by declaring that merely showing possession of the invention at the time of filing a patent did not, by itself, satisfy written description.<sup>40</sup>

## D. Federal Circuit Review and Reversal on Rehearing

On grant of petition for rehearing, the Federal Circuit reversed and remanded its earlier decision.<sup>41</sup> The court held that reference in a patent to a deposit in a public depository could satisfy the written description requirement as a matter of law.<sup>42</sup> The court emphasized that the access pro-

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35. *Enzo*, 296 F.3d at 1321.

36. *Enzo Biochem, Inc. v. Gen-Probe, Inc.*, No. 99 Civ. 4548 (S.D.N.Y. Apr. 4, 2001).

37. *Enzo Biochem, Inc. v. Gen-Probe, Inc.*, 285 F.3d 1013 (Fed. Cir. 2002).

38. *Id.* at 1018.

39. The notice function serves to make public the invention so as to ascertain if the patentee claims any thing that is in common use, or is already known. *Id.* at 1023.

40. *Id.* at 1020 ("The appearance of the words of the claim in the specification or as an original claim does not necessarily satisfy that requirement.").

41. *Enzo Biochem, Inc. v. Gen-Probe, Inc.*, 296 F.3d 1316 (Fed. Cir. 2002).

42. *Id.* at 1320 ("[U]nder the *Guidelines*, the written description requirement would be met for all of the claims . . . if the functional characteristic of preferential [hybridiza-

vided to the public by the deposit was critical to the reversal of its earlier decision, particularly because the invention was not otherwise available in written form.<sup>43</sup> Similar to its earlier decision, however, the court reviewed originally filed claims for satisfaction of written description and held that a showing of possession was not central to written description satisfaction.<sup>44</sup>

In addition, the court in *Enzo* differentiated broader and narrower genus claims and made suggestions as to how the court may resolve genus claim disputes in the future. For the narrower genus claims which incorporate reference to the ATCC deposits, the court declared that a showing of possession is still required for written description satisfaction.<sup>45</sup> For the broader genus claims, however, the court declared that a showing of possession is not central for determination of satisfaction of the written description requirement.<sup>46</sup> Instead, for these broader genus claims, the court declared that a written description indicating that the patentee "has invented species sufficient to constitute the genera" is of paramount importance.<sup>47</sup> Ultimately, the court directed future decisions involving each of these disputed genus claims to be made in accordance with the precedent set by both the court and the PTO's *Guidelines*.<sup>48</sup>

### III. DISCUSSION

*Enzo* is the first Federal Circuit decision to hold that reference to a biological deposit may satisfy the written description requirement, even when a nucleotide sequence is not specified for the claimed genetic invention.<sup>49</sup> Prior to *Enzo*, a written description for a genetic invention could not be satisfied without provision of a detailed nucleotide sequence. The court recognized that the decision changed precedent when it commented that the district court "clearly understood and correctly applied this courts ex-

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tion] . . . were coupled with a disclosed correlation between that function and a structure that is sufficiently known or disclosed.").

43. *Id.* at 1325.

44. *Id.* at 1328, 1330.

45. *Id.* at 1327 (regarding "claims 4 and 6 . . . on remand, the court should determine whether a person of skill in the art would glean from the written description, including information . . . sufficient to demonstrate possession of the generic scope of the claims").

46. *Enzo*, 296 F.3d at 1329 (referring to claims 1-3, and 5).

47. *Id.* at 1327.

48. *Id.* at 1327-28.

49. *Id.*

isting precedent.”<sup>50</sup> In the course of its departure from precedent, the court effectively redefines what is necessary for satisfaction of the written description.

A conservative reading of *Enzo* is supported by the Federal Circuit’s recent suggestion that holdings such as *Enzo*’s and *Lilly*’s, may be strictly limited to novel issues of law where the claims deal with new and unknown biological materials, where ordinarily skilled artisans might easily miscomprehend.<sup>51</sup> Thus, while it may first appear that the Federal Circuit is relaxing the heightened written description requirement for biotechnological inventions,<sup>52</sup> any such relaxation may be strictly limited by both “the time of *Enzo*’s invention,”<sup>53</sup> and the specific facts of the case, as “the written description . . . [inquiry] will necessarily vary depending on the nature of the invention claimed.”<sup>54</sup> Nonetheless, the process used by the court to arrive at the decision in *Enzo* may have significant consequences for satisfaction of the written description for biotechnological inventions.

The court, in *Enzo*, created an obscure standard that will be difficult for subsequent courts to interpret. In *Enzo*, the court held, as a matter of law, that the genus claims to a genetic invention may be adequately described by reference to a deposit. However, the court then distinguished between broader and narrower genus claims, rendering a different standard for satisfaction of each class.<sup>55</sup> The court instructed that the narrower genus claims that include reference to the patentee’s deposits must still demonstrate a showing of possession of the claimed invention. In contrast, broader genus claims, regardless of any showing of possession, must be affirmatively described by an adequate number of species to claim the genus, although the court does not specify a number that would be adequate.<sup>56</sup> The court remands all the claims with the instruction that satisfac-

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50. *Id.* at 1330; see also Harold C. Wegner, *When a Written Description Is Not A “Written Description”*: *When Enzo Says It’s Not*, 12 Fed. Circuit B.J. 271 (2002) (“The panel [in *Enzo*] had no choice: only several months before its original denial of ATCC deposits, the Supreme Court . . . had blessed the patent-eligibility of new seeds under 35 U.S.C. § 101 where the very same method was used to identify the invention.”) (referring to *J.E.M. AG Supply, Inc. v. Pioneer Hi-Bred International, Inc.*, 534 U.S. 124, 142 (Sup. Ct. 2001)).

51. See *Amgen Inc. v. Hoechst Marion Roussel, Inc.*, 314 F.3d 1313, 1332 (Fed. Cir. 2003).

52. Many sources state that a heightened written description requirement exists for biotechnological inventions. See e.g., *Mueller, supra*, note 3.

53. *Enzo*, 296 F.3d at 1328.

54. *Id.* at 1324.

55. See *id.* at 1326-28.

56. *Id.* at 1327, 1329.

tion of the written description be determined in agreement with the PTO's *Guidelines*. Ultimately, the Federal Circuit refuses rehearing en banc, leaving many questions unresolved.

#### A. **Enzo Does Not Relax, but Redefines the Written Description Requirement For Broader Genus Claims**

In *Enzo*, the court redefined the written description requirement for the broader genus claims without giving a clear reason. First, the court, following *Lilly*, reviewed originally filed claims for satisfaction of the written description requirement. Second, the court declared that a showing of possession is not required to prove written description satisfaction.<sup>57</sup> However, the court's redefinition of these two written description criteria may be the direct result of a lack of dispute in *Enzo* over either the invention's priority date, or the fact that the inventor undoubtedly "possessed" the invention.

The court in *Enzo* declared that a showing of possession was not critical for satisfaction of the written description requirement for genus claims.<sup>58</sup> In sharp contrast, the court in *Lilly* demanded a showing of possession, through recitation of a number of nucleotide sequences, for genus claims.<sup>59</sup> Similarly, the *Guidelines* instruct that possession is a factual determination of high importance for finding satisfaction of the written description.<sup>60</sup> There are two possible reasons that may explain why the *Enzo* court deviated from case law.

One such reason stems from *Enzo*'s own procedural history. The Federal Circuit's first review of *Enzo*, necessitated the elimination of the traditional possession test in order to hold that the patentee failed to satisfy the written description requirement, because the *Enzo* patentee's possession of the claimed invention was not disputed. This first holding goes against both case precedent and the *Guidelines*, as these teach that a showing of possession is determinative of written description satisfaction. On second review, the Federal Circuit, though reversing their previous holding, maintained this position from the earlier decision, declaring that *Vas-Cath*, the case that established the possession test for satisfaction of written description, did not explicitly "state that possession alone is always sufficient."<sup>61</sup>

Another explanation, indirectly suggested by the court, was that proof of possession may be irrelevant, or "ancillary," where disputes do not con-

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57. *Id.* at 1330.

58. *Enzo*, 296 F.3d at 1329.

59. *Lilly*, 119 F.3d at 1568.

60. *Guidelines*, *supra* note 22, at 1105-06.

61. *Enzo*, 296 F.3d at 1329.

cern the invention's priority date.<sup>62</sup> Such a reading meshes well with *Vas-Cath*, as proof of possession originally served primarily as a test of entitlement of later filed claims to an earlier priority date.<sup>63</sup> While *Enzo* fundamentally changes the written description inquiry by lessening the importance of the possession test, the court does not restrict making ancillary use of the possession test in only those cases not involving priority disputes. As a result, it is more likely that the possession test may be disengaged from its original purpose, as a test of priority, in future disputes.

The court in *Enzo*, in addition to dismissing the importance of the possession test, also followed *Lilly*'s holding by declaring that it may strike down originally filed claims.<sup>64</sup> However, the court in *Enzo* actually built upon *Lilly*, declaring that it may strike down original claims, even when they appear in *ipsis verbis*—identical words appear in the claims and in the specification—when neither the specification nor the claim itself sufficiently describes the claimed invention.<sup>65</sup> Traditionally, even amended claims added during prosecution satisfied written description so long as the claim language appeared in *ipsis verbis*. However, *Enzo*'s written description review of originally filed claims is controversial only in part because previous cases did not allow it.

While the court's written description review of originally filed claims is not blocked by statute, precedent, or even the Guidelines, an additional consideration is urged by many commentators.<sup>66</sup> These commentators argue that it is well-established that allowing judges to scrutinize claims in order to analyze the invention in its entirety is contrary to principles of modern claim construction, because hindsight judicial assessment may be less trustworthy.<sup>67</sup> Despite any such risks, the court's review of originally

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62. *Id.* at 1329-30; see also *Enzo Biochem, Inc. v. Gen-Probe, Inc.*, 42 Fed. Appx. 439, 457 (Linn, J., dissenting) (agreeing with the majority that a showing of possession alone, "was not and should not be a test for sufficiency of disclosure, per se").

63. *Vas-Cath*, 935 F.2d at 1563-64.

64. *But see* *In re Alton*, 76 F.3d 1168 (Fed. Cir. 1996) (deciding that original claims failed to satisfy written description, more than a year before *Lilly*).

65. *Enzo*, 296 F.3d at 1328.

66. See *Wegner*, *supra* note 50 ("Congress did not explicitly limit the statute to prevent review of originally filed claims."); Zhibin Ren, *Confusing Reasoning, Right Result: The Written Description Requirement and Regents of the University of California & Eli Lilly Company*, 1999 WISC. L. REV. 1297 at 1312-13.

67. See e.g., Mark D. Janis, *On Courts Herding Cats: Contending with the "Written description" Requirement (and Other Unruly Patent Disclosure Doctrines)*, 2 WASH. U. J.L. & POL'Y 55, 76-77 (2000) ("The same danger is present when a court is free to dissect a disclosure into those individual components deemed essential and those deemed non-essential.").

filed claims appearing in *ipsis verbis* for written description satisfaction makes such review more likely in the future.

In *Enzo*, the written description standard for broad genus claims is redefined in two critical, though perhaps complementary, ways, as both render the standard ultimately reached by the court harmonious with the fact that neither priority nor possession was actually disputed in *Enzo*. Although the court deviates far from the written description standard established by *Vas-Cath* in making the once central possession test "ancillary," the purpose of showing possession to prove priority was simply not necessary in *Enzo*.<sup>68</sup> This is because originally filed claims were undergoing written description review, and originally filed claims provide presumptive proof as to their own priority.<sup>69</sup> Ultimately, the court in *Enzo* suggested that the redefined the written description requirement for genus claims to DNA be considered in accordance with the *Guidelines*.<sup>70</sup>

### B. Future Influence of the PTO Guidelines for Genus Claims

The Guidelines provide direct support for the holding in *Enzo*. The Guidelines explicitly state that description "may be shown by specifically describing a deposit," and declare that there is no basis for a per se rule requiring disclosure of complete DNA sequences, or limiting DNA claims to only the sequence disclosed.<sup>71</sup> The court in *Enzo* orders upcoming decisions to be made in compliance with the *Guidelines*, thus giving them judicial weight in future written description controversies.<sup>72</sup> Due to the fact that the *Guidelines* provide needed scientific expertise, the Federal Circuit will likely reference the *Guidelines* when considering novel issues of law.<sup>73</sup>

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68. See *Enzo Biochem, Inc. v. Gen-Probe, Inc.*, 42 Fed. Appx. 439 (Linn, J., dissenting).

69. *Enzo*, 296 F.3d at 1329 (declaring that a claim does not become more descriptive by its repetition or its longevity).

70. *Id.* at 1328.

71. *Guidelines*, *supra* note 22, at 1106 (stating that there is no basis for a per se rule requiring disclosure of complete DNA sequences or limiting DNA claims to only the sequence disclosed).

72. *Enzo*, 296 F.3d at 1328 (guiding the future court to consider the Guidelines in order to decide as a matter of law whether the written description supported Enzo's genus claims, 1-3, and 5, which were directed not only to the deposited sequences, but also to mutations of those sequences).

73. *Id.* at 1324.

### C. The Decision in *Enzo* May Be Limited For Biotechnological Inventions

#### 1. *Enzo* Does Not Allow Purely Functional Claims to Substitute for Provision of a DNA Sequence

The court in *Enzo* does not allow purely functional claims to satisfy written description for genetic inventions. While it is true that the court in *Lilly* did not declare that all functional descriptions of genetic material necessarily fail, as a matter of law, to meet the written description requirement, the court did stress the need for “a precise definition, such as by structure.”<sup>74</sup> The court’s position in *Enzo*, which is supported by *Lilly* and the *Guidelines*, is that the written description requirement may be satisfied if one of skill in the art finds the disclosed function *sufficiently correlated* to a particular, known structure.<sup>75</sup>

Thus, the court in *Enzo*, upon review of essentially functional claims, implicitly relied upon the baseline rule in *Lilly* that disclosure of a structure was, though perhaps to a lesser degree, still required for written description satisfaction.<sup>76</sup> Any supposed relaxation of the written description requirement must be considered in light of the fact that *Enzo*’s invention, by inclusion of a reference to an accessible deposit, did not rest on purely functional claims. Instead, it should be recognized that in *Enzo*, the court emphasized the importance of access to the deposits by a person of skill in the art.<sup>77</sup> Consequently, the written description requirement is satisfied by functional claims that include reference deposits; deposits that inherently disclose structures correlated to their function.<sup>78</sup>

#### 2. *Enzo* May Be Strictly Limited To Its Unique Facts

It appears that the Federal Circuit may have relaxed the written description requirement set forth in *Lilly* by taking account the state of the art at the time the application was filed. The *Enzo* decision noted difficulties faced by those “of skill in the art” in 1986 to obtain the nucleotide se-

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74. *Id.*

75. *Id.* at 1324 (emphasis added); see *Guidelines*, *supra* note 21, at 1106 (stating that an invention may be described by “functional characteristics when coupled with a known or disclosed correlation between function and structure”).

76. *Id.* at 1324.

77. *Id.* at 1326 (“[R]eading the accession numbers in the patent specification, [a person of skill in the art] can obtain the claimed sequences from the ATCC depository by following the appropriate techniques to excise the nucleotide sequences from the deposited organisms containing those sequences.”).

78. Dan L. Burk & Mark A. Lemley, *Is Patent Law Technology-Specific?*, 17 BERKELEY TECH. L.J. 1155, 1177-78 (2002).

quences of claimed DNA. The court recognized that in 1986 "it would take 3,000 scientists one month to sequence the genome of one strain of *N. gonorrhoeae* and one strain of *N. meningitides*."<sup>79</sup> Because the inventor could not have reasonably obtained the nucleotide sequence, they were more or less excused from doing so to meet the written description requirement.<sup>80</sup> The court states in the case of biological inventions for which providing a description in written form is not practicable, one may nevertheless comply by publicly depositing.<sup>81</sup>

*Enzo* is exceptional because, on the whole, the Federal Circuit continues to appear indifferent to the level of certainty in the art at any particular time, preferring instead a standard based on structural precision that ignores the state of technology.<sup>82</sup> For example, the court in *Lilly* demanded provision of a nucleotide sequence for satisfaction of the written description requirement for claims to DNA for an application filed in 1977.<sup>83</sup> Indeed, it was not until 1977 that the method of sequencing DNA was even published, and even then it was highly unpredictable.<sup>84</sup> The exceptional consideration granted to *Enzo*, and its incongruity with prior Federal Circuit treatment of claims to genetic material, supports a reading that the *Enzo* decision will be strictly limited to its facts.

Even presuming that the Federal Circuit, after *Enzo*, continues to demonstrate sensitivity to the state of the art at the time of the invention, *Enzo* will still be less useful to later applicants, and useless to current applicants wishing to rely on a deposit alone to satisfy the written description requirement. This is because the court's recognition of the state of the art in 1986 would be updated to the post-1986, and current, skill in the art. Today a patentee can reasonably obtain nucleotide sequences of DNA, making deposit for satisfaction of the written description superfluous. For all the above reasons, the holding in *Enzo* will be not likely affect later issued patents.

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79. *Enzo*, 296 F.3d at 1328.

80. *Id.*

81. *Id.* at 1330.

82. Burk & Lemley, *supra* note 78, at 1194 ("The court has maintained its assumption that biotechnology is an uncertain art long after the industry began to mature.").

83. *Lilly*, 119 F.3d 1559.

84. *Enzo*, 42 Fed. Appx. at 439 ("In 1977, biotechnology was still in its infancy. In fact, the Maxam and Gilbert method of sequencing DNA was just published in 1977. Cloning in that era was, at a minimum, unpredictable and would have required vast amounts of experimentation.").

### 3. *Enzo May Be Distinguished On Scientific Basis From Other Biotechnology Written Description Cases*

The functional claims at issue in *Enzo* may be distinguished from those in *Amgen*, *Fiers*, and *Lilly*, because *Enzo*'s claims are to probes. The utility of these probes rests in the inherent hybridization capability of the claimed DNA.<sup>85</sup> One of skill in the art may effectively make full use of probes without knowing their nucleotide sequence. In contrast, each of the other cases dealt with generic claims to proteins encoded by genes. For one of skill in the art to make full and independent assessment of a gene's utility, the disclosure of a nucleotide sequence is required. Thus, the claims at issue in *Amgen*, *Fiers*, and *Lilly* may be differentiated from the claims in *Enzo* by their effective utility.<sup>86</sup> If directly confronted with this issue, the Federal Circuit may make the written description requirement truly fact-specific, treating claims to genes differently than claims to probes.

## IV. CONCLUSION

The Federal Circuit in *Enzo* decided for the first time that the written description requirement may be satisfied by a biological deposit.<sup>87</sup> At first glance, it appears that *Enzo* lowers the written description standard applied by the court in *Lilly*, as deposit seems an easy way to satisfy the written description requirement. Any such lowering of the written description standard, however, is by and large illusory. The decision in *Enzo* will likely be strictly limited to its facts. If not limited to its facts, the court's redefined written description is not sufficiently explained by the court so as to provide an easily workable standard for future decisions.

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85. *Enzo*, 296 F.3d at 1323 (citing an *Enzo* attorney's argument, which raises this point).

86. *Lilly*, 119 F.3d 1559 (claiming recombinant DNA plasmids and microorganisms relating to the production of human insulin); *Fiers*, 984 F.2d 1164 (claiming DNA coding for a protein that promotes viral resistance in human tissue); *Amgen*, 927 F.2d 1200 (claiming DNA sequences encoding purified and isolated human erythropoietin, a glycoprotein which stimulates red blood cell production).

87. *Enzo*, 296 F.3d at 1330.

**JOHNSON & JOHNSTON ASSOCIATES, INC. V.  
R.E. SERVICE CO.**

*By Ashita Doshi*

The patent system promotes the progress of science by rewarding inventors with a limited monopoly in exchange for public disclosure of their inventions.<sup>1</sup> Public disclosure stimulates further innovation and enables others to practice an invention once the patent expires.<sup>2</sup> A controversial doctrine in patent law called the “dedication rule” deems that subject matter disclosed in the specification but falling outside the literal scope of the claims is dedicated to the public.<sup>3</sup> Although this doctrine imposes a sometimes harsh burden on patent drafters to claim all disclosed subject matter, the dedication rule ensures that the claims of a patent provide clear and explicit notice of the full scope of the patented invention.

In the recent decision of *Johnson & Johnston Associates, Inc. v. R.E. Service Co.*,<sup>4</sup> an *en banc* panel of the Federal Circuit overruled its own precedent,<sup>5</sup> concluding that the dedication rule should be strictly applied. This Note analyzes the impact of this decision on the practice of patent law, and concludes that the benefits of a strict application of the dedication rule outweigh the costs. While the *Johnson* court did not specifically define criteria for determining what “disclosed” subject matter may be, this Note proposes that the dedication rule should extend only to explicitly disclosed subject matter. Otherwise, application of the dedication rule to implicitly disclosed subject matter would nullify the increased clarity gained by *Johnson*’s strict application.

1. U.S. CONST. art. I, § 8, cl. 8.

2. *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257, 262 (1979).

3. *See, e.g.*, 2 DONALD S. CHISUM, CHISUM ON PATENTS § 6.03[3] (1998).

4. 285 F.3d 1046 (Fed. Cir. 2002).

5. *See, e.g.*, *YBM Magnex v. Int’l Trade Comm’n*, 145 F.3d 1317, 1320 (Fed. Cir. 1998) (“The Supreme Court’s guidance . . . does not permit the blanket rule that everything disclosed but not claimed is barred from access to the doctrine of equivalents, whatever the facts, circumstances, and evidence.”).

## I. BACKGROUND

### A. The Dedication Rule Upholds the Notice Function of the Claims

Under 35 U.S.C. § 112, a patent applicant must “particularly point out and distinctly claim” what she considers to be her invention.<sup>6</sup> By defining the boundaries of the invention the patentee wishes to protect, the claims notify the U.S. Patent and Trademark Office (“PTO”) of an invention’s desired scope, thus guiding the PTO examiner’s determination of its patentability.<sup>7</sup> The claims also notify the public of the invention’s scope, so that competitors can avoid infringing activity and legitimately “design around” inventions.<sup>8</sup>

The “dedication rule” is a judicially created doctrine that denies patent protection to subject matter that is disclosed in the patent, but left unclaimed,<sup>9</sup> forcing such matter into the public domain instead. Like § 112, the dedication rule helps ensure that the claims, rather than the specification, notify the public and the PTO of the full scope of an invention.<sup>10</sup> By barring an applicant from capturing disclosed but unclaimed subject matter as an equivalent, the dedication rule safeguards against a tactic known as “back-door patenting,” where an applicant narrowly claims an invention, in order to avoid examination of broadly disclosed, but unclaimed, subject matter.<sup>11</sup>

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6. 35 U.S.C. § 112 (2000).

7. *See, e.g.*, *Keystone Bridge Co. v. Phoenix Iron Co.*, 95 U.S. 274, 278 (1877) (“[T]he courts have no right to enlarge a patent beyond the scope of its claim as allowed by the Patent Office, or the appellate tribunal to which contested applications are referred.”); *Johnson*, 285 F.3d at 1055 (“By enforcing the *Maxwell* rule, the courts avoid the problem of extending the coverage of an exclusive right to encompass more than that properly examined by the PTO.”).

8. *See, e.g.*, *Merrill v. Yeomans*, 94 U.S. 568, 573-74 (1877) (“It seems to us that nothing can be more just and fair, both to the patentee and to the public, than that the former should understand, and correctly describe, just what he has invented, and for what he claims a patent.”).

9. *See* *Miller v. Bridgeport Brass Co.*, 104 U.S. 350, 352 (1881) (concluding that unclaimed but disclosed subject matter is dedicated to the public).

10. *See* *Mahn v. Harwood*, 112 U.S. 354, 361 (1884) (“[T]he claim actually made operates in law as a disclaimer of what is not claimed; and of all this the law charges the patentee with the fullest notice.”).

11. *See, e.g.*, *Genentech, Inc. v. Wellcome Found. Ltd.*, 29 F.3d 1555, 1564 (Fed. Cir. 1994).

## B. Origin of the Dedication Rule Within a Patent Reissue Context

The Supreme Court first articulated the dedication rule within a reissue context over a century ago, in *Miller v. Bridgeport Brass Co.*<sup>12</sup> The *Miller* court held invalid a reissued patent claiming a lamp design that included a chimney element, because the original patent claims did not include a chimney element and the specification described a lamp with the stated advantage of lacking a chimney.<sup>13</sup> Noting that the originally unclaimed chimney element had been not only disclosed, but also disparaged, in the specification, the Court held that “the claim of a specific device or combination, and an omission to claim other devices or combinations apparent on the face of the patent, are, in law, a dedication to the public of that which is not claimed.”<sup>14</sup>

A few years later, the Supreme Court affirmed the “Miller rule,” and invalidated another reissued patent, in *Mahn v. Harwood.*<sup>15</sup> However, unlike the *Miller* court, the *Mahn* court relied on the notice function of the claims, instead of the patentee’s subjective intentions, in deciding to invalidate the patent.<sup>16</sup> The Court provided little guidance on when the rule should be applied, if at all, outside of the reissue context.<sup>17</sup> Since there seemed to be no compelling reason to confine the rationale of the dedication rule to the reissue context,<sup>18</sup> it was only a matter of time before the rule was used to cabin the doctrine of equivalents as well.

## C. Application of the Dedication Rule to the Doctrine of Equivalents

An infringer can essentially copy an invention, yet avoid literal infringement of the patent claims through the addition of insubstantial

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12. 104 U.S. at 350.

13. *Id.* at 350-51.

14. *Id.* at 352. This rationale suggests that the dedication rule arose as an offshoot of the doctrine of abandonment, which recognizes that an inventor may, through his own actions or inaction, forego his patent rights on an invention. See Mark V. Hurwitz, Note, *YBM Magnex v. International Trade Commission*, 14 BERKELEY TECH. L.J. 191, 194 (1999).

15. 112 U.S. 354 (1884).

16. *Id.* at 355-57. *Mahn* involved an application for a broadening reissue filed four years after the patent originally issued. The Supreme Court held that a delay of more than two years was presumptively unreasonable, unless special circumstances existed, because the public reasonably believed that unclaimed matter was public, and the patentee by her delay had implicitly acquiesced to this belief. *Id.*

17. See Scott R. Boalick, Comment, *The Dedication Rule and the Doctrine of Equivalents: A Proposal for Reconciliation*, 87 GEO. L.J. 2363 (1999).

18. *Id.*

changes, thus obeying the letter but not the spirit of the patent laws.<sup>19</sup> To safeguard against such copying, the judicially created “doctrine of equivalents” extends patent protection beyond the literal scope of the claims, to cover devices that differ insignificantly from the patented invention.<sup>20</sup> It thus provides some protection against nonliteral infringement, but at the cost of introducing some uncertainty into the patent system.<sup>21</sup> In allowing patent protection to extend to devices that are not literally claimed, the doctrine of equivalents conflicts with the requirement of 35 U.S.C § 112.<sup>22</sup>

The Federal Circuit has repeatedly emphasized that the doctrine of equivalents should be applied with deference to the principle that the claims notify the public of the full scope of the invention.<sup>23</sup> In *Johnson*, the Federal Circuit’s affirmance of the dedication rule as a bar to the doctrine of equivalents upholds this view. In reaching its decision in *Johnson*, the Federal Circuit received little guidance from the Supreme Court’s prior rulings, which failed to definitively accept or reject the dedication rule as a limitation on the doctrine of equivalents.

In their dissents in *Graver Tank & Manufacturing Co. v. Linde Air Products Co.*,<sup>24</sup> Justices Black and Douglas were the first to suggest that the dedication rule should bar application of the doctrine of equivalents.<sup>25</sup> The central issue in *Graver Tank* turned on whether a welding blend containing manganese silicate infringed a patent that covered welding blends

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19. See, e.g., *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, 122 S. Ct. 1831, 1833 (2002) (“If patents were always interpreted by their literal terms, their value would be greatly diminished. Insubstantial substitutes for certain elements could defeat the patent, and its value to inventors could be destroyed by simple acts of copying.”).

20. See, e.g., *Winans v. Denmead*, 56 U.S. 330 (1853).

21. See, e.g., *Festo*, 122 S. Ct. at 1833 (“Each time the Court has considered the doctrine of equivalents, it has acknowledged this uncertainty as the price of ensuring the appropriate incentives for innovation, and it has affirmed the doctrine over dissents that urged a more certain rule.”).

22. 35 U.S.C. § 112 (2002) (requiring that patent claims define the scope of an invention).

23. See, e.g., *Conopco, Inc. v. May Dep’t Stores Co.*, 46 F.3d 1556, 1562 (Fed. Cir. 1994) (“The doctrine of equivalents cannot be used to erase meaningful structural and functional limitations of the claim on which the public is entitled to rely in avoiding infringement.”); *Charles Greiner & Co. v. Mari-Med Mfg., Inc.*, 962 F.2d 1031, 1036 (Fed. Cir. 1992) (“Most important, however, a court must, in applying the doctrine, avoid significant conflict with the fundamental principle that claims define the limits of patent protection.”).

24. 339 U.S. 605 (1950).

25. *Id.* at 614, 618 (Black, J. & Douglas, J., dissenting) (“[T]he function of claims . . . is to exclude from the patent monopoly field all that is not specifically claimed, whatever may appear in the specifications. . . . Manganese silicate . . . was disclosed in the application and then excluded from the claims. It therefore became public property.”).

containing alkaline earth metal silicates.<sup>26</sup> The patent's specification disclosed nine metal silicates, including manganese silicate,<sup>27</sup> but only claimed blends containing silicates of alkaline earth metals, which are similar to but distinct from manganese silicate. Thus, the allegedly infringing welding blend infringed only if the Court found manganese silicate to be an equivalent of alkaline earth metal silicates.

Under the "particular circumstances" of the case, and in view of prior art teaching the use of manganese in welding blends, the majority in *Graver Tank* found that the accused blend differed insubstantially from the claimed invention, and thus infringed under the doctrine of equivalents.<sup>28</sup> The majority emphasized that a finding of equivalence cannot be a "prisoner of formula," and must be determined "against the context of a patent, the prior art, and the particular circumstances of the case."<sup>29</sup> Even though manganese silicate was disclosed in the specification, the majority did not apply, or even address, the dedication rule.<sup>30</sup> In contrast, Justices Black and Douglas, in separate dissents, argued that the dedication rule barred the patentee from asserting that manganese silicate infringed through equivalence, since it was disclosed but unclaimed.<sup>31</sup>

In *Warner-Jenkinson Co. v. Hilton Davis Chemical Co.*,<sup>32</sup> the Supreme Court dealt indirectly with the dedication rule as a limitation on the doctrine of equivalents. In *Warner-Jenkinson*, the Court considered a suggestion that equivalents should be limited to those known at the time of patent issuance, or alternatively, to subject matter actually disclosed in the patent.<sup>33</sup> The Court stated that since it had decided to reject the argument that equivalency should be limited to already known equivalents; therefore, it "necessarily reject[ed] the more severe proposition that equivalents must not only be known, but must also be actually disclosed in the patent."<sup>34</sup> This language could be interpreted as suggesting that equivalents may, but need not, be disclosed in the specification, which would contradict the dedication rule.

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26. *Id.* at 606-12.

27. U.S. Patent No. 2,043,960, col. 3, ll. 62-72 (issued June 9, 1936) [hereinafter "the '960 patent"].

28. *Graver Tank*, 339 U.S. at 610.

29. *See id.* at 609-10.

30. *See id.* at 609-12.

31. *See id.* at 614, 618.

32. 520 U.S. 17 (1997).

33. *Id.* at 21-22.

34. *Id.* at 37.

With little guidance from the Supreme Court, the Federal Circuit has inconsistently applied the dedication rule to disclosed but unclaimed equivalents.<sup>35</sup> The decision in *Maxwell v. J. Baker, Inc.*<sup>36</sup> represented the high watermark in the Federal Circuit's affirmation of the rule's preclusive effect on the doctrine of equivalents. *Maxwell* involved a patent that disclosed two alternative means for connecting a pair of shoes, the first being a tab stitched into the top seam of the shoe, the second being a tab stitched between the soles.<sup>37</sup> The patentee claimed only the second embodiment.<sup>38</sup> A jury found that the defendant's use of the disclosed but unclaimed embodiment infringed under the doctrine of equivalents.<sup>39</sup> On appeal to the Federal Circuit, the defendant argued that such disclosed but unclaimed subject matter was dedicated to the public.<sup>40</sup> Agreeing with the defendant, the Federal Circuit reasoned that allowing a patentee to assert disclosed but unclaimed subject matter, as an equivalent of claimed subject matter, would simply encourage a patent applicant to disclose broadly in the specification, and file narrow claims, to avoid examination of broader claims supported by the specification.<sup>41</sup>

Only two years after *Maxwell*, the Federal Circuit flatly rejected the dedication rule in *YBM Magnex v. International Trade Commission*.<sup>42</sup> This case involved an appeal from a finding that magnet alloys having an oxygen content below 6,000 ppm infringed a patent claiming a magnetic alloy with 6,000 to 35,000 ppm oxygen, under the doctrine of equivalents.<sup>43</sup> Citing the dedication rule in *Maxwell*, the alleged infringer argued that the disclosure in the specification of unclaimed magnetic alloys having an oxygen content below 6,000 ppm precluded a finding of infringement under the doctrine of equivalents.<sup>44</sup> Finding infringement through equivalence, the Federal Circuit distinguished *Maxwell* as a case limited to circumstances in which the applicant's unclaimed embodiment was unrelated

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35. The court applied the dedication rule to the doctrine of equivalents in *Sage Products, Inc. v. Devon Industries, Inc.*, 126 F.3d 1420 (Fed. Cir. 1997), in the concurring opinion in *International Visual Corp. v. Crown Metal Manufacturing Co.*, 991 F.2d 768 (Fed. Cir. 1993), and in *Unique Concepts v. Brown*, 939 F.2d 1558 (Fed. Cir. 1991)

36. 86 F.3d 1098 (Fed. Cir. 1996).

37. U.S. Patent No. 4,624,060, col. 2, l. 42 (issued Nov. 25, 1986).

38. *Id.*

39. *Maxwell v. J. Baker, Inc.*, 875 F. Supp. 1371 (D. Minn. 1995).

40. *Maxwell*, 86 F.3d at 1106.

41. *Id.*

42. 145 F.3d 1317 (Fed. Cir. 1998).

43. *Id.* at 1318.

44. *Id.*

and “distinct” from the claimed embodiment.<sup>45</sup> The court reasoned that a broader interpretation of *Maxwell* would be inconsistent with the Supreme Court precedent in *Graver Tank* and *Warner-Jenkinson*.<sup>46</sup> The court also cited several Federal Circuit cases, predating *Maxwell*, that recognize infringement of disclosed but unclaimed equivalents.<sup>47</sup> In conclusion, application of the dedication rule remained highly uncertain in view of the Federal Circuit’s conflicting precedent at the time *Johnson* came before the court.

## II. CASE SUMMARY

### A. Facts And Procedural Posture

Plaintiff Johnson owned U.S. Patent No. 5,153,050 (hereinafter “the ‘050 patent”),<sup>48</sup> relating to the manufacture of printed circuit boards, which contain thin sheets of copper foil sandwiched between “sheets of a dielectric (nonconductive) resin-impregnated material called ‘preg.’”<sup>49</sup> The invention involved adhering the fragile copper foil to a stiffer substrate sheet of aluminum, to prevent damage to the copper foil during manual handling, after which the aluminum could be removed.<sup>50</sup> The patent claims referred only to an aluminum substrate, the specification disclosed that aluminum was preferred, but “other metals, such as stainless steel or nickel alloys” might be used.<sup>51</sup>

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45. *Id.* at 1320 (noting that the Federal Circuit denied Maxwell protection of the unclaimed embodiment “in view of the distinctness” of the unclaimed and claimed embodiments).

46. *Id.* at 1321. The Federal Circuit noted that the *Graver Tank* court sustained the district court’s finding that the disclosed but unclaimed subject matter constituted an infringing equivalent. The court also cited the *Warner-Jenkinson* court’s statement that “the Court rejected the more severe proposition that equivalents must not only be known, but must be actually disclosed in the patent in order for such equivalents to infringe upon the patent.” *Id.* The *YBM* court concluded that the Court, in recognizing that equivalents are not limited to what is disclosed in the patent, necessarily recognized that equivalents may indeed be disclosed in the patent. *Id.*

47. *Id.* (citing *Miller v. Bridgeport Brass Co.*, 104 U.S. 350, (1881); *Pall Corp. v. Micron Separations, Inc.*, 66 F.3d 1211 (Fed. Cir. 1995); *Miles Labs., Inc. v. Shandon Inc.*, 997 F.2d 870 (Fed. Cir. 1993); *Unique Concepts, Inc. v. Brown*, 939 F.2d 1558 (Fed. Cir. 1991); and *Uniroyal, Inc. v. Rudkin-Wiley Corp.*, 939 F.2d 1540 (Fed. Cir. 1991)).

48. U.S. Patent No. 5,153,050 (issued Aug. 4, 1992) [hereinafter “the ‘050 patent”]

49. *Johnson & Johnston Assoc., Inc. v. R.E. Serv. Co.*, 285 F.3d 1046, 1048 (Fed. Cir. 2002).

50. *Id.* at 1049.

51. The ‘050 patent, col. 5, ll. 5-8.

Defendants R.E. Service Co. and Mark Frater (collectively RES) manufactured circuit boards using copper adhered to a steel substrate, as disclosed but unclaimed in the '050 patent. In an earlier litigation, Johnson filed suit alleging infringement against RES. Although a jury found infringement, and the court enforced this judgment against RES in contempt proceedings, both parties decided to settle outside of court instead. Johnson later filed a second suit of infringement against RES, and the district court granted RES's motion requesting that the claim term "aluminum" be construed to refer only to commercial grade aluminum.<sup>52</sup> Since such a construction automatically precluded a finding of literal infringement, resolution of the case depended on whether RES infringed under the doctrine of equivalents. Citing *Maxwell*, RES argued that disclosed but unclaimed subject matter is dedicated to the public, while Johnson argued against such dedication, citing *YBM Magnex*.<sup>53</sup> On cross-motions for summary judgment, the district court ruled in favor of Johnson,<sup>54</sup> and a jury found willful infringement under the doctrine of equivalents.<sup>55</sup> RES appealed on the grounds that Johnson did not claim a steel substrate, but instead limited its patent scope to an aluminum substrate, dedicating the unclaimed steel substrate to the public.

## B. The Federal Circuit's Analysis

The Federal Circuit, sitting *en banc*, agreed with RES, explicitly overruling *YBM Magnex*. The court held that the use of a steel substrate, disclosed in the specifications of the '050 patent, was dedicated to the public when it was left unclaimed, thus Johnson could not assert the doctrine of equivalents to cover the disclosed but unclaimed steel substrate.<sup>56</sup>

In arriving at its decision, the Federal Circuit looked first to Supreme Court precedent. Although the majority in *Graver Tank* did not adopt the dissent's suggestion to apply the dedication rule, the *Johnson* court did not regard this as a rejection of the dedication rule, and instead distinguished *Graver Tank* on its facts. The *Johnson* court observed that the patent in *Graver Tank* initially issued with broad claims that covered the alleged equivalent, but these claims were later invalidated.<sup>57</sup> The court cited to

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52. *Johnson & Johnston Assocs. v. R.E. Serv. Co.*, No. C97-04382 CRB, 1998 U.S. Dist. Lexis 13142, at \*8 (N. D. Cal. Aug. 24, 1998).

53. *Id.* at \*9-\*10.

54. *Id.* at \*10.

55. *Johnson & Johnston Assocs. v. R.E. Serv. Co.*, No. C97-04382 CRB, 1998 U.S. Dist. Lexis 20235, at \*4 (N.D. Cal. Dec. 23, 1998).

56. *Id.* at 1054-55.

57. *Id.* at 1053.

language in *Graver Tank* distinguishing that case from *Maxwell*, in which the patentee's failure to claim the alternative embodiment deprived the PTO of the opportunity to assess its patentability.<sup>58</sup> Thus, the court concluded that the patentee in *Graver Tank* had not dedicated unclaimed subject matter to the public.<sup>59</sup>

The Federal Circuit also felt that the Court's decision in *Warner-Jenkinson* did not reach the dedication rule, since the patentee in that case had neither disclosed nor claimed the allegedly infringing matter, thus failing to provide a "proper instance of dedication" to the public.<sup>60</sup> The court hence concluded that there was no binding Supreme Court precedent barring a strict application of the dedication rule.

The *Johnson* court upheld the dedication rule on "the fundamental principle that [the] claims,"<sup>61</sup> and not the specification, define the scope of patent protection, thus providing the measure of a patentee's right to exclude. Moreover, the dedication rule is consistent with the law of infringement, which compares the accused product with the claims as construed by the court, rather than with the invention as described by the specification.<sup>62</sup> Finally, the dedication rule prevents back-door patenting by allowing patent protection only for claimed subject matter that has undergone examination.<sup>63</sup>

The court concluded by suggesting that a patentee who inadvertently fails to claim disclosed subject matter has an alternative means to later capture that subject matter. First, a patentee can file a reissue application within two years of a patent's issuance under 35 U.S.C. § 251.<sup>64</sup> During the reissue examination, the patentee can attempt to enlarge the scope of the original claims to include the disclosed but previously unclaimed subject matter. Alternatively, the patentee can file a continuation application under 35 U.S.C. § 120,<sup>65</sup> before all applications in the chain have issued, as in fact *Johnson* had done.

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58. *Id.* at 1052.

59. *Id.* at 1053.

60. *Johnson*, 285 F.3d at 1054.

61. *See, e.g., Milcor Steel Co. v. George A. Fuller Co.*, 316 U.S. 143, 146 (1942) ("Out of all the possible permutations of elements which can be made from the specifications, he reserves for himself only those contained in the claims.") (quoting *Milcor Steel Co. v. George A. Fuller Co.*, 122 F.2d 292, 294 (2d Cir. 1941)).

62. *SRI Int'l v. Matsushita Elec. Corp.*, 775 F.2d 1107, 1118 (Fed. Cir. 1985).

63. *See Keystone Bridge Co. v. Phoenix Iron Co.*, 95 U.S. 274, 278 (1877).

64. 35 U.S.C. § 251 (2000).

65. *Id.* § 120.

### C. Concurrences and Dissent

The *en banc* panel in *Johnson* also issued four separate concurrences and a single dissent. Judge Clevenger's concurrence, joined by Judges Lourie, Schall, Gajarsa, and Dyk, emphasized that the *Johnson* holding did not contradict the law of *Graver Tank*.<sup>66</sup> Judge Dyk's concurrence, joined by Judge Linn, distinguished the facts of *Graver Tank*, emphasizing that the dedication rule is a form of "conscious waiver," and since the patentee had in fact claimed the disclosed subject matter, there was no dedication.<sup>67</sup> Moreover, because the alleged infringer had probably not "sufficiently raised" the issue of dedication, the *Graver Tank* court most likely did not consider the question of dedication to be "properly before it."<sup>68</sup>

In her dissent, Judge Newman contended that both dissenters in *Graver Tank* had explicitly stated that the dedication rule would bar the patentee from using equivalence to recapture manganese silicate.<sup>69</sup> In spite of this, the majority in *Graver Tank* had implicitly rejected the dissenters' position by declining to apply the dedication rule, and by emphasizing instead that equivalence should be decided on a case by case basis.<sup>70</sup> Judge Newman therefore viewed *Graver Tank* as binding precedent against the dedication rule, under the doctrine of *stare decisis*.<sup>71</sup>

Judges Rader and Mayer proposed a less strict "foreseeability" standard for the dedication rule, which would prevent a patentee from capturing any subject matter that he could have reasonably foreseen as claimable, under the doctrine of equivalents.<sup>72</sup> A foreseeability approach would set an objective standard for determining equivalence, generating more consistent results uninfluenced by the chance disclosure by the patent drafter.<sup>73</sup> This strategy would better enhance the notice function of the claims, by making them the sole definition of invention scope in all foreseeable circumstances.<sup>74</sup> This bar, however, would also permit patentees limited protection against insubstantial changes that are unforeseeable.<sup>75</sup>

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66. *Johnson & Johnston Assoc., Inc. v. R.E. Serv. Co.*, 285 F.3d 1046, 1056 (Fed. Cir. 2002) (Clevenger, J., concurring) (emphasizing that the court's decision was "not inconsistent" with *Graver Tank*).

67. *Id.* at 1060 (Dyk, J., concurring).

68. *Id.* at 1061.

69. *Id.* at 1065 (Newman, J., dissenting).

70. *Id.*

71. *Id.*

72. *Id.* at 1056 (Rader, J, concurring).

73. *Id.*

74. *Id.* at 1057.

75. *Id.*

Judge Lourie questioned the wisdom of the foreseeability test.<sup>76</sup> Lourie felt that determination of foreseeability would present complicated issues of fact, and analogized foreseeability to obviousness, reasoning that a foreseeability bar to equivalence would conflict with the established doctrine that obvious variations are usually considered equivalent.<sup>77</sup> Even if foreseeability was distinct from obviousness, however, foreseeability would at least further complicate an already vague area of the law.<sup>78</sup>

### III. DISCUSSION

#### A. The Benefits of a Strict Application of the Dedication Rule Outweigh the Costs

*Johnson's* bright-line approach resolves the uncertainty generated by prior conflicting precedent on the dedication rule. By reaffirming the primary importance of the notice function of the claims, *Johnson's* strict application of the dedication rule ensures that the claims, and not the specifications, define the boundaries of an invention. By ensuring that the claims adequately notify the public and the patent examiner of the scope of an invention, the dedication rule prevents both wasteful litigation and back-door patenting.

*Johnson's* holding also upholds fairness. Consistent with 35 U.S.C. § 112, a patentee should bear the burden of claiming what she believes is her invention,<sup>79</sup> while the public should not bear the risk of infringing claims of uncertain scope. Furthermore, the patentee should bear the burden of drafting claims of appropriate scope, since patentees are in the position to control claim scope; whereas the public is, for the most part, excluded from the patent examination process.<sup>80</sup> Finally, an issued patent has a presumption of validity, placing the burden of proving patent invalidity on the alleged infringer. In exchange for this back-end benefit, the patentee should bear the burden of drafting claims in a way that provides clear notice of the scope of patent protection to a potential infringer.

Although *Johnson* takes the even harsher position of strictly applying the dedication rule retroactively to an already issued patent, it remains a

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76. *Id.* at 1064 (Lourie, J., concurring).

77. *Id.*

78. *Id.*

79. *See supra* note 22 and accompanying text.

80. *See Sage Prods, Inc. v. Devon Indus., Inc.*, 126 F.3d 1420, 1425 (Fed. Cir. 1997) (“[A]s between the patentee who had a clear opportunity to negotiate broader claims but did not do so, and the public at large, it is the patentee who must bear the cost of its failure to seek protection for this foreseeable alteration of its claimed structure.”).

fundamentally fair decision, as the patent community forewarned of the possibility that courts would strictly apply the dedication rule. The Federal Circuit's conflicting precedent regarding the dedication rule kept the debate about the dedication rule active in the eyes of the patent community. Hence, even after *YBM*, it could hardly be claimed that there were settled expectations against the *Johnson* decision.<sup>81</sup> Thus, the *Johnson* decision cannot be considered unfair, even if it proves costly to patentees who, perhaps unwisely, relied on "unsettled" expectations and assumed the risk of leaving disclosure unclaimed.

*Johnson's* strict application of the dedication rule is easy for courts to administer, and relatively easy for a patentee to comply with. To see if subject matter falls under the dedication rule, a fact-finder simply needs to check a patent's specification for the inclusion of unclaimed disputed subject matter. Similarly, a patentee can easily ensure that the dedication rule will not apply to embodiments disclosed in the specification by claiming those embodiments. The ease with which a patent drafter can safeguard against dedicating her disclosure to the public justifies a strict application of the dedication rule.

The ease, however, with which *Johnson's* strict application of the dedication rule can be administered, or complied with, partly depends on what constitutes disclosure. Although both *Johnson* and *Miller* hold that the dedication rule applies to unclaimed matter that is found to be disclosed<sup>82</sup> or "apparent on the face of the patent,"<sup>83</sup> neither case provides any guidance to determine what is "disclosed." In fact, the *Johnson* majority considered that the patent in suit in *Graver Tank* disclosed manganese silicate,<sup>84</sup> but Judge Dyk, in his concurrence, argued that the patent language referring to the possible use of manganese silicate fell short of actual disclosure,<sup>85</sup> since it failed to meet the § 112 requirement that patents

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81. The Supreme Court noted in *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.* that the Federal Circuit's unexpected retroactive enforcement of a "complete bar" to equivalence by prosecution history estoppel disrupted the "settled expectations" of patentees. 122 S. Ct. 1831, 1834 (2002). While there was no warning of *Festo's* complete bar to estoppel, there was clear, and very early, Supreme Court precedent affirming the dedication rule. *Cf.* discussion *infra* Part I.B-C.

82. *Johnson*, 285 F.3d at 1054 ("As stated in *Maxwell*, when a patent drafter discloses but declines to claim subject matter, as in this case, this action dedicates that unclaimed subject matter to the public.").

83. *Miller v. Bridgeport Brass Co.*, 104 U.S. 350, 352 (1881).

84. *Johnson*, 285 F.3d at 1053.

85. *Id.* at 1061. According to Judge Dyk, the specification had referred to the possible use of manganese, but did not clearly disclose that manganese silicate worked for its intended purpose. *Id.* The specification disclosed that the applicants had tested silicates of

teach “the manner and process of making and using [manganese silicate] in such full, clear, concise, and exact terms as to enable any person skilled in the art”<sup>86</sup> to make and use the invention. Thus, application of the dedication rule to subject matter that is not fully disclosed in an explicit manner would be highly uncertain.

One could consider, as an example, the disclosure of a “circular device.” Under *Johnson*, it is uncertain if such a disclosure comprehends oval devices. Under a broad interpretation of the dedication rule, the term “circular device” can be considered to cover an oval device, but under a narrow interpretation, it might not. If both interpretations were allowed under the dedication rule, it would be difficult to predict whether the dedication rule would preclude an oval device as an equivalent. Such uncertainty would breed wasteful litigation, undermining *Johnson*’s fundamental benefit of increased predictability in applying the dedication rule. The dedication rule, therefore, should not be applied to bar equivalents beyond the literal scope of the explicit language of the specification.

### **B. *Johnson*’s Strict Application of the Dedication Rule Is Consistent with Supreme Court Precedent**

As Judge Newman argues in her dissent, *Johnson*’s strict application of the dedication rule seems to conflict with Supreme Court precedent in *Graver Tank* and *Warner-Jenkinson*. The Supreme Court in *Graver Tank* found that the use of manganese silicate in a welding blend equivalently infringed a patent which disclosed the use of manganese silicate in such blends, but only claimed blends containing similar but chemically distinct alkaline earth metals silicates.<sup>87</sup> Most importantly, the *Graver Tank* majority failed to address why the dedication rule did not bar a finding of infringement through equivalence.<sup>88</sup>

As the *Johnson* court recognized, the specific facts of *Graver Tank* might explain why the majority’s implicit rejection of the dedication rule need not have created binding precedent precluding the holding of *Johnson*.<sup>89</sup> In a prior decision involving the same patent as in *Graver Tank*, the Supreme Court held two patent claims that included manganese silicate within their scope to be overly broad.<sup>90</sup> The subsequent *Graver Tank* deci-

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nine different metals, including manganese, and that a number of these were effective, without specifying which. The ‘960 patent, col. 3, ll. 62-72.

86. 35 U.S.C. § 112 (2002).

87. *Graver Tank & Mfg. Co. v. Linde Air Prods.*, 339 U.S. 605, 608-610 (1950).

88. *Id.* at 605.

89. *Johnson*, 285 F.3d at 1053.

90. *Graver Tank*, 336 U.S. at 276-77.

sion related to an infringement action involving the remaining narrowed claims. In view of this history, the *Johnson* court reasoned that the patentee did not dedicate blends containing manganese silicate to the public, since the patent originally issued with broad claims were later invalidated.<sup>91</sup> Thus, a later invalidation of broad claims does not imply that the patentee dedicates the invalidated subject matter within those claims to the public. The original claims provide proper notice that the patentee intended to cover the disclosed matter, and their subsequent invalidation is outside the patentee's control and not easily foreseeable, since claims issue after the PTO's endorsement of their validity.

The *Johnson* majority interpreted *Graver Tank* to suggest that subject matter covered by later-invalidated claims, but excluded from the remaining valid claims, may be immune to the dedication rule and protectable under the doctrine of equivalents.<sup>92</sup> Generally speaking, however, a patentee should not be allowed to capture any subject matter that she is prohibited from claiming literally, through the doctrine of equivalents. *Johnson*'s interpretation of *Graver Tank* appears to contradict this basic principle. One explanation for this apparent contradiction is that the doctrine of equivalents should be available to subject matter covered by broad claims allowed by the PTO, but later invalidated by the courts, because the patentee, having reasonably relied on the presumption of validity of the originally issued claims, may have lost the opportunity to amend or draft narrower claims covering the disputed subject matter in a continuing or reissue application.

*Graver Tank* appears to conflict with *Johnson* in a broader aspect as well. Judge Newman reasoned in her *Johnson* dissent that the *Graver Tank* court, in holding that equivalence is not a "prisoner of formula," voiced an implicit mandate against a strict enforcement of the dedication rule.<sup>93</sup> In other words, *Graver Tank* requires that availability of the doctrine of equivalents be decided on a case-by-case basis, whereas *Johnson* creates a per se bar against application of the doctrine of equivalents to disclosed but unclaimed subject matter. However, an alternative view of *Graver Tank* is that it merely teaches that equivalence should be determined "against the context of a patent, the prior art, and the particular circum-

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91. *Johnson*, 285 F.3d at 1053 ("The Court's holding and the history of *Graver II* show that the patentee had not dedicated unclaimed subject matter to the public. In fact, the patentee had claimed the 'equivalent' subject matter, even if the Court eventually held the relevant claims too broad.").

92. *Id.*

93. *Id.* at 1065.

stances of the case.”<sup>94</sup> Accordingly, the presence of disclosed but unclaimed subject matter in a patent can be regarded as a “particular circumstance” that bars the application of the doctrine of equivalents. Hence, the *Graver Tank* court’s admonishment to determine equivalents in a case-specific manner need not preclude *Johnson*’s strict application of the dedication rule to all disclosed but unclaimed subject matter.

The apparent conflict between *Johnson* and *Warner-Jenkinson* similarly fails to withstand deeper analysis. The *Warner-Jenkinson* court stated that, by rejecting the argument that equivalency should be limited to already known equivalents, it “reject[ed] the more severe proposition that equivalents must not only be known, but must also be actually disclosed in the patent.”<sup>95</sup> Judge Newman, in her *Johnson* dissent, interpreted this language as an explicit recognition by the Supreme Court that disclosed but unclaimed equivalents can infringe under the doctrine of equivalents.<sup>96</sup> However, this language could also be interpreted to mean that the *Warner-Jenkinson* court’s rejection of the first argument precluded the Court from even reaching the merits of the “more severe proposition” at all. Thus, the language in *Warner-Jenkinson* is not irreconcilable with a strict application of the dedication rule.

### C. Resolving the Apparent Tension between *Johnson* and *Festo*.

Another concern with the holding in *Johnson* is its apparent tension with the Supreme Court’s holding in *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*,<sup>97</sup> which issued three months after *Johnson*. In *Festo*, the Court considered the extent to which prosecution history estoppel<sup>98</sup> bars application of the doctrine of equivalents to amended claim elements.<sup>99</sup> The Federal Circuit had previously held that a narrowing claim amendment creates prosecution history estoppel, which completely bars equivalents as to the amended claim element.<sup>100</sup> The Supreme Court re-

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94. *Graver Tank*, 339 U.S. at 609-10.

95. *Warner-Jenkinson Co. v. Hilton Davis Chemical Co.*, 520 U.S. 17, 37 (1997).

96. *Johnson*, 285 F.3d at 1065-66 (explicitly recognizing that equivalents that are disclosed in the patent can infringe under the doctrine of equivalents).

97. 122 S. Ct. 1831 (2002).

98. In general, prosecution history estoppel bars a patentee from recapturing subject matter surrendered during prosecution. *See, e.g., id.* at 1839 (“Prosecution history estoppel . . . preclud[es] a patentee from regaining, through litigation, coverage of subject matter relinquished during prosecution of the application for the patent.”) (quoting *Wang Labs., Inc. v. Mitsubishi Elec. Am., Inc.*, 103 F.3d 1571, 1577-1578 (Fed. Cir. 1997)).

99. *Festo*, 122 S. Ct. at 1839.

100. *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, 234 F.3d 558 (Fed. Cir. 2000) (en banc).

jected the Federal Circuit's "complete bar" approach, holding that the doctrine of equivalents would not be available to an amended claim element if the equivalent in question was foreseeable at the time of filing, but may remain available if the equivalent was unforeseeable at the time of filing.<sup>101</sup>

The Supreme Court's rejection of the Federal Circuit's "complete bar" approach would imply the preclusion of *Johnson's* strict application of the dedication rule, which mandates a "complete bar" to the doctrine of equivalents whenever subject matter is disclosed but unclaimed. However, the dedication rule is consistent with the Court's "foreseeability" test. The foreseeability test bars equivalents that the patentee should have foreseen and accordingly claimed, whereas the dedication rule only bars equivalents that the patentee actually disclosed, but left unclaimed. If an equivalent is disclosed, and thus actually foreseen, in the specification, then it is presumably foreseeable,<sup>102</sup> and would have been precluded anyway under *Festo*. *Festo's* foreseeability bar is therefore consistent with *Johnson's* "complete bar" against disclosed but unclaimed equivalents.

Furthermore, the *Festo* court rejected the Federal Circuit's "complete bar" based, in part, on the observation that language is inherently imprecise.<sup>103</sup> The doctrine of equivalents, the court reasoned, should be available to rescue a patentee from the limitations of language, which may prevent a claim from capturing the exact scope of an invention.<sup>104</sup> This potential problem, however, cannot occur in the context in which the dedication rule applies. If a patentee has actually disclosed equivalent subject matter in the specification, then this subject matter falls outside the purview of the doctrine of equivalents.

Moreover, prosecution history estoppel arises when a patent drafter originally claims subject matter, but later relinquishes it. In contrast, the dedication rule applies in a different context, when a patent drafter discloses subject matter, but omits to claim it. Even if the drafter does so inadvertently, this act of omission makes a strong representation that such

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101. *Festo*, 122 S. Ct. at 1841.

102. It is difficult, but not entirely impossible, to envision a scenario in which disclosed but unclaimed subject matter is later determined to be an unforeseeable equivalent. For example, a patentee could disclose subject matter without recognizing its equivalence to a particular claim element. Only after subsequent technological developments would its equivalents be recognized. Nonetheless, one could argue that the patentee could not possibly have claimed the subject matter, as neither the specification nor the state of the art would have enabled such a claim.

103. See *Festo*, 122 S. Ct. at 1841.

104. *Id.*

matter is beyond a patent's scope. Also, the drafter's intentional act of disclosure is generally not inadvertent, which strengthens the representation that such matter was already within the public domain.

#### D. Concerns Raised by the *Johnson* Decision

*Johnson's* strict application of the dedication rule could discourage disclosure beyond what is minimally necessary to secure a patent. However, any disincentive to disclose matter, created by the dedication rule, should be overridden by other incentives to disclose as broadly as possible. For instance, a patent applicant has an incentive to claim as broadly as possible, in order to maximize the scope of protection. However, the legal requirements for written description and enablement ensure that the patent claims cannot be broader in scope than the disclosure.<sup>105</sup> Thus, the incentive to claim broadly encourages an applicant to disclose just as broadly, in order to ensure that the claims are properly supported by the written description. The dedication rule should therefore have little effect on the breadth of future disclosures.

Moreover, a patentee can capture disclosed subject matter while the patent is still pending before the PTO by filing a continuation application,<sup>106</sup> with new claims which are entitled to the benefit of the parent application's filing date, if they are fully supported by the original specification.<sup>107</sup> Patent law also presumes that among multiple inventors who claim to have invented the same device, the first to file a patent is the earliest inventor, and presumptively the rightful patentee, a presumption that is difficult to rebut.<sup>108</sup> It is important to a patent applicant to disclose any patentable subject matter sooner rather than later. While the dedication rule bars the originally issued claims from recapturing disclosed but unclaimed matter, it does not bar new claims in the continuation application from covering such matter. As a result, a patentee with enough financial resources can circumvent the dedication rule by filing more claims, or by keeping continuation applications derived from an issued patent pending, as a precautionary measure until the issued patent expires, a suggestion noted in *Johnson*.<sup>109</sup>

A patentee can also capture disclosed but unclaimed subject matter, within two years of the grant of the original patent, by applying for a

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105. See 35 U.S.C. § 112 (2000).

106. See *id.* § 120.

107. See *id.* § 112.

108. See *id.* § 102(g).

109. *Johnson & Johnston Assoc., Inc. v. R.E. Serv. Co.*, 285 F.3d 1046, 1055 (Fed. Cir. 2002).

“broadening reissue.”<sup>110</sup> A reissued patent is only granted for the duration of the unexpired part of the term of the original patent.<sup>111</sup> Moreover, any claims not originally filed with the issued patent only protect against infringement prospectively as of the grant date of the reissue.<sup>112</sup>

#### IV. CONCLUSION

The Federal Circuit’s landmark decision in *Johnson* regarding the dedication rule resolved contradictory precedent.<sup>113</sup> *Johnson*’s strict application of the dedication rule places a burden on the patentee to literally claim all disclosed subject matter, or surrender the right to exclude the public from it. *Johnson* thus ensures that patent claims, and not the specification, give the PTO and the public adequate notice of an invention’s scope. The primary benefits of a strict application of the dedication rule are increased predictability of outcomes and certainty in determining an invention’s scope. Yet in order to realize this benefit, the dedication rule, should apply only to explicitly disclosed subject matter, construed in a literal and narrow manner.

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110. See 35 U.S.C. §§ 251-252.

111. Reissues are allowed “[w]henver any patent is, through error without any deceptive intention, deemed wholly or partly inoperative or invalid, . . . by reason of the patentee claiming more or less than he had a right to claim in the patent . . .” *Id.* § 251.

112. See *id.* The Patent Act also provides “mandatory intervening rights” to accused infringers of these new claims, which allow the future use and sale of all items made before the reissue was granted, and also “discretionary intervening rights,” whereby courts can equitably decide to allow continued “infringement” after the reissue grant date, in order to protect investment. *Id.*

113. Surprisingly, there has been no focused commentary by scholars on the merits of *Johnson*’s holding, although it had a significant impact on the dedication rule.

## ADDITIONAL DEVELOPMENTS—PATENT

### *J.E.M. AG SUPPLY, INC. v. PIONEER HI-BRED INTERNATIONAL, INC.*

534 U.S. 124 (2001)

The United States Supreme Court ruled on the patentability of newly developed plant breeds pursuant to 35 U.S.C. § 101.

Pioneer holds patents for both inbred corn plants and hybrids produced by crossing the protected inbred line with another corn line. Pioneer sold its patented hybrid seeds to J.E.M. under a strict license for producing grain and/or forage only. J.E.M. however, resold those seeds. Pioneer brought suit claiming patent infringement. J.E.M. counterclaimed patent invalidity, arguing that sexually reproducing plants are not patentable subject matter within the scope of 35 U.S.C. § 101. Relying on *Diamond v. Chakrabarty*, 447 U.S. 303 (1980), the district court granted summary judgment to Pioneer and held that subject matter covered by § 101 clearly includes plant life. The district court further determined that in enacting the Plant Patent Act of 1930 (PPA) and the Plant Variety Protection Act (PVPA), Congress neither expressly nor implicitly removed plants from § 101's coverage. The Federal Circuit affirmed.

The U.S. Supreme Court affirmed, also holding that newly developed plant breeds fall within the terms of § 101 and that the PPA and the PVPA do not provide exclusive means of protecting new varieties of plants. The Court first reiterated the *Chakrabarty* holding that the distinction for purposes of § 101 is not between living things and inanimate things, but between products of nature, whether living or not, and human-made inventions. Therefore, human-made plant varieties should be under the broad scope of § 101. In terms of PPA, the Court found that the limitation to asexually reproduced plants in the original 1930 text only reflected a practical understanding of plant reproduction at that time, and that the recodification in 1952 was only a housekeeping measure. The Court concluded that PPA does not indicate Congress's intention to deny sexually reproduced plants patent protection under § 101. In terms of PVPA, the Court found no statement in PVPA that suggests it to be the exclusive means of protecting sexually reproducing plants. In addition, the Court noted that it is more difficult to obtain a utility patent than a certificate under PVPA (PVP certificate), and correspondingly, more protection is afforded by a utility patent than a PVP certificate. Although PVPA and § 101 overlap, they are not irreconcilable. Therefore, the Court found "repeal by implication" is not justified in this case. Lastly, the Court noted that Patent and Trademark Office has assigned utility patents for plants for over 16 years, and Congress never showed any disagreement. For these reasons, the Court declined to narrow the reach of § 101.

***RHONE POULENC AGRO, S.A. v. DEKALB GENETICS CORP.****284 F.3d 1323 (Fed. Cir. 2002)*

In a case involving patent infringement by a sublicensee, the Federal Circuit held that a nonexclusive sublicensee may not retain its interest in a patent when the grantor licensee's license is voided due to fraud. The court specifically rejected the bona fide purchaser defense in this situation.

U.S. Patent No. 5,510,471 (the '471 patent) covers an optimized transit peptide (OTP) with a particular maize gene that has utility in growing herbicide-resistant corn plants. In a previous suit, the patent holder, Rhone Poulenc Agro, S.A. (RPA), sued a licensee, DeKalb Genetics Corp., for fraud in procuring a license for the '471 patent. The district court found for RPA, and voided the license. *Rhone Poulenc Agro, S.A. (RPA) v. DeKalb Genetics Corp.*, 272 F.3d 1335 (Fed. Cir. 2001). RPA then sued Monsanto, who had entered into a sublicense with DeKalb for the '471 patent.

Monsanto raised a bona fide purchaser defense. According to Monsanto, it paid value for the sublicense without the knowledge of any wrongdoing by DeKalb, and therefore its sublicense should survive the voidance of the license between RPA and DeKalb. The district court granted summary judgment in favor of Monsanto, and a panel of the Federal Circuit affirmed. The ruling relied primarily on *Heidelberg Harris, Inc. v. Loebach*, 145 F.3d 1454 (Fed. Cir. 1998), in which the Federal Circuit applied the bona fide purchaser doctrine to uphold a patent license when the original patent assignment was voided due to fraud.

The Federal Circuit, upon petition of RPA, reviewed *en banc* the limited question of whether *Heldelberg* is binding in the instant case. Finding that in *Heldelberg* the parties did not contest the applicability of the bona fide purchaser doctrine, the *en banc* court held that *Heldelberg* is not binding authority on the bona fide purchaser issue in the context of patent licenses.

Freed from *Heldelberg*, the original panel in the present decision reconsidered the bona fide purchaser defense and rejected its application in the instant case. The court found that the bona fide purchaser defense as codified in 35 U.S.C. § 261 does not apply to the instant case, since that statute is limited to situations in which the patent owner makes inconsistent assignments, grants, or conveyance to two entities. In addition, the court held that although the bona fide purchaser defense to patent infringement is a matter of federal law, its creation should be informed by the state common law regarding the same doctrine. Finding that in state common law the bona fide purchaser defense has only been applied to holders of property title and never to holders of a mere contract right, the panel reasoned that the same principle should be applied to patent rights. Finally, the court held that even if common law extended the protection of the bona fide purchaser rule to holders of exclusive licenses, it would not be appropriate for the court to extend it to non-exclusive licenses as a matter of federal common law, because 35 U.S.C. § 261 reflects the determination of the Congress to only protect those with assigned, granted, or conveyed patent rights. Based on these considerations, the Federal Circuit vacated the decision of the district court and remanded it for further proceedings.

***CATALINA MARKETING INTERNATIONAL, INC. V.  
COOLSAVINGS.COM, INC.***

*289 F.3d 801 (Fed. Cir. 2002)*

The Federal Circuit held that language found only in the preamble, and not the body, of the claim, did not limit the scope of the claim.

Catalina owns U.S. Patent No. 4,674,041 (the '041 patent), which claims a coupon selection and distribution system using kiosk-like terminals connected to a central host computer system. Claim 1 contains the language "located at pre-designated sites such as consumer stores" in its preamble, and Claim 25 contains the same language in both its preamble and body. Coolsavings later received U.S. Patent No. 5,761,648 (the '648 patent) for a web-based coupon distribution system. Catalina sued Coolsavings for infringing the '041 patent. The district court construed "pre-designated sites" to be a limitation on both claims 1 and 25, thereby ruled that Coolsavings did not infringe the '041 patent, literally or by equivalents.

Catalina appealed, and the Federal Circuit vacated the district court's construction of claim 1, but affirmed the construction of claim 25. The Federal Circuit ruled that the claims, specification, and prosecution history of the patent demonstrated that the preamble phrase, "located at pre-designated sites such as consumer stores," does not serve as a limitation to the apparatus described in Claim 1. Catalina did not rely on the preamble phrase to define its invention, nor is the phrase essential to understanding limitations or terms in the body of the claim. The specification, which referenced terminals and their locations, did not indicate that the location of the terminals was an additional structure for the claimed terminals. Moreover, Catalina did not rely on the preamble phrase to distinguish it from the prior art during patent prosecution. In fact the examiner expressly stated that the location of the terminals was not patentably significant. Finally, the body of the claim defines a structurally complete invention without the disputed preamble phrase. Thus, the Federal Circuit construed the preamble phrase as merely giving a possible intended *use* for the claimed terminals. Based on this determination, the Federal Circuit vacated the district court's ruling of noninfringement of Claim 1.

In contrast to claim 1, since the disputed phrase was included in the body of claim 25, as well as in its preamble, the court held that the phrase limited Claim 25. In construing the disputed phrase, the Federal Circuit held that the phrase "located at pre-designated sites such as consumer stores" requires designation of the physical site of the terminal before locating the terminal at that site. The Coolsavings' system does not designate the physical position of computers connecting to its website; therefore, the Federal Circuit affirmed the district court holding that Coolsavings' system does not literally infringe Claim 25, but vacated and remanded the holding of noninfringement by equivalents.

***HARRIS CORP., INC. V. ERICSSON, INC.****194 F. Supp. 2d 533 (N.D. Texas 2002)*

The United States District Court for the Northern District of Texas held that an ambiguous offer to sell does not satisfy the summary judgment standard to invalidate a patent under the on-sale bar.

Harris Inc., the owner of U.S. Patent No. 4,599,732 (the '732 Patent), sued Ericsson, Inc. for infringement of the '732 patent. Ericsson filed a Motion for Partial Summary Judgment of Invalidity, asserting that all claims of the '732 patent were invalid under the "on-sale bar" as set forth in 35 U.S.C. § 102(b). The '732 patent relates to a technique for synchronizing data that is transferred through, for example, a modem. The '732 patent was filed in April of 1984. Thus, the critical date for the "on-sale bar" for the '732 patent is April of 1983. In September of 1982, months before the April 1983 critical date, Harris Inc. entered into a contract to investigate and design an HF modem for the U.S. Army. Under that U.S. Army contract, Harris agreed to sell an HF modem to the U.S. Army and was required to deliver two test modems. The HF modem was delivered in the first quarter of 1984 and, as delivered, embodied the synchronization techniques of the '732 patent.

Harris contends that it did not decide to include the synchronization techniques of the '732 patent in the HF modem until after the critical date. They claim that the '732 invention was developed in the course of performing the contract, and they specifically modified the plan for the HF modem to include the invention after the April 1983 critical date. Harris offered as evidence two quarterly reports they had sent to the U.S. Army detailing progress on the HF modem. The first, a January 1983 quarterly report that was filed before the April 1983 critical date, discussed "changes" in the modem but stated the technique to be used for synchronization was not yet determined. The second, an October 1983 quarterly report that was filed after the critical date, contains the first discussion of inclusion of the synchronization technique of the '732 patent in the HF modem.

The court stated that the standard for determining invalidity under the on-sale bar is whether the evidence objectively shows that the invention was offered for sale. The court agreed with Ericsson's statement that an offer can exist even though the details of the invention are not disclosed to the purchaser, and even if the seller does not recognize that they are selling the invention at the time it is sold. However, the court distinguished Harris's case from these situations because, if Harris's contention is true, it is not that they didn't recognize they were selling the invention, but that they lacked the understanding necessary to implement the invention as part of the HF modem they were selling until after the critical date. Thus, if inclusion of the '732 synchronization method in the modem was not contemplated until after the critical date, even though the contract to sell the modem existed, Harris's patent would not be invalid under the on-sale bar. The court found that the quarterly reports from 1983 could support Harris's contention that an issue of fact existed. The court further noted that allowing such ambiguous circumstances to constitute an offer for sale and invalidate a patent would make the law less clear, which is contrary to recent Federal Circuit case law.

***GENTILE V. FRANKLIN SPORTS, INC.****211 F. Supp. 2d 334 (D. Mass. 2002)*

The United States District Court for the District of Massachusetts ruled on who bears the burden of proving that a patent claim has been narrowed by representations made in its prosecution history.

Plaintiff Robert Gentile is the owner of U.S. Patent No. 5,722,906 (the '906 patent) on a "Game Ball" that contains a non-toxic liquid antifreeze. Defendant Franklin manufactures a street hockey ball containing a salt calcium chloride dissolved in water. Although the defendant admitted that calcium chloride is a non-toxic liquid antifreeze, it nevertheless claimed non-infringement of the '906 Patent. Defendant argued that the '906 patent is limited to recreational vehicle antifreeze in a ball and excludes coverage of salt water solutions. Magistrate Judge Dein granted the plaintiff's summary judgment motion on patent infringement, and District Court Judge Gertner agreed. Judge Gertner wrote separately to address the burden issue regarding claim construction in light of the Supreme Court's *Festo* opinion.

Judge Gertner held that claim construction in light of prosecution history is different from prosecution history estoppel that bars the doctrine of equivalents. The former is a preliminary step in determining literal infringement, and the latter is relevant only after the claims have been properly interpreted and no literal infringement is found. Therefore, the *Festo* court's placement of the burden on the patentee to prove that she did not relinquish the particular equivalent in question during claim amendment is irrelevant to the placement of burden on claim construction. Since a claim should be read in its ordinary meaning by one of ordinary skill in the art, Judge Gertner concluded that a defendant seeking to narrow the claim by arguing that the patentee has relinquished a potential claim construction based on the plain, ordinary meaning of the language of the claims bears the burden of overcoming a heavy presumption in the patentee's favor. Judge Gertner reasoned that this allocation of burden is consistent with *Festo* in that it places the burden on the party seeking to change the scope of patent protection from what the ordinary, plain meaning of the claim language would otherwise grant.

*JUICY WHIP, INC. v. ORANGE BANG, INC.**292 F.3d 728 (Fed. Cir. 2002)*

The Federal Circuit in a two-to-one decision reaffirmed a high standard of proof that a defendant must meet in order to invalidate a patent by prior use.

Both Juicy Whip and Orange Bang are manufacturers of beverage dispensers. A “post-mix” beverage dispenser stores syrup concentrate and water in separate locations until the beverage is ready to be dispensed. In contrast, the syrup and water are pre-mixed and the beverage is stored in a display reservoir bowl in a “pre-mix” beverage dispenser. The reservoir bowl in a “pre-mix” dispenser has the advantage of inducing consumer impulse, but suffers from contamination problems and requires frequent cleaning. Juicy Whip, Inc. owned U.S. Patent No. 5,575,405 (the ‘405 patent) that claims a “post-mix” dispenser with a display reservoir bowl similar to a “pre-mix” one. Since the liquid in its display bowl had no functional purpose, it can be made bacteria resistant. The ‘405 patent therefore combines advantages of both systems. Orange Bang manufactured a beverage dispenser that infringed Juicy Whip’s ‘405 patent, but Orange Bang claimed that the ‘405 patent is invalid due to prior use and inequitable conduct.

The district court originally granted summary judgment of invalidity based on lack of utility pursuant to 35 U.S.C. § 101. On appeal, the Federal Circuit reversed and remanded. Following a jury trial, the district court once again found Juicy Whip’s ‘405 patent invalid because Orange Bang presented evidence that the patented invention was in public use more than one year prior to the filing of the application leading to the ‘405 patent. Specifically, six witnesses testified that they had seen two different types of anticipatory beverage dispensers in either 1983 or 1988. In addition, the jury also found the ‘405 patent unenforceable because Juicy Whip withheld material information from the Patent and Trademark Office (the PTO) during prosecution.

Juicy Whip appealed and the Federal Circuit reversed on both holdings. The Federal Circuit reaffirmed that clear and convincing evidence is required to invalidate a patent by prior public use within the meaning of § 102(b). Specifically, the court stated that in order to invalidate: (1) the prior publicly used subject must meet each limitation of the claim and (2) oral testimony must be corroborated. As to the first element, the Federal Circuit found that Orange Bang did not present an element-by-element comparison between the claims of the ‘405 patent and the asserted prior dispensers. One limitation in the claims of the ‘405 patent was not clearly present in the prior dispensers. As to the second element, the court found that the six witnesses in the jury trial were interested parties whose oral testimony was uncorroborated by physical evidence. Therefore, the court concluded as a matter of law that the evidence presented was insufficient to meet the clear and convincing standard. The court further rejected the inequitable conduct claim. The court found that Juice Whip either lacked intent to deceive the PTO or withheld information that is immaterial to the patentability of the ‘405 patent.

***MASCO CORP. V. UNITED STATES****303 F.3d 1316 (Fed. Cir. 2002)*

The Federal Circuit reviewed a summary judgment for the defendant on a patent infringement suit. Particularly, the court ruled on whether 35 U.S.C. § 112, paragraph 6 should have been invoked for a step of “transmitting a force.”

Plaintiff patentee sued the United States for use of locks that patentee asserted were encompassed by method claims in two of its patents. In the Markman hearing, the Court of Federal Claims ruled that the step of “transmitting a force” recited in the method claims should be construed under 35 U.S.C. § 112, paragraph 6. The court reasoned that “transmitting a force” recited a function and not an act, therefore the “steps of a function” language invokes means-plus-function interpretation.

On appeal, the Federal Circuit reversed the lower court’s means-plus-function interpretation. The court stated that use of the phrase “step for” signals the patentee’s intent to invoke the statute, and, thus, creates a presumption that the claim should be interpreted accordingly. However, use of the phrase “step of” does not create a presumption of invoking step-plus-function interpretation. The court reasoned that this rule of interpretation is preferred because many patentees use the phrase “step of” without intending to invoke the statute, and courts should be wary of disrupting the expectations of the inventing community. Further, regardless of the exact language used, a step is interpreted under the statute only when function without act is recited in the step. In the present case, the court found that “transmitting a force” described how the step was carried out, not simply what the step accomplished. Accordingly, the court ruled that “transmitting a force” described an act and not a function, and so should not invoke 35 U.S.C. § 112, paragraph 6 for interpretation.

***SYMBOL TECHNOLOGIES, INC. V. LEMELSON MEDICAL,  
EDUCATION & RESEARCH FUND, LLP***

*277 F.3d 1361*

The Federal Circuit decided to allow the defense of prosecution laches “to bar enforcement of patent claims that issued after an unreasonable and unexplained delay in prosecution, even though the applicant complied with pertinent statutes and rules.” The court found that patents that were unexpired in 1998 but that claimed priority to the early 1950s, so-called “submarine patents,” were not enforceable.

The plaintiffs, Symbol Technologies, Inc. and Cognix Corporation, manufacture and sell bar code scanners. The defendant, the Lemelson Medical, Education, & Research Foundation, is the assignee of a number of patents of Jerome Lemelson. In 1998, the defendants sent letters to customers of the plaintiffs, stating that the bar code products they were using infringed a number of the Lemelson patents. The patents all claimed priority to two applications, which were filed in 1954 and 1956. Symbol and Cognix, sought declaratory judgment that the patents at issue were invalid, unenforceable, and not infringed by them or their customers. One of their defenses was prosecution laches, which the United States District Court for the District of Nevada dismissed, concluding the defense was unavailable as a matter of law.

The Federal Circuit reversed. The court found precedent for the defense of laches in two early Supreme Court cases: *Woodbridge v. United States*, 263 U.S. 50 (1923) and *Webster Electric Co. v. Splitdorf Electrical Co.* 264 U.S. 463 (1924). The Court in *Woodbridge* held that Woodbridge forfeited his right to a patent due to unexplained delay because he waited nine years to inform the patent office that they had inadvertently not issued the patent after a requested one-year delay. In *Webster*, the two claims that were the subject of the litigation had been filed after the inventor lost an interference proceeding and were added by an amendment to a divisional application eight years after the original patent application was filed, and, as the Court in *Webster* noted, after their subject matter was disclosed and in general use. The court in *Webster* held those claims unenforceable because of unreasonable delay.

The Federal Circuit also cited *Crown Cork & Seal Co. v. Ferdinand Gutmann Co.*, 304 U.S. 159 (1938) and *General Talking Pictures Corp. v. Western Electric Co.*, 304 U.S. 175 (1938) as evidence of the Supreme Court’s ratification of the prosecution laches defense. The Federal Circuit noted that in both of these cases, the presence or absence of intervening rights was an important factor in the application of the prosecution laches defense.

Lemelson first argued that *Webster* was only applicable to cases in interference proceedings. The Federal Circuit dismissed this argument, stating that the Court in *Webster* “was more concerned with the reasonableness of the delay between the initial filing of the application and the subsequent filing of claims 7 and 8 than it was with the interference.”

Lemelson also argued that congress’s passage of sections 120 and 121 of the patent code, which allow continuation and divisional applications, and gives them priority to the original application, eliminated the defense of laches. The court rejected this argument by careful examination of the legislative history of the 1952 Patent Act. An important commentary on the act, written by one of its original drafters, P.J. Federico, stated that the wording of section 282 would include equitable defenses such as laches, estoppel and unclean hands. Thus, the court concluded that the defense of prosecution laches was

unaltered by the passage of the Act. The court also rejected Lemelson's argument that two non-precedential opinions rejecting the defense of prosecution laches should be binding.

Judge Newman argued in her dissent that courts should not intervene in the continuation practice allowed by statutes. She maintained that this ruling will now require patentees to do more than is required by the statutes, which will create uncertainty and additional litigation. Judge Newman also attacked the majority's reliance on *Woodbridge* and *Webster*, which she found distinguishable from the instant case. She noted that *Woodbridge* had already lost his statutory rights to the patent, and that in *Webster* "the applicant presented, in a divisional application, claims covering subject matter in an adverse patent, five years after issuance of the adverse patent, which the applicant had previously lost on interference."

***ELAN PHARMACEUTICALS, INC. V. MAYO FOUNDATION FOR  
MEDICAL EDUCATION AND RESEARCH***

*304 F.3d 1221 (2002)*

The Federal Circuit considered whether a prior art disclosure that provided general instructions for producing a transgenic mouse constituted an inherent anticipation of a patent claiming the creation of such a transgenic mouse. The court held that the patents were valid, and not anticipated by the prior art.

Plaintiff Elan Pharmaceuticals, Inc. asserted that the Mayo Foundation infringed two of its patents directed to transgenic rodents encoding a heterologous amyloid precursor protein (APP). Mayo defended that Elan's patents were anticipated by a prior art patent, and thus invalid and unenforceable. Elan's key independent claims recited the limitation that APP is processed in the transgenic rodent into a cleavage fragment termed ATF-betaAPP. Mayo claimed that Elan's patents were invalid because the prior art taught generally the use of transgenic animals expressing APP in Alzheimer's research, and described basic methods that could be used in preparing the animals and screening them for desired transgene expression. However, the prior art did not teach that such an animal would produce detectable ATF-betaAPP, which can be used to screen the mice, nor did the prior art teach the actual production of the transgenic animal expressing APP. The district court found that Elan's patents were anticipated because formation of ATF-betaAPP was inherent in the general teachings of the prior art and granted summary judgment in favor of Mayo.

Elan appealed to the Federal Circuit, which reversed the district court's finding of anticipation. The court held that the prior art did not anticipate the claims because "general recipes of uncertain success," to carry out failure-prone activities such as gene transfer and expression, do not meet the legal criteria for anticipation based on inherent limitations. The court further stated that a limitation inherently disclosed by the prior art must be a limitation that is necessarily present, and such inherency cannot be based on "probabilities and possibilities." Since only a statistically small percentage of the transgenic animals produced in accordance with the prior art's teachings would contain all of the claim limitations, the Federal Circuit concluded that the prior art did not anticipate the invention because not all claim limitations were necessarily present in the prior art. The court also pointed to the fact that the prior art did not teach actual production of such transgenic animals. The court maintained that "new products are not anticipated when they did not previously exist, whether or not the process for making them is generally known."

An *en banc* rehearing for this case was granted by the Federal Circuit on December 18, 2002, 314 F.3d 1299.

## JURISPRUDENCE UNDER THE *IN REM* PROVISION OF THE ANTICYBERSQUATTING CONSUMER PROTECTION ACT

By *Bhanu K. Sadasivan*

The Anticybersquatting Consumer Protection Act (“ACPA”)<sup>1</sup> provides a cause of action for trademark owners against cybersquatters<sup>2</sup>, who register domain names<sup>3</sup> containing trademarks in order to profit from the marks. Cybersquatters fall into two categories: (1) those who can be found, and on whom a United States court can assert personal jurisdiction; (2) those who cannot be found, or are beyond personal jurisdiction because they are located in foreign countries. The ACPA addresses both categories of cybersquatters. The trademark provision<sup>4</sup> of the ACPA imposes liability on cybersquatters who can be found and are within a United States court’s personal jurisdiction while the *in rem* provision<sup>5</sup> grants relief against those cannot be found or are beyond personal jurisdiction.

It is the *in rem* provision of the ACPA that is the focus of this Note. In Part I, this Note surveys the jurisprudence that has developed under the *in*

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1. 15 U.S.C. § 1125(d) (2000).

2. Cybersquatting “refers to the deliberate, bad faith, and abusive registration of Internet domain names in violation of the rights of trademark owners.” S. REP. NO. 106-140, at 4 (1999); see Benjamin B. Cotton, Comment, *Prospecting or Cybersquatting: Registering Your Name Before Someone Else Does*, 35 J. MARSHALL L. REV. 287, 296-97 (2002) (describing three types of cybersquatters: “ransom grabbers” who register a domain name in hopes of selling it to the mark owner at a substantial profit; “competitor grabbers” who register domain names containing typographical errors of famous names; and those who “warehouse” their domain names. “Warehousers” register a domain name but do not put it to commercial use; instead they wait for the mark owner to realize that his domain name has been taken by someone else and then bargain a transfer fee with the mark owner for the domain name.).

3. Domain names are easy-to-remember textual addresses that correspond to a numerical address called the IP address, which is assigned to every computer attached to the Internet. Domain names consist of a second-level domain (“SLD”) and a top-level domain (“TLD”). For example, in the domain name Harrods.com, Harrods is the SLD and com is the TLD. See *Sporty’s Farm L.L.C. v. Sportsman’s Market, Inc.*, 202 F.3d 489, 492-93 (2d Cir. 2000) (describing the domain name system).

4. 15 U.S.C. § 1125(d)(1).

5. *Id.* § 1125(d)(2). “*In rem*” is a “technical term used to designate proceedings or actions instituted against the thing, unlike personal actions, which are said to be *in personam*.” BLACK’S LAW DICTIONARY 797 (7th ed. 1999).

*rem* provision of the ACPA.<sup>6</sup> This Note then examines in Part II the bad faith intent to profit element of the ACPA and analyzes the conflicting constructions by the courts regarding bad faith intent to profit as an element of the *in rem* provision. Finally, in Part III this Note explores the criticisms concerning the constitutionality and international overreach of the *in rem* provision of the ACPA.

## I. BACKGROUND

The ACPA can be broadly divided into two sections: trademark and *in rem*. The trademark section of the ACPA imposes liability on a person, such as a cybersquatter, while the *in rem* section authorizes jurisdiction of a court over a domain name rather than a person.<sup>7</sup>

### A. The Trademark Provision of the ACPA

This section provides a cause of action against a person for registering, trafficking in, or using a domain name confusingly similar or identical to a distinctive or famous mark with bad faith intent to profit.<sup>8</sup> In order to bring a successful suit under this provision, the plaintiff must show that: a) her mark is distinctive or famous; b) the domain name is identical or confusingly similar to a distinctive or famous mark or is dilutive of a famous mark; and c) the registrant registered, used, or trafficked in the domain name with a bad faith intent to profit from plaintiff's mark.<sup>9</sup> The ACPA contains a safe harbor provision to allow innocent registrants a defense of good faith and any other defense that is available to the defendant under the Lanham Act.<sup>10</sup> Finally, the provision provides both injunctive relief, including forfeiture, cancellation and transfer,<sup>11</sup> and damages remedy including statutory damage award for the offending domain name<sup>12</sup> and attorney fees to the prevailing plaintiff.<sup>13</sup>

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6. For a review of jurisprudence under the trademark provision of the ACPA, see Jian Xiao, Note, *The First Wave of Cases Under the ACPA*, 17 BERKELEY TECH. L.J. 159, 160-62 (2002).

7. In *in rem* jurisdiction, the court has jurisdiction over property such as a domain name. By contrast, in personal jurisdiction, the court has jurisdiction over the person.

8. 15 U.S.C. § 1125(d)(1).

9. *Id.* § 1125(d)(1)(A).

10. See 4 J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 25:78, at 25-268 (4th ed. 2000) (discussing availability of other defenses to a defendant under the ACPA through a savings clause).

11. 15 U.S.C. § 1125(d)(1)(C).

12. *Id.* § 1117(d). Under the statute, the court has the discretion to award statutory damages ranging from a minimum of \$1000 per infringing domain name to a maximum of \$100,000. See, e.g., *E. & J. Gallo Winery v. Spider Webs Ltd.*, 129 F. Supp. 2d 1033,

It is easier for a mark owner to prevail under the ACPA than under traditional trademark law. Plaintiffs bear a lower burden in proving fame or distinctiveness. The plaintiff is only required to show that the mark is either distinct or famous but not both.<sup>14</sup> Moreover, in determining whether a mark is famous or distinctive, courts are not restricted to the factors enumerated in traditional trademark law, but may consider other circumstances of the case.<sup>15</sup>

Similarly, the plaintiff need only show that the domain name is “confusingly similar” to the mark rather than meet the tougher “likelihood of confusion” standard.<sup>16</sup> Under the “confusingly similar” standard, courts compare only the domain name and the mark without reference to the goods or services of the parties.<sup>17</sup> In addition, the plaintiff need not shoulder the more stringent burden of proving that the domain name is dilutive of a famous mark because the plaintiff need only show that the mark is distinctive.<sup>18</sup>

Finally, plaintiffs seem to enjoy remarkable success in meeting the bad faith intent to profit element. Courts have consistently found bad faith intent to profit by domain name registrants in a majority of cases examined

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1048 (S.D. Tex. 2001) (awarding \$25,000 in statutory damages for use of the infringing domain name ERNESTANDJULIOGALLO.COM).

13. 15 U.S.C. § 1117(a). Courts in exceptional cases may also award reasonable attorney fees to the prevailing party in addition to statutory damages per offending domain name. *See, e.g.*, *Shields v. Zuccarini*, 254 F.3d 476, 487 (3d Cir. 2001) (affirming an award of attorney fees of almost \$40,000 because of the egregiousness of Zuccarini’s conduct and also awarding \$10,000 for each offending domain name). *But see* *People for Ethical Treatment of Animals v. Doughney*, 263 F.3d 359, 370 (4th Cir. 2001) (refusing to award attorney fees because defendant believed he had a legitimate right to make a parody website using plaintiff’s trademark).

14. 15 U.S.C. § 1125(d)(1)(A)(ii). *See* *Sporty’s Farm L.L.C. v. Sportsman’s Market, Inc.*, 202 F.3d 489, 497 (2d Cir. 2000) (discussing the requirements of famous and distinctive marks).

15. *See, e.g.*, *Victoria’s Cyber Secret Ltd. P’ship v. V Secret Catalogue, Inc.*, 161 F. Supp. 2d 1339, 1350 (S.D. Fla. 2001) (finding mark famous based on the nonenumerated factor of large advertising budgets and extensive worldwide promotion of merchandise bearing the mark).

16. *See* *Xiao*, *supra* note 6, at 164-66.

17. *N. Light Tech., Inc. v. N. Lights Club*, 97 F. Supp. 2d 96, 117-18 (D. Mass. 2000).

18. *See* *MCCARTHY*, *supra* note 10, § 25:78, at 25-270 n.28 (commenting that a mark owner is more likely to show that the mark is distinctive rather than proving “dilutive of famous mark” because the latter requires proof of two factors: the mark is famous and the offending domain name is dilutive of the famous mark).

so far.<sup>19</sup> Indeed, commentators have criticized the courts for their ready finding of bad faith intent to profit and their reluctance to use the safe harbor provision.<sup>20</sup> Nevertheless, bad faith intent to profit remains the critical element in prevailing under the trademark provision of an ACPA suit<sup>21</sup> and is also the central issue in the courts' split on the elements of an *in rem* suit.<sup>22</sup>

## B. The *in rem* provision of the ACPA

The *in rem* provision authorizes a court's exercise of jurisdiction over a domain name where a domain name registrant cannot be found or served in the United States.<sup>23</sup> To bring a claim under this provision, the plaintiff must show that: a) the trademark is registered with the United States Patent and Trademark Office ("USPTO") or is protected under Section 43(a) or (c) of the Lanham Act,<sup>24</sup> and b) the plaintiff was unable to establish personal jurisdiction over the registrant or was unable to locate the registrant after the exercise of due diligence.<sup>25</sup> Under the *in rem* provision, remedy is limited to forfeiture, cancellation, or transfer of the domain name to the mark owner; it does not extend to the plaintiff's money damages or attorney's fees.<sup>26</sup> This limitation is appropriate considering that the parties' rights in the property are adjudicated *in absentia*.<sup>27</sup>

By allowing a mark owner to file an action against the domain name itself, Congress tacitly declared that domain names are property, thereby expanding United States courts' reach to include foreign registrants. Courts, however, have been circumspect in construing the *in rem* provi-

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19. See Elizabeth D. Lauzon, Annotation, *Validity, Construction, and Application of Anticybersquatting Consumer Protection Act*, 15 U.S.C. § 1125(D), 177 A.L.R. FED. 1 § 27 (2002) (listing cases where courts have found good faith intent to profit or the lack thereof).

20. See John Brogan, Note, *Much Ado About Squatting: The Constitutionally Precarious Application of the Anticybersquatting Consumer Protection Act*, 88 IOWA L. REV. 163, 194 (2002); Jonathan Ward, Comment, *The Rise and Fall of Internet Fences: The Overbroad Protection of the Anticybersquatting Consumer Protection Act*, 5 MARQ. INTELL. PROP. L. REV. 211, 228 (2001); Xiao, *supra* note 6, at 175.

21. See *infra* Part II.1.

22. See *infra* Part II.2.

23. Prior to the enactment of the ACPA, mark owners did not prevail in an *in rem* action. Although Trademark Dilution Act did not expressly preclude such actions, it was construed to favor *in personam* actions alone. *Porsche Cars N. Am., Inc. v. Porsch.com*, 51 F. Supp. 2d 707, 712 (E.D. Va. 1999).

24. 15 U.S.C. § 1125(d)(2)(A)(i) (2000).

25. *Id.* § 1125(d)(2)(A)(ii).

26. *Id.* § 1125(d)(2)(D)(i).

27. *Alitalia-Linee Aeree Italiane S.p.A. v. Casinoalitalia.Com*, 128 F. Supp. 2d 340, 346 n.11 (E.D. Va. 2001).

sion, imposing restrictions on the availability of forums for *in rem* jurisdiction and adding to the plaintiff's requirements for establishing a court's personal jurisdiction over the domain name registrant.

1. *Domain names are property*

Prior to the passage of the ACPA, courts were split as to whether a domain name is property or a service contract right. In *Network Solutions, Inc. v. Umbro Intern., Inc.*,<sup>28</sup> the court concluded that a domain name was a product of a service contract between a domain name registrant and a registrar because domain names do not exist absent the registrar's services to make them operational Internet addresses.<sup>29</sup>

By contrast, the Northern District of California concluded in *Kremen v. Cohen*<sup>30</sup> that domain names are intangible property. The court reached this decision based on the dissent's position in *Network Solutions, Inc. v. Umbro Intern., Inc.*<sup>31</sup> that the right to use domain names "exists separate and apart"<sup>32</sup> from the various services required to make domain names operational Internet addresses.<sup>33</sup>

Since the passage of the ACPA, courts have viewed domain names as property.<sup>34</sup> Even where courts have considered domain names to be merely data, they have found them to be property: "Congress can make data property and assign its place of registration as its situs."<sup>35</sup>

2. *Establishing lack of personal jurisdiction over the registrant can be difficult*

To bring an *in rem* action, a mark owner must show the absence of personal jurisdiction over the registrant in *any* judicial district in the United States.<sup>36</sup> Proving lack of personal jurisdiction can be burdensome.

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28. 529 S.E.2d 80 (Va. 2000).

29. *Id.* at 86. See *Dorer v. Arel*, 60 F. Supp. 2d 558, 560-61 (E.D. Va. 1999) (analyzing domain names containing trademarks under trademark law and stating that trademarks are "not assets that can be freely traded apart from the goodwill to which they are attached").

30. 99 F. Supp. 2d 1168 (N.D. Cal. 2000).

31. 529 S.E.2d 80.

32. *Id.* at 89.

33. *Kremen*, 99 F. Supp. 2d at 1173 n.2.

34. *Caesars World, Inc. v. Caesars-Palace.Com*, 112 F. Supp. 2d 505, 508 (E.D. Va. 2000); *Lucent Techs., Inc. v. LucentSucks.com*, 95 F. Supp. 2d 528, 535 (E.D. Va. 2000).

35. *Lucent Techs.*, 95 F. Supp. 2d at 535 (quoting Judge Bryan in *Caesars World, Inc. v. Caesars-Palace.Com*, NO. 99-550-A, at \*5 (E.D. Va. filed Mar. 3, 2000)).

36. *Goldstein v. Gordon*, No. 3:00-CV-0022-P, 2002 WL 324289, at \*4 n.5 (N.D. Tex. Feb. 27, 2002).

As the court noted in *Heathmount A.E. Corp. v. Technodome.com*,<sup>37</sup> the burden of proving the absence of personal jurisdiction by a preponderance of evidence “is difficult to apply—requiring the plaintiff to prove a negative.”<sup>38</sup> In *Alitalia-Linee Aeree Italiane S.p.A. v. Casinoalitalia.Com*,<sup>39</sup> the court declined to assert *in rem* jurisdiction over the domain name holding that personal jurisdiction over the registrant was available.<sup>40</sup> In this case, the mark owner, an Italian Airline, brought suit against the registrant, a Dominican entity, for infringing on its mark by using a domain name similar to its own in the registrant’s online gambling business.<sup>41</sup> Although the registrant was a foreigner and had no offices in the United States, the court found personal jurisdiction over the registrant because the registrant had conducted activities aimed at the forum state<sup>42</sup> and therefore had sufficient minimum contacts with the forum state to satisfy due process requirements.<sup>43</sup> This case exemplifies the difficulty the plaintiff faces in proving a court’s lack of personal jurisdiction over the domain name registrant.

Not only must the plaintiff establish a lack of personal jurisdiction over the registrant, she must establish an absence of personal jurisdiction in *any* forum in the United States and not just the forum where the suit is filed.<sup>44</sup> In *Goldstein v. Gordon*,<sup>45</sup> a Texas court refused to assert *in rem* jurisdiction stating that personal jurisdiction was available over the registrant in the State of California.<sup>46</sup> Courts have required that the plaintiff establish a lack of personal jurisdiction over the registrant in *all* forums in

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37. 106 F. Supp. 2d 860 (E.D. Va. 2000).

38. *Id.* at 862.

39. 128 F. Supp. 2d 340 (E.D. Va. 2001).

40. Alitalia argued that because 15 U.S.C. § 1125(d)(4) provides that “*in rem* jurisdiction established under [paragraph 2] shall be in addition to any other jurisdiction that otherwise exists, whether *in rem* or *in personum*,” both *in rem* and *in personum* actions can be maintained simultaneously. The court rejected this argument stating that such a reading “paralyze[s] with one hand what [Congress] sought to promote with the other.” *Id.* at 345 n.9.

41. *Id.* at 342.

42. The activities included providing real-time gambling opportunities to residents of Virginia and requiring members to enter into contract with Casinoalitalia.Com in order to play games. *Id.* at 349-50.

43. *Id.*

44. *Goldstein v. Gordon*, No. 3:00-CV-0022-P, 2002 WL 324289, at \*3 (N.D. Tex. Feb. 27, 2002).

45. No. 3:00-CV-0022-P, 2002 WL 324289 (N.D. Tex. Feb. 27, 2002).

46. *Id.* at \*4.

the United States although the ACPA does not explicitly require such a showing.<sup>47</sup>

Such a strict requirement that the plaintiff show a lack of personal jurisdiction over the registration anywhere in the United States is in keeping with the settled principle that *in rem* jurisdiction is an alternative basis for jurisdiction where *in personam* jurisdiction is unavailable.<sup>48</sup> The legislative intent behind the enactment of the *in rem* provision of the ACPA is also consistent with such a strict requirement.<sup>49</sup> Congress enacted the *in rem* provision to address the difficulty of obtaining personal jurisdiction over cybersquatters who live in foreign countries or provide false contact information when registering their domain names.<sup>50</sup> Thus, where personal jurisdiction is available, *in rem* action should not be allowed.

Nonetheless, the Fourth Circuit, in *Porsche Cars North America, Inc. v. Porsche.Net*,<sup>51</sup> ruled that a court could, under certain circumstances, continue to exercise *in rem* jurisdiction over a defendant after personal jurisdiction becomes available.<sup>52</sup> In this case, the defendants raised an objection to the court's *in rem* jurisdiction just three days prior to the trial date although a full nine months had passed since their initial jurisdictional challenge,<sup>53</sup> stating that they had decided to submit to personal jurisdiction in another court in the United States.<sup>54</sup> In light of this lengthy delay, the court refused to dismiss *in rem* jurisdiction stating that "the existence of jurisdiction should not be subject to manipulation in the later stages of litigation," for otherwise "a person with an interest in a case could properly yank it across the country a few days before trial merely to express his outrage, thus increasing the opponent's costs and imposing additional expense on the federal courts as a whole."<sup>55</sup>

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47. *Alitalia-Linee Aeree Italiane S.p.A. v. Casinoalitalia.Com*, 128 F. Supp. 2d 340, 347 n.14 (E.D. Va. 2001).

48. See generally CHARLES A. WRIGHT & ARTHUR R. MILLER, FEDERAL PRACTICE AND PROCEDURE § 1070 (2d ed. 1987) ("Jurisdiction based on property most typically is invoked when one or more defendants or persons with potential claims to the property are nonresidents or jurisdiction over their person cannot be secured . . . . In this sense *in rem* or quasi-*in-rem* jurisdiction represents an alternative to *in personam* jurisdiction.").

49. S. REP. NO. 106-140, at 10 (1999) (stating that the bill will enable a mark owner to institute an *in rem* action in those cases where, "after due diligence, a mark owner is unable to proceed against the domain name registrant because the registrant has provided false contact information and is otherwise not to be found").

50. H.R. REP. NO. 106-412, at 14 (1999).

51. 302 F.3d 248 (4th Cir. 2002).

52. *Id.* at 258-59.

53. *Id.*

54. *Id.* at 253.

55. *Porsche Cars N. Am., Inc. v. Porsche.Net*, 302 F.3d 248, 258 (4th Cir. 2002).

### 3. *Exercising due diligence in locating the registrant*

Proving that the plaintiff exercised due diligence<sup>56</sup> to find the registrant has also been difficult. Courts, in construing the ACPA, have not provided clear direction on how to meet the requirements. In *Lucent Technologies, Inc. v. Lucentucks.com*,<sup>57</sup> the court found that the plaintiff had failed to exercise due diligence by waiting for only eight days after sending the notice to the registrant and before filing an *in rem* action.<sup>58</sup> The court stated that due process requires reasonable time<sup>59</sup> and reasonable time would be more than eight days since most statutes provide a waiting period of at least ten days.<sup>60</sup> Nevertheless, the court did not specify what the minimum period was, but stated instead that they were “certain that eight days is insufficient.”<sup>61</sup>

Similarly, courts have not provided clear instruction on how to meet the requirement to publish notice of the action. Although the ACPA provides that a plaintiff publish notice of the action “as the court may direct,”<sup>62</sup> in *Shri Ram Mission v. Sahajmarg.org*,<sup>63</sup> the court held that the mark owner must publish notice of the action.<sup>64</sup> The court stated that the discretion afforded by the statute is merely over the manner of publication such as when and how often notice is published, and not over whether or not to order publication.<sup>65</sup> In contrast, in *Banco Inverlat, S.A. v. www.inverlat.com*,<sup>66</sup> the court dispensed with the notice of action requirement stating that the defendants had been properly served and had received actual notice of the *in rem* suit.<sup>67</sup>

In summary, depending on the facts of the case, courts appear to have disparate “exercise of due diligence” requirements, thereby making it hard for a plaintiff to determine whether she has complied with the requirements of “due diligence.”

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56. 15 U.S.C. § 1125(d)(2)(A)(ii)(II) (2000). Due diligence is obtained by sending notice of the alleged violation and an intent to institute *in rem* action to the postal and email address of the registrant listed in the registrar’s Whois database and by publishing notice in a newspaper, if the court so directs, after filing the action.

57. 95 F. Supp. 2d 528 (E.D. Va. 2000).

58. *Id.* at 533.

59. *Id.* at 532-33.

60. *Id.* at 533-34.

61. *Id.* at 533.

62. 1125(d)(2)(A)(ii)(II)(bb).

63. 139 F. Supp. 2d 721 (E.D. Va. 2001).

64. *Id.* at 724.

65. *Id.*

66. 112 F. Supp. 2d 521 (E.D. Va. 2000).

67. *Id.* at 523-24.

#### 4. *Limiting the forum for in rem jurisdiction*

Courts have limited *in rem* jurisdiction to the judicial district where the domain registrar or registry is located, although the ACPA provides for jurisdiction in the judicial district where the registration documents are deposited.<sup>68</sup> Courts have ruled that filing of registration documents does not provide an alternative basis for jurisdiction,<sup>69</sup> stating that such a provision would violate the Due Process clause. A statute that creates a property right and then gives a plaintiff the right to transfer that property to any forum of its choice “offends notions of fair play.”<sup>70</sup>

Thus, despite the clear language in the statute allowing a court to have control and authority over the *in rem* suit where the relevant documents have been deposited, the courts have consistently interpreted this provision narrowly under the rubric of the Due Process clause. Such a reading is prudent given that it is easy for a mark holder to pick the forum of choice by simply depositing the domain name registration documents in the court and thereby reap the benefits of the ACPA.

## II. BAD FAITH INTENT TO PROFIT

### A. Bad faith intent to profit is a requirement of the trademark provision

Congress crafted the ACPA to prohibit the bad faith registration of domain names that incorporate trademarks with the intent to profit from the goodwill associated with such marks.<sup>71</sup> Underscoring the importance

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68. 15 U.S.C. § 1125(d)(2) (2000). Two provisions of the ACPA contain language referring to the judicial district where a plaintiff can file an *in rem* action. Under § 1125(d)(2)(A), *in rem* jurisdiction is available in the judicial district where the domain name registrar, registry, or other domain name authority is located, while § 1125(d)(2)(C) provides that a domain name has “its situs in the judicial district in which documents sufficient to establish control and authority regarding the disposition of the registration and use of the domain name are deposited with the court.”

69. See *FleetBoston Fin. Corp. v. FleetBostonFinancial.com*, 138 F. Supp. 2d 121, 135 (D. Mass. 2001) (holding that *in rem* jurisdiction does not lie in the district merely because papers creating that domain name are deposited there); *Mattel, Inc. v. Barbie-Club.Com*, No. 00 CIV 8705 DLC, 2001 WL 436207, \*2-3 (S.D.N.Y. May 1, 2001) *aff'd*, No. 01-7680, 2002 U.S. App. LEXIS 23149 (2d Cir. Nov. 7, 2002) (following *FleetBoston*); *Standing Stone Media, Inc. v. Indiantcountrytoday.com*, 193 F. Supp. 2d 528, 535 (N.D.N.Y. 2002) (following *FleetBoston* and limiting *in rem* jurisdiction to the home district of the registrar).

70. *FleetBoston*, 138 F. Supp. 2d at 135.

71. S. REP. NO. 106-140, at 12 (1999).

of this element, the ACPA lists nine factors for courts to consider in analyzing the cybersquatter's bad faith intent to profit.<sup>72</sup> However, a court is not restricted to the nine factors listed in the ACPA but is free to consider other factors in its inquiry into bad faith.<sup>73</sup>

Courts have analyzed bad faith intent under two types of tests: a nine-factor test and a "unique circumstances of the case" test. Under the nine-factor test, the court considers the list of nine factors provided in the ACPA to determine whether the registrant shows bad faith intent to profit from the plaintiff's mark. Under the unique circumstances test, the courts look to the special circumstances of the case in analyzing the registrant's bad faith intent to profit.

Courts have examined a series of cybersquatting cases under the nine-factor bad faith test of the ACPA.<sup>74</sup> For example, in *Shields v. Zuccarini*<sup>75</sup>

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72. 15 U.S.C. § 1125(d)(1)(B)(i) (2000). Out of the nine factors, the first four factors consider the registrant's right to the domain name, while the remaining five factors examine the mark owner's right to the domain name. The factors include: 1) the trademark or other intellectual property rights of the registrant in the domain name; 2) the relationship of the registrant's legal or other names to the domain name; 3) the registrant's prior use of the domain name for bona fide offering of services or goods; 4) the registrant's legitimate noncommercial or fair use of the mark under the domain name; 5) the registrant's intent to divert consumers from the mark owner's site for commercial gain or tarnish or disparage the mark by creating a likelihood of confusion as to the source, sponsorship, affiliation or endorsement of the site; 6) the registrant's offer to sell, transfer or otherwise assign the domain name to the mark owner or third party for commercial gain without any intent to use the domain name for a bona fide purpose; 7) providing false and misleading address information by the registrant when applying for domain name registration; 8) registration or acquisition of multiple domains identical or confusingly similar to marks of others; and 9) distinctness and fame of the mark.

73. *See id.* § 1125(d)(1)(B) (stating that "court may consider such factors as, but not limited to," the nine-factor list).

74. *See, e.g.,* *N. Light Tech., Inc. v. N. Lights Club*, 236 F.3d 57 (1st Cir. 2001) (finding bad faith intent to profit in the registrant's warehousing of multiple domain names, even though the mark name was not famous, the registrant had used the domain name for email purposes for two years, and the registrant had been unwilling to sell it); *Sporty's Farm L.L.C. v. Sportsman's Market, Inc.*, 202 F.3d 489 (2d Cir. 2000) (finding bad faith intent by Sporty's Farm in registering the name "Sportys.com" for the sole purpose of competing with Sportsman's Market and to prevent it from using the domain name); *Prime Publishers, Inc. v. Am.-Republican, Inc.*, 160 F. Supp. 2d 266 (D. Conn. 2001) (finding defendant's bad faith intent to profit in registering ctvoices.com because the domain name could create confusion as to whether it represented the plaintiffs newspaper *Voices* or the defendant's tabloid *Countrylife*); *Zipee Corp. v. U.S. Postal Serv.*, 140 F. Supp. 2d 1084 (D. Or. 2000) (inferring bad faith from the registrant's lack of services or connection to the domain name); *Ford Motor Co. v. Lapertosa*, 126 F. Supp. 2d 463 (E.D. Mich. 2000) (finding bad faith intent to profit in registering fordrecalls.com for no legitimate reason other than that Ford is a famous mark); *see also* Heather E. Nolan,

the court found bad faith intent to profit by Zuccarini in registering domain names that included several typographical misspellings of Shields' domain name joecartoon.com.<sup>76</sup> Users who accidentally typed misspellings of joecartoon.com were trapped in Zuccarini's websites and "were unable to exit" without clicking on the advertisements in the website.<sup>77</sup> For every click on the advertisement, Zuccarini earned between ten and twenty-five cents and thereby profited at the expense of Shields and the consumers. The court, applying the nine-factor test, found that at least five out of the nine factors pointed towards bad faith registration by Zuccarini<sup>78</sup> and found in favor of Shields.

Under the unique circumstances of the case test, courts look to the totality of circumstances in determining bad faith intent by the registrant.<sup>79</sup> In *Virtual Works, Inc. v. Volkswagen of America, Inc.*,<sup>80</sup> the appellant's purposeful registration of the domain name, vw.net, with the knowledge that the name could cause confusion with Volkswagen trademark, and the appellant's offer to sell the domain name to the highest bidder were found sufficient under the totality of circumstances to infer the appellant's bad faith intent to profit from the domain name.<sup>81</sup> Similarly, in *Victoria's Cyber Secret Ltd. Partnership v. V Secret Catalogue, Inc.*,<sup>82</sup> the registrant's particular choice of words in the domain name victoriasssexsecret.com and other such domain names—for no reason other than to exploit a famous and distinctive mark—was held under the totality of circumstances test

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Note, *Protecting Consumers from Cybersquatters: Is the ACPA Standing Up?*, 14 LOY. CONSUMER L. REV. 175 (2002); Xiao, *supra* note 6; but see *Pocono Int'l Raceway, Inc. v. Pocono Mountain Speedway, Inc.*, 171 F. Supp. 2d 427 (M.D. Pa. 2001) (finding no liability under the ACPA where defendant was user of the name in a true business

75. 254 F.3d 476 (3d Cir. 2001).

76. *Id.* at 485. This practice is also known as "typo-squatting." See, e.g., *Elecs. Boutique Holdings Corp. v. Zuccarini*, No. Civ.A. 00-4055, 2000 WL 1622760 (E.D. Pa. Oct. 30, 2000) (similar fact pattern and ruling as *Shields v. Zuccarini*).

77. *Shields v. Zuccarini*, 254 F.3d 476, 480 (3d Cir. 2001).

78. *Id.* at 485. Zuccarini had no intellectual property rights in the names; the domain name contained no variation of either Zuccarini's real name or other names used to identify him; Zuccarini had never used the domain name for bona fide offering of goods or services nor made legitimate noncommercial or fair use of the website; and Zuccarini knowingly registered multiple domain names confusingly similar to marks of others.

79. See *Virtual Works, Inc. v. Volkswagen of Am., Inc.*, 238 F.3d 264, 268 (4th Cir. 2001) (holding that "the most important grounds for finding bad faith are the unique circumstances of the case, which do not fit neatly into the specific factors enumerated by Congress but may nevertheless be considered under the statute").

80. 238 F.3d 264 (4th Cir. 2001).

81. *Id.* at 269-70.

82. 161 F. Supp. 2d 1339 (S.D. Fla. 2001).

sufficient to find bad faith intent.<sup>83</sup> Likewise, in *Primer Publishers, Inc. v. American-Republican, Inc.*,<sup>84</sup> the court considered the defendant's alleged registration of the domain name several months after a summary judgment was entered against him in a copyright suit, a factor distinct from those enunciated in the ACPA, in ruling for bad faith intent to profit.<sup>85</sup>

Overall, bad faith intent remains the critical element for determining whether a plaintiff prevails under the ACPA. Although commentators have expressed concern about the judicial expansion of bad faith element under the "totality of circumstances" test,<sup>86</sup> the facts in the specific cases comport with the policy behind the enactment of the ACPA and have been appropriately applied in the relevant cases.<sup>87</sup>

### **B. Split in courts on the requirement of bad faith intent to profit in an in rem suit.**

Although bad faith intent to profit is an element of the trademark provision of the ACPA, courts are split on whether bad faith intent to profit is also an element of the *in rem* provision of the ACPA. While most district courts require a showing of bad faith intent to profit,<sup>88</sup> one district court and the Court of Appeals for the Fourth Circuit have held otherwise and Professor McCarthy has agreed with them.<sup>89</sup>

Courts are split primarily because the statute itself is ambiguous on this point. It provides, in pertinent part:

[t]he owner of a mark may file an in rem civil action against a domain name . . . if the domain name violates any right of the owner of a mark registered in the Patent and Trademark Office,

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83. *Id.* at 1347-49.

84. 160 F. Supp. 2d 266 (D. Conn. 2000).

85. *Id.* at 281.

86. *See Ward, supra* note 20, at 228-29; Xiao, *supra* note 6, at 173.

87. *See Nolan, supra* note 74, at 198-200.

88. *See Cable News Network L.P., L.L.L.P. v. CNNEWS.com*, 177 F. Supp. 2d 506, 523 (E.D. Va. 2001) (stating that the purpose of the ACPA is "given proper effect by resolving the ambiguity [in the statute] in favor of requiring bad faith in ACPA *in rem* actions"); *Hartog & Co. AS v. SWIX.com*, 136 F. Supp. 2d 531, 539 (E.D. Va. 2001) (finding lack of bad faith by the registrants and hence denying relief under the ACPA); *BroadBridge Media, L.L.C. v. Hypercd.com*, 106 F. Supp. 2d 505, 511 (S.D.N.Y. 2000) (limiting *in rem* jurisdiction to bad faith claims).

89. *Harrods Ltd. v. Sixty Internet Domain Names*, 302 F.3d 214, 228 (4th Cir. 2002); *Jack In The Box, Inc. v. Jackinthebox.org*, 143 F. Supp. 2d 590, 591 (E.D. Va. 2001); MCCARTHY, *supra* note 10, § 25:79, at 25-296 (stating that where a registrant cannot be located, it may be very difficult for plaintiff to have any evidence of bad faith and the court should therefore "interpret the 'bad faith' requirement with considerable leniency and flexibility, or else the usefulness of the *in rem* procedure will be curtailed").

or protected under subsection (a) or (c) of this section; and the court finds that the owner is not able to obtain in personam jurisdiction over a person who would have been a defendant in a civil action under [the trademark section of the ACPA].<sup>90</sup>

1. *Textual analysis favors a reading against the bad faith intent requirement*

In construing the statute to require bad faith intent to profit as an element of the *in rem* provision, district courts have interpreted “jurisdiction over a person who would have been a defendant under [trademark provision of the ACPA]” to incorporate the bad faith element of the trademark provision.<sup>91</sup>

In contrast, those who find that bad faith intent to profit is not a requirement of the *in rem* provision argue that “jurisdiction over a person who would have been a defendant” serves only to identify persons beyond the jurisdiction of any United States court.<sup>92</sup> They conclude that this section does not incorporate the bad faith element of the trademark provision; rather, it imposes procedural restrictions on the *in rem* provision by requiring that the registrant not be amenable to personal jurisdiction in United States courts.

Opponents of the bad faith intent requirement in the *in rem* provision further contend that the *in rem* provision provides a cause of action where “the domain name violates any right” of the mark owner and not merely where the registrant exhibits bad faith intent to profit.<sup>93</sup> Because the phrase “any right of the owner of a mark” expresses a broad reading of rights, the phrase should also include infringement and dilution claims.<sup>94</sup> Indeed, “[i]f Congress had intended for subsection (d)(2) to provide for *in rem* jurisdiction only for [trademark section of the ACPA] claims, it could easily have said so directly.”<sup>95</sup> Thus, the *in rem* provision of the ACPA has been construed to include infringement and dilution claims in addition to claims based on a registrant’s bad faith intent to profit—favoring a reading against the bad faith intent to profit requirement in an *in rem* suit.

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90. 15 U.S.C. § 1125(d)(2)(A) (2000).

91. *Harrods*, 302 F.3d at 223 n.6; *Jack In The Box*, 143 F. Supp. 2d at 591.

92. *Cable News Network*, 177 F. Supp. 2d at 523.

93. *Harrods*, 302 F.3d at 228; see Jonathan S. Jennings, *Significant Trademark/Domain Name Issues in Cyberspace*, 663 PLI/PAT 649, 664 (2001). The *in rem* provision allows the plaintiff to bring claims where “the domain name violates any right of the owner of a mark registered in the Patent and Trademark Office, or protected under subsection (a) [infringement] or (c) [dilution] of this section.” 15 U.S.C. § 1125(d)(2)(A).

94. *Harrods*, 302 F.3d at 228.

95. *Id.*

2. *Legislative history favors a reading against the bad faith intent requirement*

The district courts in favor of the bad faith intent to profit element have so construed the statute based on the ACPA's overall purpose to prevent bad faith registration of domain names with intent to profit. Thus, in *Cable News Network L.P., L.L.L.P. v. CNNEWS.com*,<sup>96</sup> the court acknowledged that the *in rem* provision does not explicitly mention bad faith intent but nonetheless concluded that bad faith intent to profit was an element of an *in rem* suit based on the ACPA's purpose.<sup>97</sup> Similarly, in *BroadBridge Media, L.L.C. v. Hypercd.com*,<sup>98</sup> the court concluded that bad faith intent was a necessary element of *in rem* suits because legislative intent comports with such a narrow reading of the statute.<sup>99</sup> The court in *Hartog & Co. AS v. SWIX.com*<sup>100</sup> followed the *Broadbridge* reasoning stating, "[j]ust as th[e] . . . statute gives *in rem* plaintiffs relief against a broad class of confusingly similar domain names, it subjects them to Congress's clear intent to apply the statute to a narrow class of domain name registrants: those who act with bad faith intent."<sup>101</sup>

However, legislative history of the *in rem* provision does not require a showing of bad faith intent to profit. The *in rem* provision was enacted to provide a cause of action where "the domain name itself violates substantive Federal trademark law"<sup>102</sup> and does not refer to the bad faith registration described elsewhere in the ACPA. Instead, the *in rem* provision "speaks in terms of violations of trademark law generally."<sup>103</sup> Thus, the drafters' purpose in enacting the *in rem* provision appears separate from the general goal of the ACPA to prevent bad faith conduct by cybersquatters.<sup>104</sup>

In summary, courts' interpretation of the *in rem* provisions to *not* require a showing of bad faith intent to profit is in keeping with statutory

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96. 177 F. Supp. 2d 506 (E.D. Va. 2001).

97. *Id.* at 522-23.

98. 106 F. Supp. 2d 505 (S.D.N.Y. 2000).

99. *Id.* at 511; see H.R. REP. NO. 106-412, at 10 (1999) (commenting that the bill was "carefully and narrowly tailored . . . to extend only to cases where the plaintiff can demonstrate that the defendant . . . used the offending domain name with bad-faith intent to profit from the goodwill of a mark belonging to someone else.").

100. 136 F. Supp. 2d 531 (E.D. Va. 2001).

101. *Id.* at 539.

102. S. REP. NO. 106-140, at 10 (1999) (emphasis added); H.R. REP. NO. 106-412, at 14.

103. *Harrods Ltd. v. Sixty Internet Domain Names*, 302 F.3d 214, 231 (4th Cir. 2002).

104. *Id.*

construction and legislative intent. Such a textual analysis is compelling in its straightforward interpretation of the express provision of the statute. It is consistent with the legislative history behind the enactment of the *in rem* provision, although it appears to run counter to the overall purpose of the ACPA. Nonetheless, a mark owner who can show infringement or dilution of his mark under traditional trademark law is also likely to meet the bad faith intent to profit requirement<sup>105</sup> and thereby satisfy the overall goal of the ACPA. Thus, in practice, interpretation of the *in rem* provision to not require a showing of bad faith intent to profit is likely to satisfy the specific goal of the *in rem* provision, as well as the overall goal of the ACPA to prevent bad faith registrants.

3. *Lack of bad faith intent requirement does not expand judicial scope*

Allowing a mark owner to prevail in an *in rem* suit in the absence of a showing of bad faith intent to profit does not expand a court's jurisdiction. The only remedies available under the *in rem* provision are transfer, forfeiture and cancellation of domain name,<sup>106</sup> unlike claims under trademark law where both damages and attorney costs are available. Thus, a mark owner is unlikely to be tempted to use the *in rem* provision over others.

Moreover, it is also more difficult to prevail on infringement and dilution claims under traditional trademark law. After all, it was the ineffectiveness of traditional trademark law against cybersquatters that prompted Congress to pass the ACPA.<sup>107</sup> Thus, allowing such claims does not expand judicial scope.

Finally, the mark owner must prove either the unavailability of personal jurisdiction over the registrant or her inability to find the registrant after the exercise of due diligence. Both of these requirements are difficult to prove,<sup>108</sup> and therefore an owner is unlikely to bring these claims unless she has no other option. Overall, allowing infringement and dilution claims in an *in rem* action does not undermine a registrant's rights or unfairly find innocent registrants liable.

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105. Under traditional trademark law, mark owners have to meet the "use in commerce" requirement. Such a showing is likely to satisfy the bad faith intent to profit requirement.

106. *Harrods*, 302 F.3d at 223.

107. See Xiao, *supra* note 6, at 160-61 (discussing the ineffectiveness of legal protections prior to the ACPA).

108. See *supra* Part II.A.2-3.

### III. CRITICISMS OF THE *IN REM* PROVISION

By allowing jurisdiction over a domain name when personal jurisdiction is unavailable, the *in rem* provision has sparked a number of criticisms. Some commentators have questioned the constitutionality of the *in rem* provision while others have denounced the provision as imposing United States trademark law on the rest of the world.

#### A. Constitutionality of the *in rem* provision

Defendants in ACPA suits and commentators have questioned the constitutionality of the *in rem* provision of the ACPA.<sup>109</sup> They contend that in cases, such as *in rem* ACPA suits, where personal jurisdiction cannot be asserted due to a registrant's lack of United States contacts, the same lack of contacts will also render *in rem* jurisdiction unconstitutional.<sup>110</sup> They argue that this is because due process requires "minimum contacts" between the registrant and the forum state irrespective of whether the jurisdiction asserted is *in personam* or *in rem*.<sup>111</sup>

Nevertheless, the lack of minimal contacts may be irrelevant because "when claims to the property itself are the source of the underlying controversy between the plaintiff and the defendant, it would be unusual for the State where the property is located not to have jurisdiction."<sup>112</sup> Thus, in ACPA *in rem* cases, where the property is the domain name and the domain name is the source of the underlying controversy, the court in the judicial district where the domain name is located should have jurisdiction irrespective of the results of "minimum contacts" analysis. Indeed, the Court in *Shaffer* stated that in *in rem* cases "[t]he State's strong interests in assuring the marketability of property within its borders and in providing a procedure for peaceful resolution of disputes about the possession of that property would also support jurisdiction, as would the likelihood that important records and witnesses will be found in the State."<sup>113</sup>

In keeping with such analysis, courts have upheld the constitutionality of *in rem* jurisdiction in the judicial district where the domain name registrar, registry, or other domain name authority is located. In *Heathmount A.E. Corp v. Technodome.com*,<sup>114</sup> the registrant, a Canadian citizen, had

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109. Catherine T. Struve & R. Polk Wagner, *Realspace Sovereigns in Cyberspace: Problems with the ACPA*, 17 BERKELEY TECH. L.J. 989 (2002).

110. *Id.* at 991.

111. *Id.* at 1006; see *Shaffer v. Heitner*, 433 U.S. 186, 212 (1977) (concluding that "all assertions of state court jurisdiction must meet the 'minimum contacts' standard").

112. *Shaffer*, 433 U.S. at 207.

113. *Id.* at 208.

114. 106 F. Supp. 2d 860 (E.D. Va. 2000).

no contact with the United States other than registering the domain name.<sup>115</sup> The registrant argued that the court could not establish *in rem* jurisdiction where the court could not assert personal jurisdiction over him.<sup>116</sup> The court nevertheless held that *in rem* jurisdiction was proper, stating, “where property is the entire subject matter of the dispute, and the suit is properly brought *in rem*, due process does not require a level of contact with the forum sufficient for *in personam* jurisdiction over the defendant.”<sup>117</sup> Similarly, in *Caesars World, Inc. v. Caesars-Palace.Com*,<sup>118</sup> the court held that it was unnecessary for minimum contacts in *in rem* ACPA suits to meet personal jurisdiction standards.<sup>119</sup>

Commentators have nonetheless argued that even in cases where the property is the source of the underlying controversy, “the presence of that property within the Forum State will not always support the inference of contacts between the defendant and the forum.”<sup>120</sup> They point to the *Shaffer* court’s opinion suggesting that in some circumstances the presence of property in the forum state will not suffice for minimum contacts, such as when the property is brought into the forum without the owner’s consent or when the plaintiff fraudulently induced the owner to bring the property into the forum.<sup>121</sup>

However, these circumstances are unlikely to be applicable in ACPA suits. Domain names are not brought into the forum in ACPA suits without the owner’s knowledge. Indeed, it is likely that the registrant is aware of the nationality of the registrar, if not the physical location of the registrar.<sup>122</sup> Moreover, in cases where the domain name is brought into the forum without the registrant’s knowledge such as by depositing documents

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115. *Id.* at 863.

116. *Heathmount A.E. Corp. v. Technodome.com*, No. CA-00-00714-A, 2000 U.S. Dist. LEXIS 20316, \*6-7 (E.D. Va. Dec. 29, 2000).

117. *Id.* at \*8.

118. 112 F. Supp. 2d 502 (E.D. Va. 2000).

119. *Id.* at 504; *see Cable News Network L.P., L.L.L.P. v. CNNEWS.com*, 162 F. Supp. 2d 484, 491 (E.D. Va. 2001) (holding that the owner of the property is not required to have minimum contacts with the forum where ACPA actions are “properly categorized as ‘true *in rem*’”).

120. *Struve & Wagner, supra* note 109, at 1010.

121. *See Shaffer v. Heitner*, 433 U.S.186, 208 n.25 (citing RESTATEMENT (SECOND) OF CONFLICTS OF LAWS 60, cmts. c, d).

122. *See* <http://www.verisign-grs.com/registrar/custalph.html> (Feb. 20, 2003) (listing nationality of registrars); <http://www.signatoredomains.com/contact.jsp> (Feb. 20, 2003) (providing location information).

establishing control of the domain name, courts have refused to assert *in rem* jurisdiction over the registrant.<sup>123</sup>

In summary, the *in rem* provision of the ACPA should continue to withstand constitutional challenge. The source of the controversy, the domain name, is located in the judicial district where the court is located and the court should therefore have jurisdiction over that property. More importantly, Congress has expressly provided for such a jurisdiction,<sup>124</sup> further buttressing the constitutionality of the provision.

## B. The *in rem* provision and its global impact

Commentators have evinced concern at the reach of the *in rem* jurisdiction in bringing foreign parties to a United States court simply based on the location of the domain name.<sup>125</sup> In *Heathmount A.E. Corp v. Technodome.com*,<sup>126</sup> both the plaintiffs and the defendants were Canadians and the court, nevertheless, asserted jurisdiction over the property.<sup>127</sup> Similarly, in *Harrods Ltd. v. Sixty Internet Domain Names*,<sup>128</sup> the court exercised jurisdiction although both parties were foreigners, prompting the concern that any one who registers a domain name with a registry located in the United States, such as the registry for .com, could potentially lose that website.<sup>129</sup>

It was the recognition of the global nature of the domain name system that led to the creation of the Internet Corporation for Assigned Names and Numbers ("ICANN") and its Uniform Domain Name Dispute Resolution Policy ("UDRP").<sup>130</sup> Nevertheless, a recent ruling by a United States court has expanded the reach of the ACPA to a global scale.<sup>131</sup> Under *Bar-*

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123. See *supra* Part II.B.4.

124. 15 U.S.C. § 1125(d)(2) (2000).

125. Steven J. Coran, The Anticybersquatting Consumer Protection Act's In Rem Provision: Making American Trademark Law the Law of the Internet?, 30 HOFSTRA L. REV. 169 (2001); Andrew Lothian, I'll See Your Domain Name in (US) Court!, at <http://www.theregister.co.uk/content/archive/26957.html> (Feb. 20, 2003).

126. 106 F. Supp. 2d 860 (E.D. Va. 2000).

127. *Id.* at 861.

128. 302 F.3d 214 (4th Cir. 2002).

129. See Lothian, *supra* note 125 (commenting that the *Harrods* case "now affirm[s] a principle that is perhaps worrying for those 20 million or so .com domain name registrants who live outside the USA.").

130. For a description of ICANN and UDRP, see generally Ryan Owens, *Domain-Name Dispute-Resolution after Sallen v. Corinthians Licenciamentos & Barcelona.com, Inc. v. Excelentisimo Ayuntamiento de Barcelona*, 18 BERKELEY TECH. L.J. 257 (2003).

131. See generally Sally M. Abel & Andrew Song, *Homer and Dr. Evil Meet: The Anticybersquatting Consumer Protection Act*, 4 E-COMMERCE L. REP. 13 (2002) (describing situations where the ACPA is likely to have an international impact).

*celona.Com, Inc. v. Excelentísimo Ayuntamiento de Barcelona*,<sup>132</sup> a foreign trademark owner can now sue foreign domain holders in a United States court to enforce his foreign trademarks under the ACPA.<sup>133</sup> Similarly, a foreign domain holder who has lost in a UDRP proceeding may sue in a United States court under the ACPA to prevent the termination or transfer of his domain name.<sup>134</sup> Thus, under the ACPA, it is feasible for the judicial reach of a United States court to be as broad as the Internet itself, an alarming proposition likely to fuel concerns over United States dominance of domain name adjudication.

These concerns are especially troubling in the context of the widely variant trademark registration schemes in different countries. The United States employs a use-based system in which “the first producer to use the mark obtains the rights with respect to the goods upon which and geographical areas in which use occurred.”<sup>135</sup> In contrast, most other countries employ a first to register system, in which the first party to register a mark obtains an exclusive right to use the mark on the goods or services at issue.<sup>136</sup> Thus, a foreigner who first registers a domain name should have as much right to the domain name as an American who uses it first.<sup>137</sup> Nonetheless, if the domain name is litigated in the United States, a foreign registrant is likely to lose his domain name even though he would have a legal right to it if the domain names were litigated in his country. This raises valid concerns about imposition of United States trademark law upon the world.

#### IV. CONCLUSION

Courts until now have been careful to ensure that the *in rem* provision is available only as a last resort even while expanding the substantive requirements of the *in rem* provision by allowing infringement and dilution claims. Although criticized, these cases have typically provided a careful balancing of rights aimed at reaching the correct results. However, recent ACPA decisions suggest an international overreach by United States courts, and these raise troubling questions about the parity of applying United States trademark law across differing national trademark regimes.

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132. 189 F. Supp. 2d 367 (E.D. Va. 2002).

133. *Id.* at 373.

134. *Id.*

135. Graeme B. Dinwoodie, *(National) Trademark Laws and the (Non-National) Domain Name System*, 21 U. PA. J. INT’L ECON. L. 495, 502 (2000).

136. *Id.*



**DOMAIN-NAME DISPUTE-RESOLUTION AFTER  
SALLEN V. CORINTHIANS LICENCIAMENTOS &  
BARCELONA.COM, INC. V. EXCELENTISIMO  
AYUNTAMIENTO DE BARCELONA**

*By Ryan R. Owens*

This Note examines the interaction between the two dominant systems of domain-name dispute resolution: the Uniform Domain-Name Dispute-Resolution Policy (“UDRP”) and the Anticybersquatting Consumer Protection Act (“ACPA”).<sup>1</sup> These systems vary in structure and scope. The UDRP is an international, administrative process enforced by contract. The ACPA, on the other hand, is a statutory system designed by Congress and enforced by U.S. federal courts. Trademark owners can use the ACPA and the UDRP procedures to combat cybersquatting and other abuses of the Internet domain-name system that infringe on their trademark rights. Only recently, however, have federal cases begun to describe how the ACPA will treat UDRP decisions.

Two recent federal cases will likely influence the future development of these systems. In the first case, *Sallen v. Corinthians Licenciamentos*,<sup>2</sup> the First Circuit held that federal courts have jurisdiction over ACPA declaratory judgment claims brought by domain-name registrants<sup>3</sup> seeking to recover a domain name lost in a UDRP proceeding.<sup>4</sup> In the second case, *Barcelona.com, Inc. v. Excelentísimo Ayuntamiento de Barcelona*,<sup>5</sup> the Eastern District of Virginia dismissed a similar declaratory judgment action under the ACPA, and held that the ACPA applied to valid foreign trademark rights.

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1. In this context, a system of domain-name dispute resolution could include litigation, mediation, arbitration, and UDRP’s mandatory administrative proceedings.

2. 273 F.3d 14 (1st Cir. 2001).

3. The term “domain name registrant” will be used throughout the Note to describe the owner of the right to use the domain name on the Internet—a right acquired through registration of the domain name.

4. *Sallen*, 273 F.3d at 27-30. The ACPA’s declaratory judgment action, granted by 15 U.S.C § 1114(2)(D)(v) (1994 and Supp. 1999), allows domain name registrants to challenge an improper transfer or cancellation of its domain name. *Id.*

5. 189 F. Supp. 2d 367 (E.D. Va. 2002). The Eastern District of Virginia tries many domain name cases because plaintiffs can often assert *in rem* jurisdiction over the domain name, and one of the largest registrars, Network Solutions, Inc., is located in this district. *See, e.g.,* *Ceasars World, Inc. v. Ceasars-Palace.com*, 112 F. Supp. 2d 502 (E.D. Va. 2000).

Because the UDRP and the ACPA are relatively new, there are few federal cases describing the relationship between the two systems;<sup>6</sup> therefore *Sallen* and *Barcelona.com* are important decisions for federal courts applying the ACPA to UDRP decisions. These cases will influence how trademark owners and domain-name registrants will protect their rights, particularly in deciding whether to resort to either the UDRP or the ACPA. Following *Sallen* and *Barcelona.com*, the UDRP may have to adapt to counter an increase in the ACPA's dominance.

These cases also raise concerns about the future of domain-name dispute resolution. An international, contractual process like the UDRP does not always integrate harmoniously with a national, judicial process like the ACPA; and although the ACPA's declaratory judgment action may provide a way to address certain unfair UDRP decisions, an internal UDRP appellate process would better address lingering concerns with the UDRP process. Ultimately, in terms of balancing the rights of trademark owners and domain-name registrants, the ACPA may be merely a temporary solution until the UDRP system is further reformed.

## I. BACKGROUND

Understanding the purposes of the UDRP and the ACPA requires an understanding of how abuses of the domain-name system occur. This Part describes the development of the Internet and the domain-name system. It then focuses on the registration, use, and abuse of domain-name property rights.

### A. The Internet and the Domain-name System

In the 1960s, the United States funded the development of the "ARPANET" network, the seed of today's Internet.<sup>7</sup> By the 1970s, the government had linked other networks to the ARPANET backbone, creating a "network of networks," and began allowing nongovernmental use of this network. The public quickly came to dominate what became known as the Internet, especially e-mail and the graphical World Wide Web.<sup>8</sup>

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6. Several early cases deal with the interaction between the ACPA and UDRP. *See, e.g., Strick Co. v. Strickland*, 162 F. Supp. 2d 372 (E.D. Pa. 2001); *Parisi v. Netlearning, Inc.*, 139 F. Supp. 2d 745 (E.D. Va. 2001); *Broadbridge Media L.L.C v. Hypercd.com*, 106 F. Supp. 2d 505 (S.D. NY 2000); *Weber-Stephen Prods. Co. v. Armitage Hardware & Bld*, 54 U.S.P.Q.2d 1766 (N.D. Ill. 2000).

7. Wayne Brooks, *Wrestling Over the World Wide Web: ICANN's Uniform Dispute Resolution Policy for Domain Name Disputes*, 22 *HAMLIN J. PUB. L. & POL'Y* 297, 299-301 (2001).

8. *Id.*

The Internet is a huge web of connected computer networks that share standardized communication protocol software. These standardized protocols allow a computer connected to the Internet to communicate with any other connected computer.<sup>9</sup> As part of the protocol, each computer is assigned a unique network address: a virtual location in cyberspace defined by an Internet protocol (“IP”) number.<sup>10</sup> This IP number works like a real-world mailing address; when sending a packet of information through the Internet, a computer attaches the receiving computer’s IP number as well as the sender’s own IP number to the information, so that the receiver can respond.<sup>11</sup>

IP numbers, which are long and arbitrary, are essential to Internet communication, but are nearly impossible for human users to remember. Recognizing this problem, Internet engineers developed the Domain-name System (“DNS”), a database that replaces each IP number with a unique, easy-to-remember alphanumeric code called a domain name.<sup>12</sup> When an Internet user enters a domain name into a web browser, a computer database called a domain-name server translates the name into its corresponding IP number.<sup>13</sup>

The form of a domain name specifies its location within the Internet’s domain structure. For example, the domain name “law.berkeley.edu” is a virtual location within the top level domain devoted to educational institutions: .edu. In the .edu domain, the domain name resides within the second-level domain *berkeley*. Finally, within *berkeley*, the domain name refers specifically to the IP address for the third-level domain *law*.

9. See *Sallen* 273 F.3d at 18-19; see also 47 U.S.C. § 230(f) (2000) (defining the Internet as “the international computer network of both Federal and non-Federal interoperable packet switched data networks”).

10. This number is part of the standardized TCP/IP protocols which allow the Internet to operate.

11. See ICANN, *Glossary of Terms and Abbreviations*, at <http://www.icann.org/general/glossary.htm> (briefly defining Internet protocol); see also A. Michael Froomkin, *Wrong Turn in Cyberspace: Using ICANN to Route Around the APA and the Constitution*, 50 DUKE L.J. 17, 37 (2000).

12. These engineers considered the system as an “addressing mechanism . . . not intended to reflect trademarks.” Holger P. Hestermeyer, *The Invalidity of ICANN’s UDRP Under National Law*, 3 MINN. INTELL. PROP. REV. 1, 6-7 (2002). For more information on the Domain Name System, see Luke A. Walker, Note, *ICANN’s Uniform Domain Name Dispute Resolution Policy*, 15 BERKELEY TECH. L.J. 289, 291-94 (2000).

13. Congress defines “domain name” as “any alphanumeric designation that is registered with or assigned by any domain name registrar, domain name registry, or other domain name registration authority as part of an electronic address on the Internet.” 15 U.S.C. § 1127 (2000).

The United States created the Internet Corporation for Assigned Names and Numbers ("ICANN") in November 1998 as a U.S.-based, non-profit, private entity to administer all aspects of the Internet, including the domain-name system.<sup>14</sup> This transfer was intended to privatize the Internet, especially the domain-name system.<sup>15</sup> ICANN in turn administers the registries, which are private, nonprofit corporations that manage the generic top-level domain names ("gTLDs"). The top-level domain names include: .aero, .biz, .com, .coop, .info, .museum, .name, .net, and .org.<sup>16</sup> In addition, ICANN approves the domain-name registrars that assign second-level domains within these gTLDs.<sup>17</sup>

Anyone may register a domain name for a second-level domain within the gTLDs. A second-level domain and the domain name attached to it must be unique: the DNS would breakdown if the domain names for different locations within the gTLDs were identical. Therefore, once a sec-

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14. Although ICANN is nominally an international quasi-governmental body, a Memorandum of Understanding between the U.S. Department of Commerce and ICANN reflects the United States' continuing, and still significant, influence on Internet governance. See Memorandum of Understanding Between the U.S. Department of Commerce and Internet Corporation for Assigned Names and Numbers, available at <http://www.ntia.doc.gov/ntiahome/domainname/icann-memorandum.htm> (visited Oct. 5, 2002); ICANN, *Home Page*, at <http://www.icann.org> (last updated Mar. 13, 2003). Many websites present overviews of the structure and capabilities of ICANN. See ICANN, *About ICANN*, at <http://www.icann.org/general/abouticann.htm>; ICANN *Fact Sheet*, at <http://www.icann.org/general/fact-sheet.htm>; ICANN, *Background* at <http://www.icann.org/general/background.htm>; David E. Sorkin, *Judicial Review of ICANN Domain Name Dispute Decisions*, 18 SANTA CLARA COMPUTER AND HIGH TECH L.J. 35, 38-39 (2001) (describing the formation and function of ICANN).

ICANN's policies are influenced by governments, Internet engineering organizations, and corporate trademark owners. See Elizabeth G. Thornburg, *Fast, Cheap, and Out of Control: Lessons From the ICANN Dispute Resolution Process*, 6 J. SMALL & EMERGING BUS. L. 191, 202-03 (2002).

15. Stephen J. Ware, *Domain Name Arbitration in the Arbitration-Law Context: Consent to, and Fairness in, the UDRP*, 6 J. SMALL & EMERGING BUS. L. 129, 157-59 (2002); see also Froomkin, *supra* note 11, at 13 (providing a detailed discussion of the controversy over the development of ICANN).

16. There are three types of top-level domain names: general, restricted, and country code. Domain names in the general top-level domains ("gTLDs") are open to anyone, while only specifically defined groups may register domain names in a restricted top-level domain ("rTLD"). Country code top level domains ("ccTLDs"), assigned to each country in the world, vary in their policies. Some restrict registration to only those entities within the country, others market the domain names to foreign entities. See Hestermeyer, *supra* note 12, at 3-4.

17. Network Solution Inc. (NSI), for example, is the current registry for ".com", ".org," and ".net" until November 2003. ICANN, *ICANN-NSI Registry Agreement*, ¶ 23, at <http://www.icann.org/nsi/nsi-registry-agreement-04nov99.htm> (Nov. 1999).

ond-level domain has been registered, no one can register an identical domain name within that top level domain. A second-level domain holder can then create lower-level domains within their second-level domain.

Registration of domain names is automated and occurs on a first-come basis. There is no check to determine whether the domain name infringes a company's trademark rights.<sup>18</sup> Trademark law, on the other hand, grants trademark rights only after a more stringent process. Therefore, disputes over domain-name ownership are common.<sup>19</sup>

## B. Cybersquatting and Other Domain-Name System Abuses

Cybersquatting is the most familiar way to abuse the domain-name system by improperly registering and using a domain name. A cybersquatter finds and registers an Internet domain name that is identical or similar to a well-known trademark. The cybersquatter then attempts to sell the domain name to the trademark's owner, usually at an inflated price.<sup>20</sup> For example, the infamous cybersquatter, Daniel Toepfen, paid \$100 to register "panavision.com,"<sup>21</sup> a domain name identical to the "panavision" trademark. He later offered the domain name to the Panavision Corporation for \$13,000. Because there was no statute like the ACPA at the time, the federal court found him liable under traditional trademark infringement.<sup>22</sup>

There are other domain-name system abuses besides cybersquatting. For example, the UDRP specifically lists registration abuses such as: (1) preventing a trademark owner from reflecting its mark on the Internet;<sup>23</sup> (2) disrupting a competitor's business;<sup>24</sup> or (3) attracting users for commercial gain by misleading them about who actually owns the web site.<sup>25</sup>

18. See *Sallen v. Corinthians Licenciamientos*, 273 F.3d 14, 19-20 (1st Cir. 2001).

19. *Id.*

20. See S. REP. NO. 106-140, at 4-5 (1999) (defining cybersquatting as "registering, trafficking in, or using domain names . . . that are identical or confusingly similar to trademarks with the bad-faith intent to profit from the goodwill of the trademarks"); H.R. REP. NO. 106-412, at 5 (1999); *Sporty's Farm L.L.C. v. Sportsman's Mkt., Inc.*, 202 F.3d 489, 493 (2d Cir. 2000).

21. *Panavision Int'l v. Toepfen*, 141 F.3d 1316, 1318 (9th Cir. 1998).

22. *Id.* at 1319.

23. ICANN, *Uniform Domain Name Dispute Resolution Policy*, ¶ 4(b)(ii), at <http://www.icann.org/udrp/udrp-policy-24oct99.htm> (visited Sep. 10, 2002) [hereinafter *UDRP Policy*]. For the rules that govern the UDRP administrative proceeding see ICANN, *Rules for Uniform Domain Name Dispute Resolution Policy*, at <http://www.icann.org/udrp/udrp-rules-24oct99.htm> (Oct. 24, 1999) [hereinafter *UDRP Rules*].

24. *UDRP Policy*, *supra* note 23, ¶ 4(b)(iii).

25. *Id.* ¶ 4(b)(iv). This is otherwise known as "initial interest confusion"—capitalizing on an Internet user's mistaken belief that the domain name is associated with

Trademark owners can also abuse the domain-name system through reverse domain-name hijacking, in which the trademark owner brings an unjustified claim of cybersquatting, and obtains the domain name from a legitimate owner. Both the UDRP and the ACPA provide penalties against trademark owners who try to use these systems to steal domain names. The UDRP allows a domain-name holder to have a proceeding dismissed by showing that the trademark owner is attempting either to reverse domain-name hijack the domain name, or to harass the domain-name owner.<sup>26</sup> The ACPA also provides a limited penalty for reverse domain-name hijacking.<sup>27</sup>

## II. THE UNIFORM DOMAIN-NAME DISPUTE RESOLUTION POLICY

ICANN responded to the cybersquatting problem by working with the World Intellectual Property Organization (“WIPO”) to develop the UDRP. ICANN enforces the UDRP through its accreditation contracts with registrars.<sup>28</sup> All approved gTLD registrars must incorporate the UDRP into new domain-name registration contracts and renewals of existing contracts.<sup>29</sup> Those registering domain names through registration contracts agree to use the UDRP’s “mandatory administrative proceeding” to resolve certain disputes.<sup>30</sup> For its part, the registrar agrees not to cancel, suspend, or trans-

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the trademark owner to promote the cybersquatter’s own products or services. See Bryce J. Maynard, *The Initial Interest Confusion Doctrine and Trademark Infringement on the Internet*, 57 WASH. & LEE L. REV. 1303, 1318-32 (2000) (describing the development of the initial interest confusion doctrine for Internet cases).

26. *UDRP Rules*, *supra* note 23, ¶ 15(e). See also *id.* ¶ 1 (defining “reverse domain name hijacking”); 145 CONG. REC. S15,026 (daily ed. Nov. 19, 1999).

27. Critics, however, argue that these penalties are not enough to deter reverse domain name hijackers. See A. Michael Froomkin, *ICANN’s “Uniform Dispute Resolution Policy”—Causes and (Partial) Cures*, 67 Brooklyn L. Rev. 605, 692-96 (2002) (arguing that the UDRP does not adequately penalize reverse domain name hijacking and providing solutions to fix this problem). *But cf.* Jason M. Osborn, *Effective and Complementary Solutions to Domain Name Disputes: ICANN’s Uniform Domain Name Dispute Resolution Policy and the Anticybersquatting Consumer Protection Act of 1999*, 76 NOTRE DAME L. REV. 209, 243-45 (2000) (arguing that the UDRP does not encourage reverse domain name hijacking).

28. *UDRP Policy*, *supra* note 23, n.2. The UDRP applies to the registrars of the most used top-level domains: .com, .net, and .org. *Id.*

29. *Id.* ¶ 1.

30. *Id.* While the UDRP’s proceeding is sometimes called arbitration, it better resembles administrative proceedings. See Ware, *supra* note 15, at 145. When compared to the UDRP’s administrative proceeding, arbitration usually has a broader range of remedies. Also, arbitration requires both parties to agree on the resolution provider and is not

fer a domain name without a private agreement, court order, or arbitration decision.<sup>31</sup> In general, the UDRP provides a unique, fast-track administrative process for trademark owners alleging “registration and use of a domain name in bad faith.”<sup>32</sup>

### A. The UDRP Procedure

Trademark owners initiate UDRP administrative proceedings by filing a detailed complaint with one of the four dispute-resolution service providers (“providers”) currently approved by ICANN.<sup>33</sup> When submitting the complaint, trademark owners agree to prove each element of the complaint and to submit to a court of mutual jurisdiction if a domain-name registrant challenges the result of the UDRP proceeding.<sup>34</sup>

The complaint must allege and support three elements: (1) the domain name is confusingly similar or identical to the complainant’s trade or service mark; (2) the domain-name holder lacks legitimate rights to the domain name; and (3) the domain name has been registered and used in bad faith.<sup>35</sup> The UDRP policy gives examples of bad faith: (1) registering or acquiring a domain name principally to profit from transferring the domain name to the trademark owner or a competitor of the trademark owner (this is cybersquatting); (2) registering a domain name to block the trademark owner from using its mark in a corresponding domain name, provided the registrant has a “pattern of such conduct”; (3) registering a domain name principally to disrupt a competitor’s business; or (4) using a domain name to draw Internet users to the registrant’s web site by confus-

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subject to de novo judicial review. *Id.* at 146-47. *See also id.* at 149 (arguing that the UDRP’s drafters implied that the UDRP’s mandatory administrative proceeding was not arbitration by using the term “administrative procedure” instead of “arbitration”).

31. ICANN, *UDRP: General Information*, at <http://www.icann.org/udrp/> (last visited Sept. 15, 2002).

32. *UDRP Policy*, *supra* note 23, ¶ 4(b).

33. *UDRP Rules*, *supra* note 23, ¶ 3(a). There are currently four approved dispute-resolution providers: The World Intellectual Property Organization (WIPO), National Arbitration Forum (NAF), CPR Institute for Dispute Resolution, and the Asian Domain Name Dispute Resolution Centre (ADNDRC). ICANN, *Approved Providers for Uniform Domain-Name Dispute-Resolution Policy*, at <http://www.icann.org/udrp/approved-providers.htm> (last updated Mar. 1, 2002).

34. *UDRP Rules*, *supra* note 23, ¶ 3(b)(xiii); *see* Adam Goldstein, *ICANN-SUCKS.BIZ (and Why You Can’t Say That): How Fair Use of Trademarks in Domain Names is Being Restrained*, 12 *FORDHAM INTELL. PROP. MEDIA & ENT. L.J.* 1151, 1162 (2002); Sorkin, *supra* note 14, at 39.

35. *UDRP Rules*, *supra* note 23, ¶ 3(b); *see also* Goldstein, *supra* note 34, at 1161-62; Sorkin, *supra* note 14, at 39.

ing users “as to the source, sponsorship, affiliation, or endorsement” of the web site.<sup>36</sup>

After providers review the complaint for administrative compliance, and trademark owners pay the providers’ service fees,<sup>37</sup> the providers forward the complaint to the respondents, who are the domain-name registrants.<sup>38</sup> If registrants fail to respond to the complaint within 20 days<sup>39</sup> they default and the dispute will be decided based only on the complaint.<sup>40</sup> A well-pleaded response should address the three elements of the complaint and argue appropriate affirmative defenses.

The affirmative defenses available to respondents include showing that the registrant: (1) used or prepared to use “the domain name or name corresponding to the domain name in connection with a bona fide offering of goods and services”;<sup>41</sup> (2) had no official trademark rights but “has been commonly known by the domain name”;<sup>42</sup> or (3) is “making a legitimate noncommercial or fair use of the domain name, without intent for commercial gain, to misleadingly divert consumers, or to tarnish the trademark or service mark at issue.”<sup>43</sup>

Once providers receive a registrant’s response, they appoint a panelist or group of panelists to review the dispute. Panelists are practitioners, professors, or retired judges who work for the dispute resolution provider. Each proceeding involves either a single panelist or, at the request of either party, a three-member panel.<sup>44</sup> Panelists control the scope of evidence and communicate with the parties by mail or e-mail.<sup>45</sup> They must review

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36. *UDRP Policy*, *supra* note 23, ¶ 4(b)(i)-(iv).

37. Each dispute resolution provider charges a different amount depending on the number of panelists and the number of domain names challenged. *See* Froomkin, *supra* note 27, at 665 n.175.

38. The DRSP must forward it to the domain name holder/respondent within three calendar days of receiving the complaint. The provider must use means reasonably calculated to contact the respondent, but a respondent will default if they cannot be contacted. *See* Sorkin, *supra* note 14, at 39; Thornburg, *supra* note 14, at 200.

39. The 20 days are measured from the time the provider forwards the complaint. *See UDRP Rules*, *supra* note 23, ¶¶ 5(a), 4(c), 4(a).

40. *UDRP Rules*, *supra* note 23, ¶ 5(e).

41. *UDRP Policy*, *supra* note 23, ¶ 4(c)(i). *See also* Goldstein, *supra* note 34, at 1162.

42. *UDRP Policy*, *supra* note 23, ¶ 4(c)(ii).

43. *Id.* ¶ 4(c)(iii). One commentator has noted that these affirmative defenses overlap considerably with complainant’s burden of proof. Thornburg, *supra* note 14, at 198.

44. The complainant pays for the provider in most cases. A respondent who requests a three-member panel, however, must split the panel’s cost with the complainant. Thornburg, *supra* note 14, at 200.

45. *Id.* at 200 n.32.

the documents and submit a written decision to the provider within two weeks. If the panelists find for the complainant, they will issue an order for the registrar to either cancel the domain name or to transfer it to the complainant. These are the UDRP's only remedies.

Instead of responding to the complaint, registrants can suspend the proceeding by filing a lawsuit in a court of competent jurisdiction within ten business days of receiving the complaint,<sup>46</sup> such as a declaratory judgment action under the ACPA. The registrant can also wait until the conclusion of the UDRP proceeding and then challenge a losing decision by filing a lawsuit within 10 days of the decision. Because the UDRP lacks an internal appeal process, neither party can directly appeal a UDRP decision.

### **B. The UDRP Provides Fast, Cheap, and Consistent Recovery**

Trademark owners appreciate the speed, low cost, and effectiveness of UDRP proceedings. As of February 21, 2003, trademark holders had brought nearly 8,000 UDRP proceedings.<sup>47</sup> Of these proceedings, over 5,200 were decided in favor of the trademark owner.<sup>48</sup>

The UDRP successfully resolves some of the major problems that plague civil court trademark lawsuits. Civil trials over trademark rights are often long, expensive, and unpredictable, deterring trademark owners from suing cybersquatters.<sup>49</sup> While federal civil trials can drag on for months or even years, UDRP proceedings last about two months on average.<sup>50</sup> UDRP proceedings cost from \$700 to \$4000 while civil trials may cost

46. *UDRP Policy*, *supra* note 23, ¶ 4(k). Although arbitration can be suspended to allow either party to file a lawsuit, the only recourse for a party who refuses to enter arbitration altogether is to surrender the name. Goldstein, *supra* note 34, at 1162. The registrant may either submit to the arbitration or file a lawsuit that will suspend the arbitration. *UDRP Policy*, *supra* note 23, ¶ 4(k). If the registrant refuses to submit to arbitration, the domain name can be cancelled or transferred. *Id.* ¶ 3.

47. See ICANN, *Statistical Summary of Proceedings Under Uniform Domain Name Dispute Resolution Policy*, at <http://www.icann.org/udrp/proceedings-stat.htm> (last visited Feb. 23, 2003) (providing the status of all proceedings to date).

48. *Id.*

49. Edward C. Anderson & Timothy S. Cole, *The UDRP—A Model for Dispute Resolution in E-commerce?*, 6 J. SMALL & EMERGING BUS. L. 235, 235 (2002).

50. See Ware, *supra* note 15, at 151 n.150 (stating that Internet domain name litigation can last from “six months to three years”). With the cost of Internet domain name litigation exceeding \$15,000, and the length of proceedings ranging from six months to three years, arbitration stands as a less expensive, faster alternative. A federal preliminary injunction in the Eastern District of Virginia, however, can be granted in a similar space of time as a UDRP decision. See Thornburg, *supra* note 14, at 199 n.29.

\$15,000 or more.<sup>51</sup> Finally, given the complexity of the substantive and procedural rules governing civil trademark suits, the trademark owner cannot predict whether they will succeed. In comparison, the UDRP's procedural rules are simple, and proceedings seem to favor trademark owners almost in spite of the substantive law.

Trademark owners also benefit from the fact that the UDRP binds all registrars and has no internal appeal process, so trademark owners need not worry that the UDRP's remedies will not be enforced. In addition, the UDRP allows a victorious trademark owner to transfer or cancel the domain name immediately, unless there is a court action by the domain-name registrant. The speed, low cost, predictability, and enforceability of the UDRP process encourage trademark holders to enforce trademark rights.

### C. UDRP Encourages Bias, Forum Shopping, and Reverse Domain-Name Hijacking.

Despite UDRP's benefits for trademark owners, a group of vocal critics (primarily law professors, Internet users, and domain-name holders) have raised legitimate concerns about how the UDRP encourages bias, forum shopping, and reverse domain-name hijacking.<sup>52</sup>

Trademark holders win nearly 65% of UDRP proceedings.<sup>53</sup> This high rate of success may be due to respondent defaults and legitimate cases of domain-name abuse. However, the respondent faces significant procedural disadvantages under the UDRP: tight time limits to prepare a defense, little notice, no appeals process, no discovery, and no hearing.<sup>54</sup>

According to critics, a successful UDRP decision gives a trademark holder the "equivalent of a preliminary or even permanent injunction . . . with much lower procedural hurdles."<sup>55</sup> A victorious trademark holder has a huge advantage over the domain holder who must assume the expense of going to court to retrieve the domain name.

In addition to procedural bias, some critics also claim that the decisions themselves are biased. This leads to forum shopping, in which

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51. See Ware, *supra* note 15, at 151 n.150 (stating that "the cost of Internet domain-name litigation exceed[s] \$15,000"); Froomkin, *supra* note 27, at 665 n.175 (stating that "[c]osts [for a UDRP proceeding] run between \$750 and \$4500 for one disputed domain name").

52. See Ware, *supra* note 15, at 152 (listing issues of fairness in the UDRP process including "adequately specific pleadings, sufficient discovery, sufficient opportunity to make legal arguments, an appropriate burden of proof, unbiased arbitrators, proper substantive rules of decision").

53. See *infra* note 50 and accompanying text.

54. Ware, *supra* note 15, at 151; Thornburg, *supra* note 14, at 215-216, 224.

55. Ware, *supra* note 15, at 151.

trademark owners choose from among dispute-resolution providers for one that rules most often in a trademark owner's favor. This may have driven one of the early dispute-resolution providers, eResolution, out of business, because eResolution did not rule in favor of trademark owners as often as other dispute resolution providers, despite being cheaper than the other providers.<sup>56</sup>

Because the UDRP lacks an internal appeals process, inconsistent, poorly decided, or biased decisions cannot be corrected within the UDRP system.<sup>57</sup> Furthermore, inconsistent and contradictory UDRP decisions have also created confusion. The lack of an appellate process has allowed UDRP panelists to broaden the scope of bad faith to include actions that fall well beyond the narrowly tailored guidelines of ICANN.<sup>58</sup>

Finally, the procedural and decisional advantages of the UDRP Rules encourage some trademark owners to engage in reverse domain-name hijacking. For example, there is no strong penalty against trademark owners that try to acquire generic and legitimately owned domain names by reverse domain-name hijacking.<sup>59</sup>

### III. THE ANTI-CYBERSQUATTING CONSUMER PROTECTION ACT

One year after ICANN adopted the UDRP, Congress passed the ACPA (15 U.S.C. § 1114(2)(D) *et seq.*). The ACPA provides a specific cause of action in the federal courts for domain-name abuses, with substantive definitions that are similar to the UDRP. The ACPA, however, allows broader remedies: ordinary damages, statutory damages, and attorney fees. In addition, the ACPA has a broader scope that protects famous marks from dilution, as well as a person's private name from bad faith registra-

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56. See, Press Release, eResolution, (Nov. 31, 2001), at [http:// www.eresolution.com/default.htm](http://www.eresolution.com/default.htm).

57. See Patrick D. Kelley, Note, *Emerging Patterns in Arbitration Under the Uniform Domain Name Dispute-Resolution Policy*, 17 BERKELEY TECH. L.J. 181 (2002).

58. ICANN specifically excluded personal names and geographic names from the scope of UDRP; now the UDRP is being used to transfer these types of names. UDRP provides easy process for some trademark owners to silence critics: e.g., cyber-grippers, people who use a website for criticism, are losing domain names even if they have no intent to profit.

59. See Keith Blackman, Note, *The Uniform Domain Name Dispute Resolution Policy: A Cheaper Way to Hijack Domain Names and Suppress Critics*, 15 HARV. J.L. & TECH. 211, 232-33 (2001) (arguing that the UDRP does not provide a sufficient penalty against and may facilitate reverse domain name hijacking).

tion.<sup>60</sup> Finally the ACPA, unlike the UDRP, does not require the domain name to be “in use.”<sup>61</sup>

Section 1114(2)(D)(v) of the ACPA creates a declaratory action claim for domain-name registrants. This declaratory judgment action allows a domain-name registrant to challenge an improper transfer or cancellation of a domain name. Section 1114(2)(D)(v) states:

A domain-name registrant whose domain name has been suspended, disabled, or transferred under a policy described under clause (ii)(II) may, upon notice to the mark owner, file a civil action to establish that the registration or use of the domain name by such registrant is not unlawful under this chapter. The court may grant injunctive relief to the domain-name registrant, including the reactivation of the domain name or transfer of the domain name to the domain-name registrant.<sup>62</sup>

Clause (ii)(II) describes policies by registrars and registries to prohibit “registration of a domain name that is identical to, confusingly similar to, or dilutive of another’s mark.”<sup>63</sup>

#### IV. SALLEN AND BARCELONA.COM

Two recent federal cases show how the ACPA’s declaratory judgment action is changing the relationship between the UDRP and the ACPA. These cases analyze the level of deference that courts grant to UDRP decisions and the use of the ACPA by foreign parties to resolve domain-name disputes. The results of these cases will influence the strategies parties may use to resolve domain-name disputes.

##### A. *Sallen v. Corinthians Licenciamentos*

In 1998, Jay D. Sallen registered the domain name *corinthians.com*.<sup>64</sup> As part of his registration contract, Sallen agreed that the UDRP would govern domain-name disputes with third party trademark holders.<sup>65</sup> A year later, Sallen attempted to sell the domain name to the Corinthians Licenciamentos (“CL”): a Brazilian company that owned the Brazilian trademark rights to “Corinthians.” That name represented the popular Brazilian

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60. 15 U.S.C. § 1125(c) (providing a remedy for dilution of famous marks); 15 U.S.C. § 1129 (providing a legal action against the cyberpiracy of individual names).

61. 15 U.S.C. § 1114(2)(D)(v).

62. *Id.*

63. 15 U.S.C. § 1114(2)(D)(ii)(II).

64. 273 F.3d at 20.

65. *Id.* at 21.

soccer team known internationally as the Corinthians.<sup>66</sup> Instead of negotiating, CL filed a UDRP claim with the WIPO dispute resolution provider.<sup>67</sup> Following the usual UDRP procedure, the WIPO panelist ruled that Sallen was cybersquatting on the *corinthians.com* domain name and ordered that the domain name be transferred to CL.<sup>68</sup>

Sallen, however, fought to keep the domain name by filing a complaint in U.S. federal court.<sup>69</sup> Sallen's claim sought a declaratory judgment under § 1114(2)(D)(v) of the ACPA, claiming that he had lawfully registered *corinthians.com*.<sup>70</sup> The district court dismissed the suit on a motion that no actual controversy existed between the parties because the UDRP decision had established the ownership of the domain name and the trademark owner did not plan to sue under the ACPA. Without an actual controversy, the court held it lacked jurisdiction under the Declaratory Judgment Act.<sup>71</sup>

On Sallen's appeal to the First Circuit, the court reversed the district court's holding on lack of jurisdiction. The court found that § 1114(2)(D)(v) specifically granted federal courts jurisdiction over domain-name disputes. Congress had designed this section to give "domain-name holders . . . a cause of action to rectify reverse domain-name hijacking by trademark holders . . ." <sup>72</sup> Thus, federal courts have jurisdiction over a declaratory judgment brought by a former domain-name holder seeking to recover a domain name lost in a UDRP proceeding.

The holding in *Sallen* further reinforces previous rulings by federal courts that they do not grant deference to UDRP decisions and will review

66. *Id.*

67. *Id.*

68. *Id.*

69. *Id.* at 22. As required by the UDRP Rules, Sallen filed the court action within ten days of the UDRP decision. *Id.*

70. *Id.* The UDRP specifically grants a registrant the right to challenge an adverse resolution by filing a court action within ten business days of the ruling. The registrar of the domain name will not transfer the domain name unless this trial court dismisses the claim or rules against the registrant. *UDRP Policy*, supra note 23, ¶ 4(k).

71. *Sallen*, 273 F.3d at 22.

72. *Id.* at 29. Section 1114(2)(D)(v) states:

A domain name registrant whose domain name has been suspended, disabled, or transferred under a policy described under clause (ii)(II) may, upon notice to the mark owner, file a civil action to establish that the registration or use of the domain name by such registrant is not unlawful under this chapter. The court may grant injunctive relief to the domain name registrant, including the reactivation of the domain name or transfer of the domain name to the domain name registrant.

15 U.S.C. § 1114(2)(D)(v).

these decisions de novo.<sup>73</sup> The *Sallen* court, like previous courts, specifically noted that the UDRP Rules include a clause stating that its administrative decisions do not bind courts of competent jurisdiction.<sup>74</sup>

The result in *Sallen* firmly establishes that domain-name registrants may bring a suit for declaratory judgment under ACPA § 1114(2)(D)(v) in order to cancel adverse UDRP decisions.<sup>75</sup> However, in terms of strategy, the result in *Sallen* presents a new dilemma for trademark owners seeking transfer of a domain name. A UDRP proceeding is fast and inexpensive, but the trademark owners must now consider whether the domain-name registrant will challenge the result with an expensive round of litigation under the ACPA. An ACPA suit, on the other hand, may be slow and expensive, but the result, barring a successful appeal, settles ownership of the domain name.

### B. The ACPA Does Not Fix the UDRP's Flaws

The ACPA provides procedures for both trademark holders and domain-name owners. A trademark owner can also challenge an unfavorable UDRP ruling and bring a new action under the ACPA. Further, the validation of UDRP decisions by a declaratory judgment claim may improve domain-name dispute resolution in general. The UDRP system would benefit from an appellate process, and until ICANN approves one, the pseudo-appellate review offered by the ACPA declaratory judgment action may allow review of domain-name disputes.

Many critics see the UDRP's lack of an internal appellate system as a weakness and have presented strong arguments and proposals for appellate reforms.<sup>76</sup> An appellate process ensures consistency among lower ruling bodies, by accepting appeals from lower court rulings and reviewing the decisions for the proper results based on allowable evidence and a correct view of the law.<sup>77</sup> Appellate courts do not accept new evidence or retry the case. Lower courts are bound to follow the holdings of appellate bodies.

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73. See, e.g., *Parisi v. Netlearning, Inc.*, 139 F. Supp. 2d 745 (E.D. Va. 2001).

74. *Sallen*, 273 F.3d at 26; see *Weber-Stephen Prods. Co. v. Armitage Hardware & Bld.* (N.D. Ill. 2000), 54 U.S.P.Q.2d 1766. See also Sorkin, *supra* note 14, at 44. Most courts and commentators with this holding arguing that the UDRP lacks the due process and procedural safeguards adequate to justify deference by courts. *Id.* David Sorkin has commented that “[d]e novo review is consistent with the purposes of the UDRP and is needed to ensure fairness and due process.” *Id.* at 54.

75. See 273 F.3d 14, 20 (1st Cir. 2001).

76. See, e.g., Kelley, *supra* note 57; Froomkin, *supra* note 27; Thornburg, *supra* note 14.

77. JACK H. FRIEDENTHAL ET AL., *CIVIL PROCEDURE*, 618 (3d ed. 1999).

This encourages consistency among lower courts, a consistency that the UDRP is lacking.

While the ACPA declaratory judgment action allows a second review of a dispute, in most other ways it is different from a typical appellate process. Under the declaratory judgment action, the court retries the case accepting new evidence and arguments. Although the court accepts new evidence, it may also be influenced by the UDRP decision. Thus, it is likely these decisions can influence the final result, but the amount of influence is uncertain.

The substantive standards for domain-name abuse used in domain-name dispute resolution problems still vary between the UDRP system and the ACPA. The UDRP system and the ACPA system have little obvious influence on each other. For example, the federal courts are not required to defer to the UDRP, and the UDRP panelists are not bound by ACPA decisions and may draw substantive law from any number of areas. Thus, there is a danger that their standards will drift further apart, and result in trademark owners again shopping for the most favorable forum. This reinforces the perception of domain-name disputes as procedural and venue games rather than cases tried on the merits.

Cybersquatters who lose UDRP decisions can use the cost of a federal trial to leverage against a trademark owner. Some trademark owners will find it cheaper to settle with a cybersquatter rather than to defend an ACPA challenge. For example, the evidence suggests that Sallen registered *corinthians.com*, like he did many other sports teams, in order to sell it back to the owners of the Corinthians soccer team. Following *Sallen*, savvy cybersquatters can now threaten a challenge under the ACPA. Federal trials are costly and unpredictable, and would likely be avoided by many trademark owners. Some trademark holders may pay off an irritating cybersquatter to avoid the cost and unpredictable result of a federal trial.

Further, the burden of appealing a UDRP decision rests on the losing party. A respondent who loses a UDRP proceeding must use expensive litigation to recover the name, and many would likely give up rather than enter an expensive federal trial. Casual, yet legitimate users may also be discouraged from appealing a loss in a UDRP decision because of the expense and risk of losing.

At its best, the validation of an ACPA declaratory judgment action gives domain-name owners a second chance to retain their domain name and may prevent reverse domain-name hijacking. However, the declaratory judgment action does not provide a mechanism to standardize the substantive standards used by UDRP panelists, nor does it remove the potential time and money expenses of a civil trial.

### C. **Barcelona.com, Inc. v. Excelentísimo Ayuntamiento de Barcelona**

*Barcelona.com, Inc. v. Excelentísimo Ayuntamiento de Barcelona* is a federal district court case from the Eastern District of Virginia that presents a counterpoint to the *Sallen* case.<sup>78</sup> Like *Sallen*, the domain-name holder in *Barcelona.com* attempted to use the declaratory judgment action to recover its domain name after losing a UDRP decision. In *Barcelona.com*, however, the defendant trademark holder won a counterclaim charging cybersquatting under the ACPA.

In 1996, Joan Nogueras Cobo (“Nogueras”) registered the domain name “barcelona.com” and, a later year, launched a website under this name offering information and services related to the city of Barcelona.<sup>79</sup> In 1999, Nogueras attempted to negotiate with the City Council of Barcelona (“Council”), the holder of limited Spanish trademark rights in names containing the word “Barcelona,” about rights to the domain name. Serious negotiations began in April of 2000 when Nogueras presented representatives of the Council with an investment portfolio that the court characterized as having “glaringly inflated figures and overstated” the worth of the domain name.<sup>80</sup> The Council demanded that Nogueras transfer barcelona.com to them. Nogueras refused, and transferred rights in the domain name to a U.S. corporation, barcelona.com, Inc., which he had incorporated in Delaware in 1999.

The following month, May 2000, the Council filed a UDRP complaint and quickly obtained a ruling that Nogueras was cybersquatting.<sup>81</sup> The panelist reasoned that the Council owned a trademark in “Barcelona” un-

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78. The Eastern District of Virginia is a particularly important district for ACPA domain name disputes because plaintiffs can establish jurisdiction over domain name holders. See *Ceasars World, Inc. v. Ceasars-Palace.com*, 112 F. Supp. 2d 502 (E.D. Va. 2000).

79. *Barcelona.com, Inc. v. Excelentísimo Ayuntamiento de Barcelona*, 189 F. Supp. 2d 367, 369 (E.D. Va. 2002).

80. *Id.* To be fair to Nogueras highly inflated prices for investment in an e-business was not uncommon in the highly speculative e-commerce industry of 2000. The Internet Archive shows the development of Nogueras’s website from 1996 to 2001 and what happened to the site after the UDRP panelist transferred it to the City of Barcelona. See Internet Archive, *Search Results for “Barcelona.com”*, at [http://web.archive.org/web/\\*/http://barcelona.com](http://web.archive.org/web/*/http://barcelona.com) (last visited Mar. 3, 2003). The 1996 version of the site was primitive, but the site developed into a more complete and developed website by 2000. *Id.* Following the UDRP transfer, the “Barcelona.com” URL simply forwards the browser to the official site for the City of Barcelona. *Id.*

81. Although Nogueras had registered the domain name before ICANN adopted the UDRP, the renewal of his registration agreement required him to agree to the UDRP.

der Spanish law, and that “barcelona.com” infringed this trademark.<sup>82</sup> To avoid immediate transfer of the domain name, Nogueras, like Sallen, filed a suit for declaratory judgment under § 1114(2)(D)(v) in the Eastern District of Virginia.<sup>83</sup>

In response, the Council filed a counterclaim under the ACPA seeking a ruling that Nogueras was cybersquatting. This strategy worked; the district court rejected Nogueras’s action for declaratory judgment and instead ruled in favor of the Council’s counterclaim.<sup>84</sup> The court accepted the argument that a foreign trademark owner, like the Council, could seek relief under the ACPA for violations of foreign trademark rights.<sup>85</sup>

#### **D. *Sallen and Barcelona.com* Enhance Foreign Trademark Rights Under the ACPA**

The Internet is international, and domain-name disputes often occur between foreign entities. To be an effective remedy in a domain-name dispute, the declaratory judgment action of the ACPA must allow foreign parties to participate. Significantly, both *Sallen* and *Barcelona.com* involved foreign participants, implying that that foreign trademark owners and domain-name holders may use the federal courts as a forum for resolving a domain-name dispute under the ACPA.

The opinion in *Barcelona.com* also provides important precedent for foreign trademark holders using the ACPA. First, the court recognized and interpreted Spanish trademark law in deciding whether either party owned a trademark in “Barcelona.”<sup>86</sup> Although not a revolutionary decision in international choice of law, it illustrates that courts may apply the trademark law of the trademark owner’s country to determine trademark rights. Second, the case reinforces previous ACPA holdings that if the domain name’s registrar is located in the U.S., foreign trademark holders may use the ACPA to sue in federal court.

The *Sallen* court held that Corinthians Licenciamentos was a “mark owner” under the ACPA, even though it had not registered “Corinthians” in the U.S.<sup>87</sup> According to the court, the ACPA applies to a “mark” as opposed to a “registered mark” and, therefore, the ACPA protects marks not

82. *Barcelona.com*, 189 F. Supp. 2d at 370-71.

83. *Id.* at 371.

84. *Id.* at 371. In reaching this conclusion, the court held that it should review the case *de novo* and not give the WIPO decision any deference. *Id.*

85. *Id.* at 373.

86. *Id.* at 371-72.

87. *Sallen v. Corinthians Licenciamentos*, 273 F.3d 14, 23-24 (1st Cir. 2001).

registered in the U.S.<sup>88</sup> Because the ACPA applies to unregistered marks, U.S. domain-name holders may recover domain names from both foreign mark owners and unregistered U.S. mark owners.<sup>89</sup> By interpreting “mark owner” broadly, the *Sallen* court ensured that the ACPA covered a much broader set of domain-name disputes.

It is likely that foreign parties that can establish jurisdiction would indeed use the ACPA to resolve domain-name disputes. The United States is currently the only country with statutory rules against cybersquatting. Furthermore, a ruling under the ACPA may be easier to enforce than a ruling from another country’s court system because the United States heavily influences ICANN and the domain-name registration system.

## V. CONCLUSION

*Sallen* and *Barcelona.com* provide important holdings that will influence the use of the ACPA to override UDRP decisions. In *Sallen*, the Federal Circuit clearly supported a domain-name registrant’s right to use the declaratory judgment action of the ACPA to recover a domain name. On the other hand, *Barcelona.com* shows that domain-name registrants who bring these actions may expose themselves to liability under the ACPA. In addition, the ruling in *Barcelona.com* that the ACPA will respect foreign trademark rights may encourage foreign parties to use and defend under the ACPA when jurisdiction allows.

Overall, federal cases that support the domain-name registrant’s right to overcome wrongly decided UDRP decisions, will increase the fairness of domain-name dispute resolution by balancing a domain-name owner’s right to keep a properly used domain name with a trademark holder’s right to reflect its trademark on the Internet.<sup>90</sup>

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88. *Id.* at 24.

89. *Id.*

90. The fair and effective regulation of the Internet is vitally important. The Internet is a potent catalyst of commerce, information transfer, and, some would say, democracy. The entities which influence the Internet’s regulation will control the growth of these areas. See, e.g., Anderson & Cole, *supra* note 49, at 239-40; Scott Hejny, Comment, *Opening the Door to Controversy: How Recent ICANN Decisions Have Muddied the Waters of Domain Name Dispute Resolution*, 38 HOUS. L. REV. 1037, 1039 (2001).

## ADDITIONAL DEVELOPMENTS—TRADEMARK

### *PLAYBOY ENTERPRISES, INC. v. WELLES*

*279 F.3d 796 (9th Cir. 2002)*

The Ninth Circuit ruled on whether a former Playmate of the Year could use Playboy related terms in her website.

Terri Welles posed for Playboy Enterprises, Inc. (PEI) and was chosen to be Playmate of the Year in 1981. She used various Playboy associated terms in her website, including “Playboy” and “Playmate” in the metatags of her website, the phrase “Playmate of the Year 1981” on her website’s masthead, the phrase “Playboy Playmate of the Year 1981” on various banner ads, and the abbreviation “PMOY ‘81” (for Playmate of the Year 1981) as the watermark on the pages of her website. PEI filed suit alleging trademark infringement and dilution. The district court granted summary judgment for Welles on all claims. PEI appealed.

The Ninth Circuit affirmed the lower court’s summary judgment on all claims except the use of “PMOY ‘81.” The court remanded for consideration of whether the abbreviation merits trademark protection under either an infringement or a dilution theory.

The court applied a three-factor test articulated in *New Kids On The Block v. New America Publishing, Inc.*, 971 F.2d 302 (9th Cir. 1992). The test allows nominative use of trademarks where: 1) no descriptive substitute exists, 2) only so much of the mark is used as is reasonably necessary, and 3) the user does nothing that would suggest sponsorship or endorsement. Because the trademarks in question refer to the website’s owner, the court found that the banners, metatags and masthead used in Welles’s website met these criteria and were therefore nominative uses, which, by definition, do not dilute trademarks. The court noted that commercial usage is no barrier to recognizing nominative use, and in such cases the three-factor test is applied in preference to the likelihood of confusion test. However, the court noted that if Welles had listed the trademark terms so repeatedly in metatags that her site regularly appeared before Playboy’s in searches for one of the trademark terms, the court’s decision might have differed.

In contrast, the court found that Welles’s repeated use of “PMOY” as a background or wallpaper motif failed the nominative use test, in part because the term was not associated with Welles’s name or image. Therefore the court remanded the “PMOY” claim back to the district court for further consideration.

Finally, although the court acknowledged that contracts may restrict nominative uses of terms that trademark law is powerless to protect, the contract Playboy had signed with Welles’s now-defunct corporation, Pippi, Inc., was unenforceable against Welles. While there was a unity of interests, Playboy did not advance sufficient evidence to show that recognizing this corporation’s separate interests would sanction a fraud or promote injustice as required by the second prong of the alter-ego test.

***HARRODS LTD. v. SIXTY INTERNET DOMAIN NAMES****302 F.2d 214 (4th Cir. 2002)*

The Fourth Circuit ruled that the scope of an *in rem* action under the Anticybersquatting Consumer Protection Act (ACPA) includes bad faith registration as well as trademark infringement and dilution claims. The court also held that the standard of proof of a bad faith registration claim is proof beyond a preponderance of the evidence.

Harrods Limited (Harrods UK), owner of the famous London department store, brought suit against various Internet domain names registered by Harrods Buenos Aires Limited (Harrods BA). Harrods BA was once an affiliate of Harrods UK, but is now an independent company. Harrods UK sued the sixty registered domain names under the *in rem* provision of the ACPA (15 U.S.C. §1125(d)(2)), claiming that Harrods BA registered the Harrods related domain names in bad faith and that the names infringed and diluted Harrods UK's trademarks. The district court dismissed the infringement and dilution claims, reasoning that *in rem* actions could only be maintained for bad faith registration claims under §1125(d)(1). The court also granted summary judgment for Harrods BA with regard to six of the domain names that clearly indicate association with Harrods BA, but awarded judgment for Harrods UK with regard to the remaining fifty-four domain names and ordered them to be transferred to Harrods UK.

Both parties appealed. The Fourth Circuit reversed the dismissal of the infringement and dilution claims and the summary judgment the six domain names, but affirmed the transfer of the remaining domain names to Harrods UK. The court read the language of § 1125(d)(2)(A)(i) broadly and interpreted "any right of the owner of a mark" to mean any rights under § 1125(d)(1), as well as other substantive trademark rights. Moreover, § 1125(d)(2)(A)(ii) authorizes *in rem* jurisdiction for marks "protected under subsection (a) or (c)," which are precisely the infringement and dilution claims that the district court had dismissed. Prior to affirming the transfer of the domain names to Harrods UK, the court determined that a civil litigation generally requires proof beyond a preponderance of the evidence, and that courts have required clear and convincing evidence only in certain fraud-based trademark claims. The court reasoned that because of the clear guidelines in the ACPA regarding bad faith, a heightened burden of proof is not necessary in the instant case. The court then analyzed nine bad faith factors under the ACPA and supported the district court's finding that Harrods BA registered the domain names in bad faith with the intent to confuse and deceive non-South American consumers seeking to do business with Harrods UK. Lastly, the court held that the summary judgment on the six domain names was granted without sufficient discovery, therefore it was not warranted.

***VIRTUAL COUNTRIES INC. v. REPUBLIC OF SOUTH AFRICA****300 F.3d 230 (2d Cir. 2002)*

In a domain name dispute between a U.S. company and a foreign sovereign, the Court of Appeals for the Second Circuit ruled on whether the district court correctly concluded that it lacked subject matter jurisdiction under the Foreign Sovereign Immunities Act of 1976 (FSIA).

Virtual Countries (VC) is a Seattle, Washington based corporation that has owned the Internet domain name “southafrica.com” since at least 1995. VC uses the site to provide tourism related information, services, and products relating to the southern part of Africa. The Republic of South Africa issued a press release on October 30, 2000, asserting that the country could be the first in the world to assert the right to own its own domain name, “southafrica.com.” On November 6, 2000, VC filed a complaint in district court seeking declaratory relief that the Republic has no right to the domain name “southafrica.com” and injunctive relief against any arbitration worldwide. VC claimed that the Republic’s statement damaged VC’s business operation and caused devastating effect on VC’s prospect of getting further financial investment. Defendant Republic moved to dismiss for lack of subject matter jurisdiction. The district court granted the defendant’s motion.

VC appealed and the Court of Appeals for the Second Circuit affirmed. Since the defendant is a foreign sovereign, it is generally immune from suits in U.S. federal courts under the FSIA unless it is found to be connected with commercial activity that is either in the U.S. or has a “direct effect” in the U.S. The court maintained that an effect is direct only if it follows as an immediate consequence of the defendant’s actions. The Second Circuit found that the causal chain from the Republic’s press release to the negative effect on VC was too dependant on intervening, independent actions by third parties. Allowing jurisdiction in this case would undermine the FSIA’s goal of providing predictability when a private party deals with a foreign state. In addition, the court found that the Republic only announced its intention to initiate arbitration, and that it was the speculation that resulted from the press release, and not other factors, prompted the plaintiff’s injury. Finally, the court distinguished the instant situation from the one in *Texas Trading & Milling Corp v. Federal Republic of Nigeria*, 647 F.2d 300 (2d Cir. 1981), upon which Plaintiff relied. The court stated that jurisdiction in *Texas Trading* depended on the fact that a contract between the plaintiff and the defendant stipulated performance of contractual duties in the United States, whereas here no obligation, much less a contractual one, ran from the Republic to VC.

The court also rejected VC’s procedural challenge and held that the district court had no obligation to order further discovery when VC did not request any.

***PORSCHE CARS NORTH AMERICA, INC. V. PORSCHE.NET***

*302 F.3d 248 (4th Cir. 2002)*

The Fourth Circuit ruled on whether a later assertion of *in personam* jurisdiction over a domain name holder in another court voids a court's *in rem* jurisdiction over the domain name. The court also ruled on whether a trademark owner could seek possession of offending domain names through a trademark dilution claim.

Porsche Cars North America and Porsche AG (Porsche) brought an *in rem* action against certain Internet domain names related to the "Porsche" trademarks, such as Porsche.net and Porscheclub.net. Porsche sued for an injunction and the transfer of the use of these domain names, contending that the domain names violated Porsche's rights under the Anticybersquatting Consumer Protection Act (ACPA), 15 U.S.C.A. § 1125(d)(1), and diluted the Porsche trademarks under 15 U.S.C.A. § 1125(c). The district court dismissed the *in rem* ACPA claim because the domain holder submitted to personal jurisdiction of another court three days before the trial. The district court also dismissed the trademark dilution claim.

Porsche appealed. The Fourth Circuit vacated the judgment dismissing the ACPA claim and remanded for further proceedings, but affirmed the dismissal with regards to the trademark dilution claim. The court stated that after the district court had already concluded that *in rem* jurisdiction over a domain name was proper, the domain name owner could no longer submit to personal jurisdiction of another court to defeat the *in rem* claim. This was especially relevant, considering that the submission occurred only three days before the trial. Although the court recognized that the ACPA prefers *in personam* suits, the statute does not require that preference to exist throughout the litigation. To further support its conclusion, the court looked to non-ACPA cases and found that a court determines the existence of diversity jurisdiction at the time the action is filed, regardless of later changes in crucial facts such as parties' citizenship. In dismissing the trademark dilution claim, the court reasoned that trademark dilution law can enjoin unauthorized use of trademarks, but cannot afford the remedy of transferring the use of domain names. Furthermore, the court reasoned that because the ACPA was adopted specifically to deal with domain names issues, there is no reason to stretch dilution law beyond its traditional bounds.

## RECENT DEVELOPMENTS—TRADE SECRET

### *BP CHEMICALS LTD. v. JIANGSU SOPO CORPORATION*

*285 F.3d 677 (8th Cir. 2002)*

The Eighth Circuit Court of Appeals ruled that a foreign sovereign's presumption of immunity under the Foreign Sovereign Immunities Act (FSIA) erodes when the suit concerns the sovereign's commercial activities and transactions.

BP Chemicals (BP) in 1986 acquired Monsanto Corporation's proprietary interests in the methanol carbonylation process for making acetic acid and maintains trade secret protection in this process. In the mid-1990s, BP learned that a St. Louis company and several other vendors had been contacted by Jiangsu Sopo (Sopo) and Shanghai Petrochemical Engineering Company (SPECO) to manufacture equipment for an acetic acid plant in China, and discovered that its trade secrets were likely disclosed in these transactions. BP brought suit in the District Court for the Eastern District of Missouri on grounds that Sopo had violated several intellectual property acts, including the Missouri Uniform Trade Secrets Act (MUTSA), by improperly disclosing BP trade secrets to U.S. firms. BP further alleged that SPECO had been acting as Sopo's American agent in the process. Since the government of the People's Republic of China owns both Sopo and SPECO, the district court held that Sopo was immune from suit in federal court under the FSIA and dismissed BP's case for lack of subject matter jurisdiction.

BP appealed and the Eighth Circuit reversed. The court recognized that while foreign sovereigns are immune from suits arising from their sovereign acts, foreign sovereigns are not immune in actions "(1) based upon (2) a commercial activity carried on in the United States." The court held that only a single element of one of a plaintiff's claims must concern commercial activity in the United States to satisfy the "based upon." requirement. Focusing on the improper disclosure of trade secrets without consent under MUTSA, the court held that this claim includes Sopo's commercial procurement activity in the U.S. and thus it satisfies the first "based upon" element. In so holding, the court specifically rejected the district court's "semantic ploy" theory in which the district court, relying primarily on *Saudi Arabia v. Nelson*, 507 U.S. 349 (1993), recast BP's misappropriation claim under the rubric of theft. The Eighth Circuit pointed out that the Supreme Court in *Nelson* fixed its sights on the legal merits of the underlying claim when it discussed the "semantic ploy" doctrine. The Eighth Circuit interpreted the *Nelson* principle as a plaintiff not being able to undo a foreign sovereign's immunity simply by pleading a legally untenable claim whose elements would happen to demonstrate the sovereign's contacts with the United States. Applying this principle, it found no application of the doctrine to the instant case.

The court found that the commercial activities conducted by Sopo in procuring American engineering know-how satisfy the second element, "commercial activities carried on in the United States." Since both elements are satisfied, the court held that Sopo's activities met the commercial activity exception of the FSIA.

***WORLD WIDE PROSTHETIC SUPPLY, INC. V. MIKULSKY****640 N.W.2d 764 (Wis. 2002)*

The Supreme Court of Wisconsin held that lost profits resulting from reputation damage caused by the defendant's manufacture and distribution of defective products incorporating a misappropriated trade secret could be recovered as "actual loss" under the Uniform Trade Secrets Act.

World Wide Prosthetic Supply, Inc. (World Wide) designs and distributes prosthetic components. It hired Mikulskys, d/b/a Voyager, to manufacture those components. Upon discovering manufacturing defects, World Wide ended its business relationship with Voyager. However, Voyager continued to manufacture the defective components but distributed the components itself. World Wide sued Voyager for trade secret misappropriation. World Wide claimed that the distribution of defective components, which closely resembled World Wide's own components, caused it to lose business and thus it sought to recover those lost profits. The trial court initially allowed evidence regarding the lost profit claim, but ultimately determined that the evidence was not relevant and granted a mistrial. The court of appeals, concluding that the evidence was admissible as evidence of damages, reversed the trial court decision and remanded for a new trial. Mikulskys then appealed to the Wisconsin Supreme Court.

The Wisconsin Supreme Court affirmed the court of appeals decision on substantially the same grounds. The court held that lost profits due to defective products incorporating a misappropriated trade secret could be recovered as "actual loss" under the Wisconsin version of the Uniform Trade Secrets Act, Wis. Stat. § 134.90(4)(a) (1999-2000). The Court noted that the Court of Appeals for the Seventh Circuit, applying the New Hampshire version of the Uniform Trade Secret Act, had approved trade secret damages to include lost business. *Micro Data Base Systems, Inc. v. Dharma Systems, Inc.*, 148 F.3d 649 (7th Cir. 1998). The court also recognized that the Restatement (Third) of Unfair Competition supported this kind of recovery. Analogizing trade secret misappropriation to a tort action, the Wisconsin Supreme Court concluded that a plaintiff should be able to recover any loss "proximately" caused by the defendant's violation. Since any loss due to Voyager's business relationship with World Wide cannot be caused by a violation of Wis. Stat. § 134.90, the court held that World Wide can only recover as trade secret damages those losses that resulted from Voyager's trade secret violation after the termination of their business relationship.

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**ANTITRUST**



## RECENT DEVELOPMENTS—ANTITRUST

### *MARIS DISTRIBUTING CO. v. ANHEUSER-BUSCH, INC.*

302 F.3d 1207 (11th Cir. 2002)

The Court of Appeals for the Eleventh Circuit ruled on whether a contractual ban on public ownership of distributorships was an unreasonable vertical restraint in violation of § 1 of the Sherman Act.

Anheuser-Busch distributes its brands of beer through a network of approximately 700 authorized wholesale distributors, each with an assigned territory. Anheuser-Busch has ownership interest in twenty of them. Maris Distributing Company was a distributor not owned by Anheuser-Busch. In their distributorship contracts, Anheuser-Busch and Maris agreed that Anheuser-Busch had the right to approve any change in Maris's ownership. After Maris failed in its attempts to sell the business, it filed an antitrust action alleging in part that Anheuser-Busch violated § 1 of the Sherman Act by prohibiting its distributors from being owned, in whole or in part, by the public.

After hearing the evidence at trial, the district court directed a verdict in favor of Anheuser-Busch on the issue of whether Anheuser-Busch had market power. The jury found that Maris had failed to show actual anticompetitive effects as a result of the public ownership restriction. The district court therefore entered judgment for Anheuser-Busch.

Maris appealed and the Eleventh Circuit affirmed. It held that the district court was correct in refusing to impute Anheuser-Busch's large market share in beer manufacturing and sales to distributor ownership, since Maris established no "connection" between the two. The court further held that it is improper to aggregate market share of all parties subject to Anheuser-Busch's distribution agreements, since Anheuser-Busch was the only party interested in the restraint. The aggregating approach would make it difficult for any manufacturer with a significant market share to enter into agreements with vertical restraints, which could be procompetitive. Lastly, the court rejected the argument by Maris that Anheuser-Busch's contract power locked Maris into Anheuser-Busch's business and violated antitrust law according to Supreme Court in *Eastman Kodak v. Image Technical Servs.*, 504 U.S. 451 (1992). The court distinguished *Kodak* from the present case on the ground that the defendant in *Kodak* tried to defend an otherwise viable antitrust claim by arguing that market power is lacking due to competition in another market. The court cautioned that adopting Maris' assertion to equate contract power with market power would radically transform the accepted rule of reason analysis applicable to vertical restraints, and place significant additional risks on such legitimate business practices as exclusive dealing arrangements, output contracts, and franchise tying agreements.



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**CYBERLAW**



## PROTECTING PRIVACY IN THE DIGITAL AGE

By Will Thomas DeVries

“You have zero privacy anyway . . . . Get over it.”<sup>1</sup>

With this proclamation, Scott McNealy, founder of Sun Microsystems, anchored the radical edge of the privacy debate for the digital world.<sup>2</sup> He viewed it as a foregone conclusion that, in the information age, any “secret” thing committed to digital form was subject to instant and inevitable distribution. But while digital technology has drastically changed the privacy landscape, reports of the death of privacy have been greatly exaggerated.

Nevertheless, Mr. McNealy’s statement speaks some truth in that the conceptions of “privacy” carried over from the analog world have not aged gracefully. For example, the Fourth Amendment protects the “right of the people to be secure in their persons, houses, papers, and effects, against unreasonable searches and seizures . . . .”<sup>3</sup> These words conceive personal privacy in physical terms, but in the digital world, many of one’s most private things, such as medical records, may be stored in a database far from one’s “person” or “house.” How can one tell if a search of such a database is unreasonable?

Mr. McNealy also intuited correctly that the existing legal framework for privacy is failing. As digital technology renders obsolete the theories on which the laws are based, the legal protections themselves become at best incomplete and at worst perverse. Privacy law has traditionally developed in tandem with technology—reshaping itself to meet the privacy threats embodied in new technology.<sup>4</sup> The information revolution, however, is occurring so fast and affects so many areas of privacy law that the old, adaptive process is failing to address digital privacy problems.<sup>5</sup>

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1. Polly Sprenger, *Sun on Privacy: ‘Get Over It’*, WIRED NEWS, Jan. 26, 1999, at <http://www.wired.com/news/politics/0,1283,17538,00.html>.

2. See, e.g., A. Michael Froomkin, *The Death of Privacy?*, 52 STAN. L. REV. 1461, 1462 (2000) (discussing, with reference to Mr. McNealy’s quotation, the question of whether privacy is indeed dead or dying); see also *infra* Part I.B.

3. U.S. CONST. amend. IV.

4. See Dennis F. Hernandez, *Litigating the Right to Privacy: A Survey of Current Issues*, 446 PLI/PAT 425, 429 (1996).

5. See Jerry Berman & Deirdre Mulligan, *The Internet and the Law: Privacy in the Digital Age: A Work in Progress*, 23 NOVA L. REV. 549, 554 (1999).

Fortunately for those who value privacy, most people cannot “get over it” so easily. Even if attempts at theoretical and substantive adaptation in this new era are so far preliminary and halting, progress is underway. In the last few years, we have seen an explosion of new laws (both state and federal), development of new business practices, new diligence on the part of regulatory agencies, new international mandates, and more sensitive judicial decisions on privacy.

This Note attempts to survey the state of privacy in the midst of the digital age. Part I summarizes the current status and theoretical roots of the two most distinct “branches” of privacy law—*autonomy* (both physical and decisional) and *informational* privacy. This Part will also outline the technology and developments of the digital age. Part II will survey the impact of digital technology on these two areas of privacy law. Part III will examine the ways in which the old, analog conception of privacy breaks down in these areas. This Part discusses why the distinction between privacy-as-autonomy and privacy-as-information-control is inadequate in the face of new technology.

## I. THE EVOLUTION OF PRIVACY

Privacy interests are as old as civilization,<sup>6</sup> though modern conceptions of privacy *per se* are far more recent.<sup>7</sup> Traditionally, privacy interests were implicit in legal or social protection of personal property and space,<sup>8</sup> intimate settings,<sup>9</sup> or personal effects.<sup>10</sup> But by the Twentieth century, scholars had distilled privacy into an independent concept—breathing life into

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6. Scholars have noted proto-privacy rights in the Qur'an, the sayings of Mohammed, and the Old Testament. See Electronic Privacy Information Center & Privacy International, *Privacy and Human Rights: An International Survey of Privacy Laws and Developments* 5 (2002) [hereinafter *Privacy and Human Rights*]; Chris Hoofnagle, *Colloquium on Privacy & Security*, 50 *Buff. L. Rev.* 703, 726 (2002).

7. See Samuel D. Warren & Louis D. Brandeis, *The Right to Privacy*, 4 *HARV. L. REV.* 193 (1890).

8. For example, the Talmud prescribed a certain height for walls between houses in order to prevent peering through the windows of neighbors. See Hernandez, *supra* note 4, at 429.

9. See, e.g., *PRIVACY AND HUMAN RIGHTS*, *supra* note 6, at 5 (noting that early English law protected against “peeping toms”).

10. See, e.g., *id.* (noting Victorian age protection against seizure of personal papers without a warrant).

one of the most discussed yet poorly understood areas of modern legal thought.<sup>11</sup>

The modern evolution of the privacy right is closely tied to the story of industrial-age technological development<sup>12</sup>—from the telephone<sup>13</sup> to flying machines.<sup>14</sup> As each new technology allowed new intrusions into things intimate, the law reacted—slowly—in an attempt to protect the sphere of the private.<sup>15</sup> Digital technology—computing, databases, the Internet, mobile communications, and the like—thus calls for further evolution of privacy rights, both conceptually and in law. Unlike previous technological changes, however, the scope and magnitude of the digital revolution is such that privacy law cannot respond quickly enough to keep privacy protections relevant and robust.

### A. The Branches of American Privacy Law

Perhaps because privacy development has been tied to specific technological change, the legal framework for privacy in the United States is disjointed and piecemeal. Privacy provisions exist in common law, in the Federal and state constitutions, and in a mishmash of statutes.<sup>16</sup> The legal theory connecting the various privacy protections is similarly disjointed.<sup>17</sup> Several “branches” of law have developed—all growing from the seed of “privacy,” but based on differing theories of what should be protected. The following sections discuss the two most prominent branches, their pre-digital status, and the privacy rights they seek to protect: (1) the traditional physical and decisional “right to be let alone”; and, (2) the more recent notion of control over (or rights concerning) personal information.<sup>18</sup>

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11. See Warren & Brandeis, *supra* note 7; see also ALAN WESTIN, *PRIVACY AND FREEDOM* 7 (Atheneum 1967) (lamenting that “[f]ew values so fundamental to society as privacy have been left so undefined in social theory”).

12. Hernandez, *supra* note 4, at 429.

13. See *Katz v. United States*, 389 U.S. 347 (1967).

14. See *Florida v. Riley*, 488 U.S. 445, 448 (1989) (involving police surveillance with a helicopter); *California v. Ciraolo*, 476 U.S. 207, 209 (1986) (involving police surveillance with a spy-plane).

15. Hernandez, *supra* note 4, at 429.

16. *Id.*

17. See Daniel J. Solove, *Conceptualizing Privacy*, 90 CAL. L. REV. 1087, 1088-89 (2002).

18. It must be noted that while this division is rooted in history, such categories are not the only way of dividing this legal spectrum. *E.g.*, Anita L. Allen-Castellitto, *The Origins of Growth of U.S. Privacy Law*, 701 PLI/PAT 83, 16 (2001) (identifying four areas of privacy: informational, physical, decisional, and proprietary); Hernandez, *supra* note 4, at 429 (dividing the privacy right into common law, constitutional, and statutory pieces); Jerry Kang, *Information Privacy in Cyberspace Transactions*, 50 STAN. L. REV.

### 1. *Privacy as Autonomy: The Right to Be Let Alone*

Samuel Warren and Louis Brandeis, the first to systematically describe a legal right to privacy, defined it as essentially a right to protect one's "inviolable personality" from intrusion or unwanted revelation.<sup>19</sup> In essence, they argued for a "right to be let alone."<sup>20</sup> At least with respect to state intrusions, Brandeis' conception of privacy eventually became accepted Constitutional law, rooted in the Bill of Rights' explicit protection against government intrusion into the home and personal effects<sup>21</sup> and implicit protection of autonomy and free choice.<sup>22</sup> Protection against similar unwarranted intrusions by private parties evolved into common law tort claims.<sup>23</sup> Broadly speaking, the test became whether the victim had a "reasonable expectation of privacy" and whether the other party or state entity violated it without justification.<sup>24</sup>

Two major sub-branches have developed: physical or spatial privacy and decisional privacy. The privacy of physical space or things receives strong protection. The Court has sharply limited the government's ability to intrude upon the "reasonable expectation of privacy" that all citizens have in their persons and effects.<sup>25</sup> Physical privacy also gets strong pro-

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1193, 1202-03 (1998) (describing three privacy areas as relating to physical space, choice, and information); Robert C. Post, *Three Concepts of Privacy*, 89 GEO. L.J. 2087, 2087 (2001) (noting three conceptions of privacy: creation of knowledge, dignity, and freedom). Moreover, though the two "branches" herein cover the most common areas of privacy law, they are incomplete. *See generally* JEFFREY ROSEN, *THE UNWANTED GAZE: THE DESTRUCTION OF PRIVACY IN AMERICA* (2000).

19. Warren & Brandeis, *supra* note 7, at 205.

20. *Id.* at 195. Later, on the Supreme Court, Justice Brandeis described this as "the most comprehensive of rights and the right most valued by civilized men." *Olmstead v. United States*, 277 U.S. 438, 478 (1928) (Brandeis, J., dissenting).

21. *See* U.S. CONST. amends. III, IV, XIV; *Mapp v. Ohio*, 367 U.S. 643, 656 (1961) (applying the federal privacy rights embodied in the Bill of Rights to the states).

22. *See* U.S. CONST. amends. I, V, IX; *Griswold v. Connecticut*, 381 U.S. 479, 484 (1965).

23. RESTATEMENT (SECOND) OF TORTS § 652A-652E (1977) (defining the four privacy torts as (1) intrusion upon seclusion, (2) public disclosure of private facts, (3) false light publicity, and (4) misappropriation of a person's name or likeness). *Accord* William L. Prosser, *Privacy*, 48 CAL. L. REV. 381, 389 (1960).

24. *See California v. Ciraolo*, 476 U.S. 207, 211 (1986) (Harlan, J., concurring) (citing *Katz v. United States*, 389 U.S. 347, 360 (1967)).

25. *See, e.g., id.* at 359 (holding that the government cannot listen to phone booth conversations without a warrant); *Kyllo v. United States*, 533 U.S. 27, 40 (2001) (same for use of thermal imaging equipment to monitor movement through the walls of a house). *But see, e.g., Bd. of Educ. v. Earls*, 536 U.S. 822, 122 S. Ct. 2559, 2562 (2002) (finding that school policy of mandating drug tests for all high-school students participating in extracurricular activities does not violate the student's privacy).

tection against private intrusion through privacy tort claims. Though the torts have been used most notably by public figures seeking to protect their private lives,<sup>26</sup> they do protect against especially egregious intrusions even for common folk.<sup>27</sup> Finally, most states protect some specific physical privacy rights through statute; for instance, California bans two-way mirrors<sup>28</sup> and New York prohibits hidden cameras in bathrooms or hotel rooms.<sup>29</sup>

In the 1970s, the Court extended the Brandeis conception of privacy to state intrusion upon certain intimate decisions, such as those affecting marriage, procreation, and the family.<sup>30</sup> Thus the state cannot intrude too deeply into decisions regarding such things as use of birth control,<sup>31</sup> abortion,<sup>32</sup> and interracial marriage.<sup>33</sup> Unlike the physical right to be let alone, however, this view of privacy has no tort corollary or statutory support. The Court, too, seems wary of extending this marginally textual substantive right too far.<sup>34</sup>

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26. This is likely due to the fact that famous people often face larger monetary harms due to the privacy loss than others. *See, e.g., Galella v. Onassis*, 533 F. Supp. 1076, 1106 (S.D.N.Y. 1982) (finding that the privacy of former First Lady Jacqueline Kennedy Onassis was invaded by an "overzealous" news reporter who followed her about).

27. *See, e.g., Miller v. Brooks*, 472 S.E.2d 350, 354 (N.C. Ct. App. 1996) (holding a private investigator liable for the tort of intrusion upon seclusion for installing hidden cameras in the house of the nonfamous plaintiff).

28. CAL. PENAL CODE § 653n (West 1969); *see also Cramer v. Consol. Freightways Inc.*, 255 F.3d 683, 688 (9th Cir. 2001) (applying the California law to a company that installed cameras behind the mirrors in employee washrooms).

29. N.Y. GEN. BUS. § 395-b (McKinney 1996).

30. *See, e.g., Griswold v. Connecticut*, 381 U.S. 479, 485 (1965). Justice Goldberg, writing for the majority, found the basis for decisional privacy in the "penumbras" or "emanations" of specific provisions of the Bill of Rights. *Id.* at 484. The Court today seems to prefer to ground this right in the "basic values 'implicit in the concept of ordered liberty'" and the Fourteenth Amendment. *See id.* at 500 (Harlan, J., concurring); *see also Cruzan v. Director, Missouri Dep't of Health*, 497 U.S. 261, 279 n. 7 (1990).

31. *Griswold*, 381 U.S. at 485.

32. *Roe v. Wade*, 410 U.S. 113, 153 (1973) (finding "the right to privacy . . . broad enough to encompass a woman's decision whether or not to terminate her pregnancy").

33. *Loving v. Virginia*, 388 U.S. 1, 12 (1967) (holding that "[u]nder our Constitution, the freedom to marry, or not marry, a person of another race resides with the individual and cannot be infringed by the State").

34. *See Bowers v. Hardwick*, 478 U.S. 186 (1986) (refusing to find a privacy right to protect certain intimate sexual practices from state criminal sanction). Recently, the Court granted certiorari on a challenge to the Texas anti-sodomy statute, *Lawrence v. State*, 41 S.W.3d 349 (Tex. App. 2001), which will provide an opportunity to revisit *Bowers*. *Lawrence v. Texas*, 123 S. Ct. 661 (2002) (granting petition for cert.)

## 2. Informational Privacy

A more recently developed “branch” of privacy law concerns personal information. While privacy in one’s private facts was part of Warren and Brandeis’ original conception of privacy,<sup>35</sup> and is implicit in the Fourth Amendment’s protection of personal “papers,”<sup>36</sup> the idea of “personal information” as physically separable from the information’s subject took longer to formulate. Even before the development of digital data, however, informational privacy interests surfaced.<sup>37</sup> As the modern, industrial society developed, various third parties—governments, banks, schools, and the like—regularly came into possession of the personal information of citizens, customers, and pupils. While this information was often intimate, the individual’s right to protect it was unclear.

Common law and constitutional protection for informational privacy is sparse. The privacy torts are not readily applicable to misuse of personal information unless the information was taken from the victim directly or from some other private source, such as the victim’s bank account.<sup>38</sup> Such a rule does not map well to situations in which one’s personal information surfaces in the hands of a third party, such as a marketer.<sup>39</sup> The Constitution protects personal information against government intrusion, but this interest in “avoiding disclosure of personal matters” does not seem very broad.<sup>40</sup> As with the privacy torts, to receive protection, the information must be both subjectively and objectively ‘private.’<sup>41</sup> While a few lower courts have found violations of informational privacy rights based on the Federal Constitution,<sup>42</sup> the Court seems inclined to take governments at their word as to the justification for collecting certain personal information.<sup>43</sup> State constitutions, while often containing stronger textual support

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35. See Warren & Brandeis, *supra* note 7, at 206.

36. U.S. CONST. amend. IV.

37. See *Whalen v. Roe*, 429 U.S. 589, 598-600 (1977).

38. See RESTATEMENT (SECOND) OF TORTS § 652B & cmt. b (1977).

39. Courts are unlikely to find misuse of “non-private” personal information to be “highly offensive to a reasonable person”—the general standard for the privacy torts. *Id.* at §§ 652B-E.

40. See *Whalen*, 429 U.S. at 599. In *Whalen v. Roe*, the Court refused to find that the government’s recording of personal drug prescription information violated the constitutional right to privacy because the information was adequately protected. *Id.* at 600-02.

41. See *Smith v. Maryland*, 442 U.S. 735, 740 (1979) (stating no expectation of privacy in personal telephone call log, as possessed by the phone company);

42. See, e.g., *Doe v. Borough of Barrington*, 729 F. Supp. 376, 382 (D.N.J. 1990) (concerning disclosure of Plaintiff’s AIDS infection).

43. See *Nixon v. Adm’r of Gen. Servs.*, 433 U.S. 425, 458 (1977); *Whalen*, 429 U.S. at 602.

for informational privacy,<sup>44</sup> have not been invoked often for that purpose.<sup>45</sup>

Statutes have filled in many of the holes left by the insufficiencies of common and constitutional law, but the myriad state and federal privacy statutes affecting informational privacy address narrow, specific issues rather than the breadth of the problem.<sup>46</sup> Commentators note that the statutory landscape is “riddled with exceptions” that often render the laws “ineffective.”<sup>47</sup> At the federal level, the most complete statutory attempt to address the problem of misuse of information was also the first: the Privacy Act of 1974.<sup>48</sup> But while the Privacy Act sets out admirable and often-emulated<sup>49</sup> fair “information practices” (FIPs)<sup>50</sup> with which the gov-

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44. Alaska, Arizona, California, Florida, Hawaii, Illinois, Louisiana, Montana, South Carolina, and Washington all have privacy provisions in their constitutions that can arguably be applied to informational privacy. See Elbert Lin, Article, *Prioritizing Privacy: A Constitutional Response to the Internet*, 17 BERKELEY TECH. L.J. 1085, 1130 & n.276 (2002).

45. *Id.* at 1131. *But see, e.g.*, *Tattered Cover, Inc. v. City of Thornton*, 44 P.3d 1044, 1059 (Colo. 2002) (finding that the Colorado Constitution requires the government to show a compelling need for the specific personal information in order to lawfully collect it).

46. See generally MARC ROTENBERG, *THE PRIVACY LAW SOURCEBOOK: UNITED STATES LAW, INTERNATIONAL LAW, AND RECENT DEVELOPMENTS* (2002); ROBERT ELLIS SMITH, *COMPILATION OF FEDERAL AND STATE PRIVACY LAWS* (2002).

47. See, e.g., Flavio K. Komuves, *We've Got Your Number: An Overview of Legislation and Decisions to Control the Use of Social Security Numbers as Personal Identifiers*, 16 J. MARSHALL J. COMPUTER & INFO. L. 529, 535 (1998) (discussing the statutory protection of privacy concerning Social Security Numbers).

48. 5 U.S.C. § 552a (2000).

49. See European Commission Council Directive 95/46/EC on the Protection of Individuals with Regard to the Processing of Personal Data and on the Free Movement of Such Data, 1995 O.J. (L. 281) 31, [http://europa.eu.int/comm/internal\\_market/en/dataprot/law/dir1995-46\\_part1\\_en.pdf](http://europa.eu.int/comm/internal_market/en/dataprot/law/dir1995-46_part1_en.pdf) (adopting similar “fair information practices”).

50. The Privacy Act FIPs are based on the Code of Fair Information Practices, developed in 1972 by the Department of Health, Education, and Welfare. The Code is based on five principles: (1) There must be no personal data record-keeping systems whose very existence is secret; (2) there must be a way for a person to find out what information about the person is in a record and how it is used; (3) there must be a way for a person to prevent personal information that was obtained for one purpose from being used or made available for other purposes without the person's consent; (4) there must be a way for a person to correct or amend a record of identifiable personal information; and, (5) any organization creating, maintaining, using, or disseminating records of identifiable personal data must assure the reliability of the data for their intended use and must take precautions to prevent misuses of the data. SEC'Y'S ADVISORY COMM. ON AUTOMATED PERSONAL DATA SYSTEMS, U.S. DEP'T OF HEALTH, EDUC. & WELFARE, RECORDS, COMPUTERS, AND THE RIGHTS OF CITIZENS xxiii-xxvi (1973), available at <http://aspe.hhs.gov/datacncl/1973privacy/tocprefacemembers.htm>; see 5 U.S.C. § 552a(d).

ernment must comply, the Act only applies to such state-issued or — collected information as welfare benefit data and Social Security Numbers.<sup>51</sup> Furthermore, the Privacy Act is limited by exceptions for “routine use”<sup>52</sup> and by the Freedom of Information Act.<sup>53</sup>

Other federal laws vary in usefulness, but all are limited in scope to their own narrow swath of informational privacy.<sup>54</sup> Other than the Privacy Act, the most important laws in this area are the Fair Credit Reporting Act (FCRA),<sup>55</sup> portions of the Computer Fraud and Abuse Act (CFAA),<sup>56</sup> and the Electronic Communications Privacy Act (ECPA).<sup>57</sup> These laws are all valuable in limited circumstances, but cannot serve as the basis for a generalized protection of informational privacy.<sup>58</sup> The clearest example of this piecemeal statutory approach recently is the Children’s Online Privacy Protection Act (COPPA).<sup>59</sup> The COPPA, the only law to specifically target online informational privacy,<sup>60</sup> applies only to websites that collect information from children.<sup>61</sup>

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51. 5 U.S.C. § 552a(a) (limiting the application of the Privacy Act to government agencies keeping certain types of personal records).

52. This language allows the government significant leeway to determine what uses of information are necessary in the administration of its duties. *See* PRIVACY AND HUMAN RIGHTS, *supra* note 8, at 384.

53. 5 U.S.C. § 552.

54. *See, e.g.*, Video Privacy Protection Act, 18 U.S.C. § 2710 (2002) (passed to protect video rental records in reaction to the disclosure of Judge Robert Bork’s rental list by a Washington, D.C. paper during his ill-fated Senate confirmation hearings). Notably, the Act does not extend protection to similar records for rental of video games, and its applicability to Digital Video Disks (DVDs) and online streaming video is unresolved. *See* Video Privacy Protection Act (VPPA), Electronic Privacy Information Center, at <http://www.epic.org/privacy/vppa/> (last updated Aug. 6, 2002).

55. 15 U.S.C. § 1601 (limiting use of certain personally identifiable financial information in the credit and financial industries, and requiring credit agencies to make personal credit histories and ratings available to their owners).

56. 18 U.S.C. § 1030 (creating criminal and civil penalties for certain computer-related intrusions into personal property).

57. 18 U.S.C. §§ 2510-2520, 2701 (1997) (encompassing the Wiretap Act (Title I) and the Stored Communications Act (Title II), both designed to protect private communications, such as email, from unwarranted government and private intrusion). *See also* Konop v. Hawaiian Airlines, Inc., 302 F.3d 868 (9th Cir. 2002) (finding employer’s serendipitous viewing of employee union website and private postings thereon did not violate the ECPA).

58. *See, e.g.*, Jonathan P. Cody, Comment, *Protecting Privacy Over the Internet: Has the Time Come to Abandon Self-Regulation?*, 48 CATH. U.L. REV. 1183, 1200 (1999) (describing the failure of the ECPA to broadly protect communications privacy).

59. 15 U.S.C. §§ 6501-6506.

60. Lin, *supra* note 44, at 1112.

61. *Id.*; *see also* 15 U.S.C. § 6502.

State legislatures have been, on the whole, the most promising venue for new informational privacy protections, but even when statutory language suggests broad, general privacy protections, state laws are proscribed by jurisdictional limits and the states' weak enforcement abilities.<sup>62</sup> Specific state laws, while often stronger than equivalent protections at the federal level, are often difficult to enforce in a world where in-state violations are committed by persons located out-of-state.<sup>63</sup> Even if a state were to pass an omnibus, cohesive package of privacy protections, such a law would be incapable of addressing what is (at the least) a national problem.

## B. The Impact of Digital Technology

The last generation has seen technological change on a scale matching or exceeding that of the industrial revolution.<sup>64</sup> This "digital revolution" has not left privacy untouched.<sup>65</sup> Jerry Berman and Deirdre Mulligan note three major digital developments that deeply affect privacy: (1) the increase in data creation and the resulting collection of vast amounts of personal data—caused by the recording of almost every modern interaction; (2) the globalization of the data market and the ability of anyone to collate and examine this data; and (3) lack of the types of control mechanisms for digital data that existed to protect analog data.<sup>66</sup>

These three developments all concern the changes wrought by digital technology on the ability to manipulate information. First, the amount of digital information generated is breathtaking.<sup>67</sup> Every interaction with the Internet, every credit card transaction, every bank withdrawal, every

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62. For example, a new California law provides residents with stronger protection of their Social Security Numbers and against credit fraud. CAL. PENAL CODE §§ 530.5-530.7 (2002). A new Georgia law prevents businesses from discarding records that may contain their customers' personal information. GA. CODE ANN. §§ 16-9-121, 127 (2002). *See generally* SMITH, *supra* note 46.

63. Even were the states to expand their prosecutory resources, they are limited by state sovereignty and the federal Constitution's Commerce Clause. *See* Lin, *supra* note 44, at 1117.

64. *See* Eugene R. Quinn, Jr., *Tax Implications for Electronic Commerce over the Internet*, 4.3 J. TECH. L. & POL'Y 1, 50 (1999) (claiming that the "so-called 'digital revolution' has the potential to cause societal change on a magnitude that is even greater than that caused by the Industrial Revolution").

65. *See* Daniel J. Solove, *Privacy and Power: Computer Databases and Metaphors for Information Privacy*, 53 STAN. L. REV. 1393, 1394 (2001) (describing the impact of digital technology on "the way we shop, bank, and go about our daily business").

66. Berman & Mulligan, *supra* note 5, at 554-56.

67. *See* Fromkin, *supra* note 2, at 1468-1501.

magazine subscription is recorded digitally and linked to specific individuals. In the analog world, these transactions were either not recorded at all<sup>68</sup> or recorded on paper in a single location. Second, all this information, once it is collected in networked databases, can be sent instantly and cheaply around the globe.<sup>69</sup> In this newly-commoditized information market, buyers anywhere can collate and manipulate the data for marketing,<sup>70</sup> profiling,<sup>71</sup> or more sinister<sup>72</sup> purposes. Third, individuals have little ability to control this collection or manipulation. Not only does much of this happen far from the reach of regulators, but most people are not even aware what information has been collected or how it is being used.<sup>73</sup>

But while all of these changes affect information, not only informational privacy has been affected. Autonomy, too, faces threats from digital technology.<sup>74</sup> When almost every activity leaves a digital trail, government and private monitoring become less about analog surveillance and more a matter of "data mining."<sup>75</sup>

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68. Compare old-fashioned cash commerce with "e-commerce" in which a website tracks your "clickstream" through use of "cookies," ad-servers track your viewing, and credit companies record your purchase. *See In re DoubleClick, Inc. Privacy Litig.*, 154 F. Supp. 2d 497, 501-05 (S.D.N.Y. 2001).

69. *See* Berman & Mulligan, *supra* note 5, at 555.

70. *See* *Trans Union v. FTC*, 81 F.3d 228 (D.C. Cir. 1996) (holding that the sale of consumer credit reports for marketing purposes violated the FCRA).

71. *See* Privacy and Consumer Profiling, Electronic Information Privacy Center, at <http://www.epic.org/privacy/profiling/> (last updated Oct. 3, 2002) (describing data profiling, the market for it, and associated privacy concerns).

72. *See* *Remsburg v. Docusearch, Inc.*, 2003 N.H. LEXIS 17 at \*4-7 (N.H. 2002) (describing stalker's collection of his victim's personal financial and location information for use in carrying out murder of the victim).

73. *See* Daniel J. Solove, *Digital Dossiers and the Dissipation of Fourth Amendment Privacy*, 75 S. CAL. L. REV. 1083, 1095 (2002).

74. As do other areas of privacy. For example, digital technology threatens the ability to participate anonymously in digital society because every digital interaction leaves personally identifiable fingerprints. *See generally* Julie E. Cohen, *A Right to Read Anonymously: A Closer Look at "Copyright Management" in Cyberspace*, 28 CONN. L. REV. 981 (1996). Technologies like digital rights management could prevent consumers from watching movies or listening to music online without being monitored. *See* Megan E. Gray & Will Thomas DeVries, *The Legal Fallout from Digital Rights Management Technology*, COMPUTER & INTERNET LAWYER (forthcoming April 2003) (manuscript on file with author). Lawsuits against anonymous Internet posters employ discovery to compel ISPs to reveal user identities. *See, e.g., Doe v. 2themart.com, Inc.*, 140 F. Supp. 2d 1088, 1094 (W.D. Wash. 2001).

75. *See generally* Joseph S. Fulda, *Data Mining and Privacy*, 11 ALB. L.J. SCI. & TECH. 105 (2000). Professor Fulda defines data mining as "the intelligent search for new knowledge in existing masses of data"). *Id.* at 106. Data mining shows the difficulty of easy categorization of privacy harms; the informational privacy "branch" is obviously

The impact of digital technology on privacy superficially seems like the same pattern seen with older technologies; the law will attempt to evolve in response to the privacy threats posed by the digital revolution,<sup>76</sup> just as it did with the telephone<sup>77</sup> or the VCR.<sup>78</sup> But the impact of the digital age is so deep and pervasive that expansion of a single area of privacy law is unlikely to adequately address the problems. In essence, the *scale* is different. Since the digital age affects every aspect of privacy, it requires an evolution not just in the existing framework, but in the very conceptual and legal status of privacy. Current battles over privacy rights illustrate this.

## II. PRIVACY BATTLES IN THE DIGITAL AGE

The conceptually discrete branches of privacy on their own fail to adequately address the privacy concerns of the digital age. This Part examines current activity in each of the three branches of privacy law described above with respect to the development of digital technology.

### A. Reviving Big Brother

Digital technology has revived the most pervasive privacy metaphor of the last fifty years:<sup>79</sup> Orwell's infamous Big Brother.<sup>80</sup> As developed in *Nineteen Eighty-Four*, Orwell's vision of an all-seeing, ever-searching, omnipresent eye of government has dominated the metaphoric landscape

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implicated by technology that allows the collection and possible misuse of such vast amounts of data. See Froomkin, *supra* note 2, at 1468-1501.

76. See Julie E. Cohen, *Examined Lives: Informational Privacy and the Subject as Object*, 52 STAN. L. REV. 1373, 1374 (2000); Hernandez, *supra* note 4, at 429.

77. Compare, e.g., *Olmstead v. United States*, 277 U.S. 438, 464 (1928) (finding no reasonable expectation of privacy in phone conversations), with *Katz v. United States*, 389 U.S. 347, 353, 359 (1967) (criticizing *Olmstead* and finding a right to privacy in telephone booth conversations).

78. The Video Privacy Protection Act, 18 U.S.C. § 2710, was passed subsequent to the development of the VCR and video rental industry. Lawmakers feared misuse of movie rental lists, which were preserved on an individual basis as never before. See Video Privacy Protection Act (VPPA) website, *supra* note 54. While some might argue that privacy law is often passed in anticipation of (not in reaction to) new technological developments, even when laws are passed in anticipation of new technological threats, the driving force is still technology. See, e.g., Cable Communications Act of 1984, Pub. L. No. 98-549, 98 Stat. 2779 (1984) (codified as amended in scattered sections of 47 U.S.C.).

79. See Solove, *supra* note 65, at 1395-96.

80. GEORGE ORWELL, *NINETEEN EIGHTY-FOUR* (New American Library 1983) (originally published 1949).

of the modern privacy debate.<sup>81</sup> The Big Brother metaphor lives on in the digital age—and now Big Brother actually possesses the technological and legislative tools to prevent any meaningful escape from his gaze. Indeed, use of digital technology by the government has caused many to lament the growing irrelevancy of the Fourth Amendment and the “right to be let alone.”<sup>82</sup>

### I. ‘Carnivore’ and Digital Surveillance

Crime has gone high tech, and crime-fighting has followed. The digital age has changed crime and criminal investigation much as it has every other sector of the law and society.<sup>83</sup> New tools of digital surveillance allow more effective and complete monitoring by police than has ever been possible before. The digital trail each individual generates can be tracked by investigators, both public<sup>84</sup> and private, easily and cheaply.<sup>85</sup> Beyond physical surveillance, police can use digital technology to search a suspect’s ISP for incriminating information without leaving headquarters<sup>86</sup> or to spot possible criminals at the Superbowl using face recognition software.<sup>87</sup>

To address the changing times, the Federal Bureau of Investigation (FBI) developed “Carnivore,”<sup>88</sup> digital monitoring software that allows

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81. See Solove, *supra* note 65 at 1395-96.

82. See generally Steven A. Osher, Privacy, Computers and the Patriot Act: The Fourth Amendment Isn’t Dead, But No One Will Insure It, 54 FLA. L. REV. 521 (2002).

83. See generally Aaron Burstein, Note, *A Survey of Cybercrime in the United States*, 18 BERKELEY TECH. L.J. [ ].

84. This section discusses Federal law-enforcement, but it should be noted that state officials are by far the larger consumers of surveillance technologies. See Title III Electronic Surveillance 1968-1999, Electronic Privacy Information Center, at [http://www.epic.org/privacy/wiretap/stats/wiretap\\_stats.html](http://www.epic.org/privacy/wiretap/stats/wiretap_stats.html) (last visited Dec. 19, 2002).

85. The federal government is planning an extensive “data mining” operation called Total Information Awareness. See *infra* Part II.B.4.

86. See *United States v. Bach*, 310 F.3d 1063 (8th Cir. 2002), *reh’g denied*, 2003 U.S. App. LEXIS 141 (8th Cir. 2003) (allowing officers to execute a warrant for search of records stored at an out-of-state ISP remotely).

87. Alexander T. Nguyen, *Here’s Looking at You, Kid: Has Face-Recognition Technology Completely Outflanked the Fourth Amendment?*, 7 VA. J.L. & TECH. 2, ¶ 8 (2002).

88. This Note refers to the software as “Carnivore,” though the FBI renamed the newest version “DCS-1000.” See Aaron Y. Strauss, Note, *A Constitutional Crisis in the Digital Age: Why the FBI’s “Carnivore” Does Not Defy the Fourth Amendment*, 20 CARDOZO ARTS & ENT. L.J. 231, 232 n.6 (2002) (noting that “because the name conjured up ‘so many unflattering images of flesh-eating animals’ the FBI decided to switch the name”).

FBI officers to monitor suspects' online communications.<sup>89</sup> The FBI "taps" into Internet Service Providers (ISPs) using Carnivore. The software then scans huge volumes of communications for those fitting the search criteria—flagging and storing any messages meet those criteria.<sup>90</sup> Carnivore thus allows the monitoring of vast amounts of personal information without a dramatic increase in marginal costs.<sup>91</sup>

Carnivore, contends the FBI, is not as privacy invasive as other "packet-sniffing" tools, which generally search digital data for certain criteria, because Carnivore can screen out irrelevant or privileged communications.<sup>92</sup> It analyzes the content of the data (e.g., email messages) that meets the search criteria and saves only those relevant to the investigation and within the scope of a court order.<sup>93</sup> It is unclear how true these claims are in practice, however, since little data are available on Carnivore's actual use. Notably, in one of the few publicized incidents, FBI documents revealed that in one investigation, Carnivore mistakenly flagged emails belonging to non-targeted individuals.<sup>94</sup> The FBI technician, knowing the emails were not covered by the court order, erased all of the search results, including emails to and from the target—a suspected terrorist linked to Osama Bin Laden.<sup>95</sup>

## 2. *The USA PATRIOT Act*

Until September 11, 2001, the rules governing digital surveillance of digital data were in legislative limbo. Government prosecutors and civil libertarians had been haggling over the correct standards to apply to "tapping" of digital communications for several years, and meanwhile the old

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89. E. Judson Jennings, *Carnivore: US Government Surveillance of Internet Transmissions*, 6 VA. J.L. & TECH. 10, ¶ 3 (2001).

90. See *id.* at ¶ 5; Orin. S. Kerr, *Internet Surveillance Law After the USA PATRIOT Act: The Big Brother that Isn't*, 97 NW. U.L. REV. (forthcoming 2003) (manuscript at 55-57, on file with author).

91. While privacy advocates are concerned about the possibilities for misuse of Carnivore, see Jennings, *supra* note 89 at ¶ 6, it has yet to generate any privacy litigation. The only published opinion discussing Carnivore, as of this writing, concerns the disclosure of information by the FBI about the program with respect to the Freedom of Information Act. See *Judicial Watch, Inc. v. FBI*, 190 F. Supp. 2d 29 (D.D.C. 2002).

92. See Kerr, *supra* note 90 (manuscript at 57).

93. See *MARK LEMLEY ET. AL., SOFTWARE AND INTERNET LAW 911* (2d ed., 2003).

94. See Press Release, Electronic Privacy Information Center, FBI's Carnivore System Disrupted Anti-Terror Investigation (May 28, 2002), at [http://www.epic.org/privacy/carnivore/5\\_02\\_release.html](http://www.epic.org/privacy/carnivore/5_02_release.html).

95. See *id.*; Electronic Privacy Information Center, *FBI Memo on 'FISA Mistakes'*, at <http://www.epic.org/privacy/carnivore/fisa.html> (memo dated April 5, 2000).

rules for telephone and other surveillance had been applied to the Internet by default.<sup>96</sup> Then things changed. Within weeks of September 11th, Congress passed the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act—more often known by its intentional acronym, USA PATRIOT Act, or just as the Patriot Act.<sup>97</sup>

With very little congressional debate, the Patriot Act sped through Congress<sup>98</sup>—the haste in response to the perceived inability of authorities to track and uncover terrorist plots.<sup>99</sup> The laws overall effect, however, has had less to do with terrorism than with easing restrictions on government surveillance of digital communications.<sup>100</sup> The effect of September 11th was thus to preempt the ongoing debate over these standards and resolve it firmly in favor of the government prosecutors.<sup>101</sup>

The Patriot Act, an amalgam of provisions of several earlier bills,<sup>102</sup> generally loosens the procedural and substantive limits regarding government investigative and surveillance powers, both foreign and domestic.<sup>103</sup> It allows broader sharing of gathered information between law enforcement and intelligence agencies,<sup>104</sup> amends the Foreign Intelligence Surveillance Act (FISA) to expand the federal government's ability to investigate and search foreign entities and organizations,<sup>105</sup> allows law enforcement to install "roving wiretaps"<sup>106</sup> and to obtain "pen registers" and

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96. See Kerr, *supra* note 90 (manuscript at 34-35).

97. Pub. L. No. 107-56, 115 Stat. 272 (2001).

98. See Kerr, *supra* note 90 (manuscript at 2).

99. See The USA PATRIOT Act, Electronic Privacy Information Center, at <http://www.epic.org/privacy/terrorism/usapatriot/> (last updated Oct. 31, 2002) [hereinafter EPIC USA PATRIOT Act Web page].

100. See John Podesta, *USA Patriot Act: The Good, the Bad, and the Sunset*, ABA NETWORK, Winter 2002, at <http://www.abanet.org/irr/hr/winter02/podesta.html>.

101. See *id.* Clinton White House Chief-of-Staff John Podesta notes that "[m]any of the electronic surveillance provisions in the Patriot Act faced serious opposition prior to September 11 from a coalition of privacy advocates, computer users, and elements of the high-tech industry." *Id.*

102. See EPIC USA PATRIOT Act Web page, *supra* note 99 (noting that "[m]any of the provisions of the Act relating to electronic surveillance were proposed before September 11th").

103. *Id.*

104. USA PATRIOT Act §§ 203, 504, 701.

105. *Id.* §§ 214-18. See also *Global Relief Found., Inc. v. O'Neil*, 207 F. Supp. 2d 779, 807 (N.D. Ill. 2002) (dismissing Global Relief's privacy claims based on interception of its digital communications on the grounds that the plaintiff, despite being a U.S. corporation, was now considered a foreign entity under the revised FISA).

106. A "roving" wiretap is a wiretap order allowing investigators to monitor communications from a suspect regardless of the instrument of communication (telephone, mo-

“trap and trace”<sup>107</sup> orders for telephones—and now for computers—with less procedural barriers.<sup>108</sup> The Patriot Act also implicitly enshrines Carnivore into law by defining the digital surveillance provisions to include the type of search Carnivore performs.<sup>109</sup> Most importantly, the Act *requires* judges to sign orders authorizing these searches without allowing the court to review the efficacy or legitimacy of the request.<sup>110</sup>

Privacy advocates, not surprisingly, are unhappy with the Patriot Act. They point out the possibilities for prosecutorial misuse and limited judicial oversight.<sup>111</sup> But the new law’s impact on privacy rights is not as clear as its media image would indicate.<sup>112</sup> First, the Act contains an explicit sunset provision affecting many of the surveillance provisions.<sup>113</sup> Moreover, even where the Act allows secret searching and broader sharing of information, government agents must submit (under seal) the results of their activities to a reviewing judge.<sup>114</sup> Also, the FISA amendments expressly prohibit using the new surveillance power expressly to interfere with a citizen’s First Amendment rights.<sup>115</sup> Orin Kerr, who drafted sub-

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ble phone, etc.). See USA PATRIOT Act § 206 (amending the FISA to allow broader use of such surveillance).

107. “A pen register collects the outgoing phone numbers placed from a specific telephone line; a trap and trace device captures the incoming numbers placed to a specific phone line—a caller-id box is a trap and trace device”). See EPIC USA PATRIOT Act Web page, *supra* note 99.

108. USA PATRIOT Act §§ 214-218. In May 2002, the “secret” Foreign Intelligence Surveillance Court struck many of the new wiretap provisions as unconstitutional violations of the Fourth Amendment, but a three-judge panel of the Court of Appeals for the District of Columbia overturned the ruling and upheld the new provisions. In re Sealed Case No. 02-001, slip op. (United States Foreign Intelligence Surveillance Court of Review 2002), available at <http://www.cadc.uscourts.gov/common/newsroom/02-001.pdf>. The case is unlikely to be taken by the Supreme Court, since the Patriot Act does not provide for appeals beyond this secret appellate court composed of D.C. Circuit judges. See *id.* § 412.

109. See *id.* § 216.

110. See, e.g., *id.* § 216 (requiring that “the court *shall* enter an ex parte order authorizing the installation and use of a pen register or trap and trace device within the jurisdiction of the court, if the court finds that the State law enforcement or investigative officer *has certified to the court* that the information likely to be obtained by such installation and use is *relevant to an ongoing criminal investigation*”) (emphasis added).

111. See EPIC USA PATRIOT Act Web page, *supra* note 99.

112. See, e.g., Stefanie Olsen, *Patriot Act draws privacy concerns*, CNET, Oct. 26, 2001, at <http://news.com.com/2100-1023-275026.html>.

113. USA PATRIOT Act § 224.

114. *Id.* § 203. Even privacy advocates admit that this amendment “provides vital judicial oversight of the use of this enhanced surveillance authority.” EPIC USA PATRIOT Act Web page, *supra* note 99.

115. *Id.* § 214.

stantial portions of the language that became the Patriot Act,<sup>116</sup> argues that, on the whole, the Patriot Act does not endanger privacy and in fact may bolster it.<sup>117</sup> In addition to the above elements, he points out that the types of digital surveillance allowed are necessary to deal with modern crime and anyway are tightly constrained so as to protect privacy.<sup>118</sup> While Professor Kerr's views appear to be in the minority, the full impact of this law on privacy is to be determined.

## B. From Orwell to Kafka: The Ubiquity of Personal Information

The power of Orwell's Big-Brother metaphor is so powerful that writers have attempted to graft it onto other privacy areas.<sup>119</sup> With respect to the digital aggregation, collation, and distribution of personal information, however, Daniel Solove suggests that the better metaphor is Franz Kafka's *The Trial*.<sup>120</sup> The problem is less the all-seeing eye of Big Brother (or any other family member) and more the "dehumanization" of having one's most intimate information circulated by an indifferent and faceless infrastructure without any control over the process or content.<sup>121</sup> In *The Trial*, the protagonist faced a bureaucracy whose rules he did not understand and could not control, yet who knew every intimate fact and could exercise authority over him.<sup>122</sup> This metaphor seems appropriate to the problem of informational privacy.

### 1. Financial Information

Banks and financial institutions have gradually realized that they sit atop a horde of digital gold: their customers' personal information.<sup>123</sup> Information like customer names, addresses, Social Security Numbers (SSNs), income bracket, and credit status are increasingly valuable to marketers and other parties.<sup>124</sup> Since current constitutional doctrine does not extend the "reasonable expectation of privacy" to information not

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116. Kerr, *supra* note 90 (manuscript at 4).

117. *Id.* at 2-3.

118. *Id.*

119. For example, private sector monitors are often referred to as "Little Brothers." See Solove, *supra* note 65, at 1398 & n.12.

120. FRANZ KAFKA, *THE TRIAL* (Willa & Edwin Muir trans. 1937); see Solove, *supra* note 65, at 1398.

121. See Solove, *supra* note 65, at 1398-99.

122. KAFKA, *supra* note 120, at 147-48.

123. See Neal R. Pandozzi, *Beware of Banks Bearing Gifts: Gramm-Leach-Bliley and the Constitutionality of Federal Financial Privacy Legislation*, 55 U. MIAMI L. REV. 163, 163 (2001).

124. See Janet Dean Gertz, Comment, *The Purloined Personality: Consumer Profiling in Financial Services*, 39 SAN DIEGO L. REV. 943, 950-51 (2002).

strictly within the control of the individual,<sup>125</sup> statutory regulation provides the only legal privacy guidelines for this industry.<sup>126</sup>

The financial information market has been the subject of increased scrutiny recently, as a result of the increasing ease of transferring and re-using personal information and the resulting danger of misuse. In 1999, Congress passed the Financial Services Modernization Act, known as the Gramm-Leach-Bliley Act (GLBA) after its eponymous Senate sponsors.<sup>127</sup> The GLBA was intended primarily to “eliminate many Federal and State law barriers to affiliations among” financial institutions,<sup>128</sup> but it also contained new privacy regulations to protect “nonpublic personal information.”<sup>129</sup> In response, the Federal Trade Commission (FTC) promulgated fairly strong new privacy regulations under the GLBA.<sup>130</sup>

In response to the FTC’s regulations, the credit reporting agency Trans Union, a company with a long history of questionable use of personal financial information,<sup>131</sup> sued the FTC. Trans Union alleged that the FTC’s definition of personal information was overbroad and that limits on their distribution and reuse of information such as name, address, and SSN was

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125. See *Smith v. Maryland*, 442 U.S. 735, 740 (1979).

126. Until 1999, the most important federal regulation of this industry was the Fair Credit Reporting Act of 1970 (FCRA), 15 U.S.C. § 1681 (2000), which placed some limits on the distribution of personal credit information, but excluded “credit headers,” which includes name, address, and SSN, from protection. See *Trans Union LLC v. FTC*, 295 F.3d 42, 50-51 (D.C. Cir. 2002) [hereinafter *Trans Union II*].

127. Pub L. No. 106-102, 113 Stat. 1338 (1999) (codified as amended in scattered sections of 12 U.S.C. and 15 U.S.C.). See generally Jolina C. Cuaresma, Note, *The Gramm-Leach-Bliley Act*, 17 BERKELEY TECH. L.J. 497 (2002).

128. H.R. CONF. REP. NO. 106-434, at 1 (1999).

129. See 15 U.S.C. §§ 6801-09 (2002); *Trans Union II*, 295 F.3d at 46 (noting the new requirements that consumers be permitted to “opt-out” of certain information disclosures and allowing various agencies to further regulate the industry).

130. The FTC broadly defined “personally identifiable financial information” (PIFI) to include “credit headers,” which thus required the same consumer opt-out provisions as other financial information, and limits the ability of financial institutions to re-use customer data for new purposes without additional opt-out permission. See *Privacy of Consumer Financial Information*, 16 C.F.R. §§ 313.3, 313.11; *Trans Union II*, 295 F.3d at 49-52.

131. See *In re Trans Union Corp. Privacy Litig.*, 2002 U.S. Dist. LEXIS 17209 (N.D. Ill.) (dismissing Plaintiffs’ class-action FCRA claim alleging privacy violations arising from the sale of their information to a tele-marketer on the basis that the statutory damages involved—\$19 billion—would bankrupt the Defendant); *Trans Union Corp. v. FTC*, 245 F.3d 809 (D.C. Cir. 2001) [hereinafter *Trans Union I*], cert. denied 122 S. Ct. 2386 (2002) (dismissing Trans Union’s claims that the FTC had infringed their freedom of speech by banning the sale of “consumer reports” without approval under the FCRA).

a violation of their free speech rights.<sup>132</sup> The district court dismissed all claims and granted summary judgment to the FTC.<sup>133</sup> On appeal, the D.C. Circuit affirmed, noting that the FTC acted within its discretion in broadly defining personal information.<sup>134</sup> The court breezed through Trans Union's free speech claim, noting that speech was purely "commercial," and its restriction supported by legitimate state interests.<sup>135</sup>

This case illustrates how financial privacy vexes traditional notions of privacy. First, the court implicitly recognized the important role the FTC is playing in protecting informational privacy, but had trouble expressing the legal basis for such a role.<sup>136</sup> If the Constitution does not recognize a privacy right in financial information,<sup>137</sup> and the authorizing statute does not expressly include the right to limit the distribution of information such as the SSN,<sup>138</sup> how can the FTC suddenly have such power? Second, the court dismisses the free speech claim, but cannot articulate clearly why informational privacy interests (the protection of which has not been defined as a compelling state interest) can trump the right to disseminate ostensibly "public" information.<sup>139</sup> The court recognized the privacy interest, but given the status of informational privacy, it had to grasp for a way to protect it.<sup>140</sup>

## 2. *Public Records and the Decline of Practical Obscurity*

One of the most treasured aspects of the modern American system of government is the openness with which all proceedings occur. A necessary

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132. *Individual References Serv. Group, Inc. v. FTC*, 145 F. Supp. 2d 6 (D.D.C.) [hereinafter *ISRG*], *aff'd*, *Trans Union II*, 295 F.3d 42 (D.C. Cir. 2001).

133. *Id.*

134. *Trans Union II*, 295 F.3d at 51.

135. *Id.* at 52. The court held similarly with respect to the free speech claims brought by Trans Union against the FTC a year earlier in *Trans Union I*. 245 F.3d at 818-19. Notably, two justices dissented to the denial of the *certiorari* petition in that case, arguing that the financial information at issue here was "speech" that "touches upon matters of public concern," and thus deserved strict scrutiny. *Trans Union LLC v. FTC*, 122 S. Ct. 2386, 2387 (2002) (denial of cert.) (Kennedy, J., dissenting).

136. *See Trans Union II*, 295 F.3d at 47 (describing the power granted to the FTC under the GLBA and the Federal Trade Commission Act).

137. *See Smith v. Maryland*, 442 U.S. 735, 740 (1979).

138. *See Trans Union II*, 295 F.3d at 49-50.

139. *See id.* at 52; *Trans Union I*, 122 S. Ct. 2386, 2387 (2002) (Kennedy, J., dissenting from denial of cert.) *See generally* Paul M. Schwartz, *Free Speech vs. Information Privacy: Eugene Volokh's First Amendment Jurisprudence*, 52 STAN. L. REV. 1559 (2000).

140. The court employed the "commercial speech doctrine." *See Trans Union II*, 295 F.3d at 52-53; *see generally Dun & Bradstreet, Inc. v. Greenmoss Builders, Inc.*, 472 U.S. 749 (1985).

corollary of this system is the creation of a vast array of public records documenting the ongoing affairs of government—from the federal to the very local.<sup>141</sup> These records are often intimately personal: by the end of his life, an individual may have generated public records ranging from their birth certificate, immunization records, and school loans to driving records, marriage certificate, divorce proceedings, bankruptcy filings, and collection of social security benefits.<sup>142</sup> The records for those involved in direct court or criminal proceedings can be especially revealing.<sup>143</sup>

Digital technology is turning the asset of open government into a privacy nightmare. In the analog age, public records were all available, but languished in “practical obscurity” in courthouse basements or isolated file cabinets.<sup>144</sup> The records were difficult to locate or assemble into a useful dossier short of hiring a team of investigators to traipse into government offices around the country.<sup>145</sup> The digital age changed this rubric. Government records are stored digitally, and often linked to the Internet or other networks.<sup>146</sup> Specialized companies regularly compile these databases and allow, for a fee, customers to search and download the records they want.<sup>147</sup> Even worse, many state governments (like financial institutions) have attempted to profit through the sale of publicly held personal information, such as driving records.<sup>148</sup>

“Megan’s Law” statutes are a troubling example of the privacy problems resulting from open records. Megan’s Laws require sex offenders to register their names and addresses in order to alert local residents to the

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141. See Daniel J. Solove, *Access and Aggregation: Public Records, Privacy and the Constitution*, 86 MINN. L. REV. 1137, 1142-43 (2002).

142. See *id.* at 1143-44.

143. See *id.* at 1147-48.

144. See *DOJ v. Reporters Comm. for Freedom of the Press*, 489 U.S. 749, 762 (1989).

145. See Matthew D. Bunker et. al., *Access to Government-Held Information in the Computer Age: Applying Legal Doctrine to Emerging Technology*, 20 FLA. ST. U.L. REV. 543, 583 (1993).

146. See Solove, *supra* note 141, at 1152-53; see generally Ctr for Democracy & Tech., *A Quiet Revolution in the Courts: Electronic Access to State Court Records: A CDT Survey of State Activity and Comments on Privacy, Cost, Equity and Accountability*, at <http://www.cdt.org/publications/020821courtrecords.shtml> (last visited Nov. 21, 2002).

147. See Solove, *supra* note 141, at 1153.

148. For example, many states were, until recently, in the business of selling personal information from state departments of motor vehicles. See *id.* at 1150. The Driver’s Privacy Protection Act (DPPA) was passed in 1994 to curtail this practice. 18 U.S.C. §§ 2721-25 (2000). The Supreme Court later upheld the statute as a valid exercise of Commerce Clause power. *Reno v. Condon*, 528 U.S. 141, 144-45 (2000).

dangers such offenders may pose.<sup>149</sup> Increasingly, states are publishing their Megan's Law lists on the Internet—making them available to anyone in the world, not just the offender's neighbors.<sup>150</sup> Privacy challenges to traditional Megan's Law registries have failed.<sup>151</sup> A recent Supreme Court challenge to Internet Megan's Law registries, which argued that the *ex post facto* penalties inherent in such wide dissemination are unconstitutional, was no more successful.<sup>152</sup>

### 3. Medical Privacy

Medical information is almost always sensitive. Having the world learn about one's Prozac prescription can be embarrassing;<sup>153</sup> having the world learn about one's HIV-positive status can be life-shattering.<sup>154</sup> While digital technology can save money and allow life-saving medical information to be instantly sent between hospitals and doctors, the same technology also heightens the possibility of mistake or misuse.<sup>155</sup>

The legal framework around medical privacy is a patchwork. The Supreme Court did not elevate privacy rights in medical information to the same level as for physical privacy or decisional autonomy, though the Court acknowledges the existence of the privacy right.<sup>156</sup> Recognizing a

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149. Megan's Laws get their name from the highly publicized murder of a young girl by a convicted sex-offender who lived nearby. See Elec. Privacy Info. Ctr., *The Supreme Court Set to Review Alaska's Megan's Law*, at <http://www.epic.org/privacy/meganslaw/> (last updated Nov. 14, 2002). All 50 states and the federal government have Megan's Laws. See Solove, *supra* note 141, at 1148-49.

150. See, e.g., *Doe v. Otte*, 259 F.3d 979, 984 (9th Cir. 2001), *rev'd*, *Smith v. Doe*, 123 S. Ct. 1140, 2003 U.S. LEXIS 1949 (Mar. 5, 2003) (describing Alaska's Megan's Law registry, which is posted on the Internet).

151. See *Paul P. v. Verniero*, 170 F.3d 396, 404 (3d Cir. 1999) (upholding New Jersey's Megan's Law); *Russell v. Gregoire*, 124 F.3d 1079, 1093-94 (9th Cir. 1997) (upholding Washington's Megan's Law on the basis that the information is already public).

152. See *Smith v. Doe*, 2003 U.S. LEXIS 1949 at \*40.

153. See *In re Eli Lilly & Co.*, FTC No. 012 3214, Agreement Containing Consent Order (2002) (describing Eli Lilly's disclosure of the email addresses of many of its Prozac customers).

154. See *Doe v. Borough of Barrington*, 729 F. Supp. 376, 379 (D.N.J. 1990) (describing how, after his HIV status was made public, the Plaintiff "suffered harassment, discrimination, and humiliation" and was "shunned by the community"); *Doe v. SEPTA*, 72 F.3d 1133, 1136-37 (3d Cir. 1995) (describing the social ostracism Plaintiff experienced after his HIV status was revealed through examination of his drug prescription records).

155. See Paul M. Schwartz, *Privacy and the Economics of Personal Health Care Information*, 76 TEX. L. REV. 1, 3, 12-14 (1997).

156. See *Whalen v. Roe*, 429 U.S. 589, 598-600 (1977).

need for protection in the face of digital distribution of health information, Congress passed the Health Insurance Portability and Accountability Act (HIPAA) in 1996.<sup>157</sup> Though the HIPAA was passed primarily to enable employees to switch employers without losing health coverage for existing conditions, it also requires states to enact certain privacy protections, such as obtaining consent prior to distributing personal information to marketers.<sup>158</sup> Plaintiffs have sought to employ other privacy laws, such as the ECPA and CFAA, to pursue claims related to misuse of digital medical data, but with little success.<sup>159</sup>

Two medical privacy problems are telling examples of the impact of the digital world. First, individual genetic information increasingly is stored in personal medical files.<sup>160</sup> Misuse of such information can often lead to discrimination in employment or in other circumstances.<sup>161</sup> Second, drug prescription information, stored by retail chains, HMOs, and drug companies, is often unintentionally released or misused.<sup>162</sup> The FTC recently settled with drug giant Eli Lilly for accidentally disclosing the email addresses of hundreds of users of its Prozac.com website.<sup>163</sup> Though the FTC's action was laudatory, the lack of any civil remedy for those injured by the disclosure is evidence of the failure of the current informational privacy regime to cope with the digital age.

#### 4. *Digital Dossiers and 'Total Information Awareness'*

During World War II, Josef Stalin was asked about German proclamations that, though his army may be great in numbers, the German soldiers

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157. Pub. L. No. 104-191, 110 Stat. 1936 (1996) (codified as amended in scattered sections of 18, 26, 29 and 42 U.S.C.).

158. See §§ 701, 1177.

159. For example, a recent class action suit against the pharmaceutical industry alleged that the industry was using "cookies" to monitor Internet use by customers—often revealing other companies from which the customers were buying drugs. *In re Pharmatrac, Inc. Privacy Litig.*, 220 F. Supp. 2d 4, 9 (D. Mass. 2002). The resulting database included "names, addresses, telephone numbers, dates of birth, sex, insurance status, medical conditions, education levels, and occupations" of individual customers. *Id.*

160. At this point, such information is usually genetic pre-disposition to certain conditions, but soon, one's entire DNA sequence may be stored in databases. See Radhika Rao, *A Veil of Genetic Ignorance? Protecting Privacy as a Mechanism to Ensure Equality*, 54 HASTINGS L.J. (forthcoming 2003) (manuscript at 1, on file with author).

161. See Schwartz, *supra* note 155, at 1. In 2000, President Clinton issued an executive order to "Prohibit Discrimination in Federal Employment Based on Genetic Information," which banned such discrimination by federal agencies. Exec. Order No. 13,145, 65 Fed. Reg. 6,877 (Feb. 10, 2000).

162. See, e.g., *SEPTA*, 72 F.3d at 1136-37.

163. *In re Eli Lilly & Co.*, FTC No. 012 3214, Agreement Containing Consent Order.

would prevail due to their superior quality. He supposedly replied that “*quantity* has a quality all its own.” So, too, with personal data. While occasionally the unwanted revelation of a single private fact can be disastrous, informational privacy harms are today more likely to result from the aggregation and distribution of vast amounts of the daily detritus of digital life—from the most intimate fact to the most banal.<sup>164</sup>

The collection of “digital dossiers,” as Daniel Solove calls this information aggregation,<sup>165</sup> is done by public and private actors—each for their own purposes. Private entities collect this information for “profiling” and marketing purposes.<sup>166</sup> Legal relief for misuse of accumulated personal information by private actors has been spotty at best.<sup>167</sup> In 2001, a lawsuit claiming misuse of aggregated web-browsing information by Internet ad-server DoubleClick was summarily dismissed by the trial court.<sup>168</sup> More encouragingly, the FTC announced in the summer of 2002 a settlement with software giant Microsoft based on misuse of personal data collected by its Passport service.<sup>169</sup> The FTC found that Microsoft had defrauded customers by convincing them to give up their information under the pretext of privacy,<sup>170</sup> and required the company to submit to 20 years of annual privacy audits.<sup>171</sup> It seems unlikely, though, that customers would have had any redress had the FTC not acted.

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164. See Solove, *supra* note 17, at 1089-90.

165. *Id.*

166. See *supra* note 71 and accompanying text.

167. Compare the European Commission Council Directive 95/46/EC, 1995 O.J. (L 281) 31, which requires private parties in Europe to comply with certain Fair Information Practices in their handling of personal data, to the American approach.

168. *In re DoubleClick, Inc. Privacy Litig.*, 154 F. Supp. 2d 497, 500 (S.D.N.Y. 2001). The court found the plaintiff class' ECPA and CFAA claims unpersuasive because they could not meet the statutory plateau for demonstrated damages. *Id.* at 526. The court also noted the “absence of evidence in the legislative or judicial history of any of these Acts to suggest that Congress intended to prohibit conduct like DoubleClick's.” *Id.* The plaintiffs threatened an appeal, but soon settled on terms favorable to DoubleClick. See Stefanie Olsen, *DoubleClick Nearing Privacy Settlements*, CNET News.com, at <http://news.com.com/2102-1023-871654.html> (March 29, 2002); Elec. Privacy Info. Ctr., *Cookies*, at <http://www.epic.org/privacy/cookies/> (last updated Nov. 5, 2002).

169. Passport is a virtual wallet that stores personal information usable through Microsoft's “.Net” initiative. See *In re Microsoft Corp.*, FTC No. 012 3240, Complaint at 1-2 (2002) [hereinafter *Passport Complaint*], available at <http://www.ftc.gov/os/2002/08/microsoftcmp.pdf>.

170. *Id.* at 2-6.

171. Specifically, the settlement agreement with Microsoft requires the company to bring their treatment of personal information in line with their privacy policy and to develop technical methods of protecting the data, as well as submit to annual reviews of their privacy compliance for the next twenty years. *In re Microsoft Corp.*, FTC No. 012

Governments build digital dossiers for monitoring and criminal investigative purposes. Such efforts have renewed energy following the September 2001 terrorist attacks. The Pentagon, as part of the Defense Advanced Research Projects Agency, or DARPA, is developing a project called "Total Information Awareness" (TIA) to monitor digital data as part of the anti-terrorism effort.<sup>172</sup> Of course, the database created by TIA will do more than help the military locate terrorists—it will allow the assemblage of excruciatingly detailed digital dossiers on every American, which could be used for monitoring or investigative purposes having nothing to do with terrorism.<sup>173</sup> Like the dossiers assembled by DoubleClick and Microsoft, TIA is the epitome of the digital information privacy problem: seemingly innocuous information accumulated and used in privacy-invasive ways.

### III. THE FAILURE OF THE OLD PRIVACY FRAMEWORK

Protecting privacy in discrete, subject-area "branches" has always had problems, but because conceptions of "privacy" developed independently in response to particular social and technological pressures, such an approach was organic, if not necessary.<sup>174</sup> The adaptation of privacy theory under this approach may not have been ideal, but over time the branches

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3240, Agreement Containing Consent Order at 3-7 (2002) [hereinafter *Passport Agreement*], available at <http://www.ftc.gov/os/2002/08/microsoftagree.pdf>.

172. Total Information Awareness (TIA) System, Information Awareness Office, DARPA, at <http://www.darpa.mil/iao/TIASystems.htm> (last visited Nov. 22, 2002) (describing the goal of TIA: to "revolutionize the ability of the United States to detect, classify and identify foreign terrorists"). The TIA's technical functionality essentially will be aggregation of data and data mining:

[T]he TIA program is focusing on the development of: 1) architectures for a large-scale counter-terrorism database, for system elements associated with database population, and for integrating algorithms and mixed-initiative analytical tools; 2) novel methods for populating the database from existing sources, create innovative new sources, and invent new algorithms for mining, combining, and refining information for subsequent inclusion into the database; and, 3) revolutionary new models, algorithms, methods, tools, and techniques for analyzing and correlating information in the database to derive actionable intelligence.

*Id.*

173. See William Safire, *You Are a Suspect*, N.Y. TIMES, Nov. 14, 2002, at A35 (warning that "[e]very purchase you make with a credit card, every magazine subscription you buy and medical prescription you fill, every Web site you visit and e-mail you send or receive, every academic grade you receive, every bank deposit you make, every trip you book and every event you attend—all these transactions and communications will go into" the TIA database).

174. Solove, *supra* note 17, at 1088-89.

would generally adapt.<sup>175</sup> The changes wrought by digital technology, however, are so deep and broad that the old laws and theories are not adapting fast enough. New, privacy invasive technological practices may solidify into new social norms, and future generations will not know to challenge them. This Part reviews how the division between privacy-as-autonomy and informational privacy is breaking down, as evidenced by the new laws, litigation, and events described above.

Many of the privacy issues of the digital age either cross over multiple “branches” or simply do not fit at all into the old rubric. First, government digital surveillance and monitoring blurs the line between physical and informational privacy. Many of the privacy harms fall through the cracks, especially in the current state of perpetual fear. Second, the ubiquity of personal information in the digital age and its use by private parties causes problems that the current discrete legal regime cannot control. Attempts by the FTC and isolated courts to redress harms in this area are inadequate.

#### A. The Problem of Government Digital Surveillance

The Fourth Amendment protects against “unreasonable searches and seizures”<sup>176</sup> by any state entity. This standard would seem on its face to protect against misuse of digital government surveillance and data aggregation such as Carnivore and Total Information Awareness. Though the process of the search involves digital bits concerning an individual rather than physical things belonging to an individual, the reasons for searching and the information sought are essentially the same.

Unfortunately for those who fear digital searches, Fourth Amendment rights have been closely circumscribed outside of the realm of physical privacy.<sup>177</sup> One’s information, when accessed by the government, is similarly entitled to a “reasonable expectation of privacy,” but State entities have not been held to the same exacting standard as applied to physical

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175. For example, though it took 39 years, the rule in *Olmstead v. United States*, 277 U.S. 438, 464 (1928), was eventually overturned by *Katz v. United States*, 389 U.S. 347, 359 (1967).

176. U.S. CONST. amend. IV.

177. This problem is unique to digital information technology, not to new technology in general. Compare *Kyllo v. United States*, 533 U.S. 27, 40 (2001) (finding a reasonable expectation of privacy in the heat given off by one’s body inside one’s home), with *United States v. Slanina*, 283 F.3d 670, 680 (5th Cir. 2002) (finding search of Defendant’s computer files at his office was reasonable). See also *supra* notes 21-27, 30-34 and accompanying text.

“searches and seizures.”<sup>178</sup> Thus the constitutional protection against government misuse of government digital searching is minimal.<sup>179</sup>

Statutes fill in some of the gaps, but do not provide general protection.<sup>180</sup> Moreover, legislatures are unlikely to impose many new limits on government misuse of personal information in the current atmosphere of heightened national security and fear. In fact, the trend is in the other direction; new legislation is not encouraging,<sup>181</sup> and courts are generally dismissing privacy concerns when national security might be at stake.<sup>182</sup> It would seem that State search and seizure of personal information is limited mostly by the goodwill of the State.

## B. Private Information Aggregation

Even private-party informational privacy concerns lack adequate consideration. The traditional tort remedies require proof that harm resulted from the disclosure of privately held information; courts have not been inclined to find that aggregated digital information is truly “private.”<sup>183</sup> The myriad statutes regulating use of information are already obsolete—the technology and types of harms change too fast.<sup>184</sup> The underlying problem of informational privacy in the digital age is the ability to access and aggregate vast amounts of otherwise harmless personal data into a form that can do real damage to the individual’s sense of self-

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178. See *Whalen v. Roe*, 429 U.S. 589, 599 (1977).

179. See generally Osher, *supra* note 82.

180. See, e.g., The Driver’s Privacy Protection Act, 18 U.S.C. §§ 2721-25 (2000).

181. See Homeland Security Act of 2002, Pub. L. No. 107-296; 116 Stat. 2135 (2002) (codifying various new surveillance and security measures and creating the Department of Homeland Security).

182. See *Global Relief Found.*, 207 F. Supp. 2d at 807 (accepting government claim that a U.S. corporation could be classified as a foreign entity under the FISA and Patriot Act due to possible links to terrorists); *In re Sealed Case*, No. 02-001 (United States Foreign Intelligence Surveillance Court of Review 2002), available at <http://www.cadc.uscourts.gov/common/newsroom/02-001.pdf> (upholding new Patriot Act provisions as constitutional).

183. *But see, e.g.,* *Remsburg v. Docusearch, Inc.*, 2003 N.H. LEXIS 17 (2002), the family of a woman stalked and killed by a stalker sued the private investigation Web site that provided the stalker the information needed to track the woman down. *Id.* at ¶¶ 8-13. The New Hampshire Supreme Court ruled that the victim’s Social Security Number, despite being available for sale to the public, could still be ‘private’ for purposes of tort law. *Id.* at ¶ 26.

184. See, e.g., *In re DoubleClick, Inc. Privacy Litig.*, 154 F. Supp. 2d 497 (S.D.N.Y. 2001). The Plaintiffs sued under the ECPA and the CFAA, but had difficulty proving that either law was intended to prevent the specific harms alleged. *Id.* at 526. Further, the Plaintiffs couldn’t meet the statutory damage minimums based on outdated views of what constitutes harm. See *id.* at 524-25.

determination and autonomy.<sup>185</sup> Since information privacy law is mired in a conception that dichotomizes information into the strictly private and the “public,” even new laws applying the same framework are unlikely to be much help.

The perceived conflict between informational privacy and free speech similarly limits the ability of the current conceptual framework to embrace adequate privacy protections. The “conflict” is based on a simple syllogism: (1) distribution of public information can not be limited without a compelling state interest due to the First Amendment; (2) information about an individual becomes public when it legitimately passes beyond the individual’s direct control; (3) digital data about individuals residing in distant databases is not under direct control; therefore, such information is public. This analysis rests on the faulty assumption that people understand what rights they lose when they give up information; though faulty, this assumption is nevertheless seductively appealing to jurists. The Supreme Court obliquely endorsed such an analysis, writing that “privacy concerns give way when balanced against the interest in publishing matters of public importance.”<sup>186</sup> Under such a balancing test, privacy interests usually lose.

The *Trans Union* case illustrates the problems courts are facing with this conflict.<sup>187</sup> While the court of appeals recognized the privacy interests at the heart of the GLBA and the FTC’s regulations, it had trouble reconciling the privacy interests with the First Amendment. The freedom to talk about anything “public” seemed in conflict with the GLBA’s protection of ostensibly “public” financial records.<sup>188</sup> By defining information such as a personal “credit header” as “public,” the court saw tension where no tension need be.<sup>189</sup>

Finally, the role of the FTC as *de facto* Privacy Protection Commission<sup>190</sup>—acting to oversee commercial use of personal information—is laudable but ultimately unsatisfactory. First, they are no more able to redefine the constitutional balance between speech and privacy than Congress.<sup>191</sup> Second, their legislative mandate is not privacy *per se*, but con-

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185. See Cohen, *supra* note 76, at 1423-29.

186. *Bartnicki v. Vopper*, 532 U.S. 514, 534 (2001).

187. *Trans Union II*, 295 F.3d 42, 52 (D.C. Cir. 2002).

188. See *id.*

189. See Cohen, *supra* note 76, at 1408.

190. See generally Steven Hetcher, *The De Facto Federal Privacy Commission*, 19 J. MARSHALL J. COMPUTER & INFO. L. 109 (2000).

191. See *Trans Union Corp. v. FTC*, 122 S. Ct. 2386, 2387 (2002) (Kennedy, J., dissenting from denial of cert.)

sumer protection.<sup>192</sup> Thus, their concerns institutionally extend to privacy only so long as commercial privacy violations constitute unfair business practice. Third, the FTC's institutional mechanisms are limited. They enter into settlements with privacy offenders like Microsoft<sup>193</sup> and Eli Lilly,<sup>194</sup> but such agreements do not bind other offenders, and are often no more than slaps on the wrist.<sup>195</sup> A privacy protection commission is probably a good idea, but the FTC is not it.

In sum, the branches of privacy law—as a framework and as areas of protection in themselves—are not up to the challenge of the digital age. Physical privacy invasions are occurring through manipulation of digital data. The most sensitive of digital profiles are no more protected than one's last name. Those who wish to avoid Scott McNealy's world-view have much to do to ensure adequate protection for the future of privacy.

#### IV. CONCLUSION

There exists among privacy scholars a general consensus that privacy law and theory must change to meet the needs of the digital age.<sup>196</sup> Many, too, have suggested ways to fix it—ranging from the proposal of a new constitutional amendment<sup>197</sup> to discarding the very notion of privacy.<sup>198</sup>

Some scholars suggest practical solutions to the digital privacy problem. Robert Gellman proposes the creation of a federal privacy agency.<sup>199</sup> He suggests an agency with independent power and fact-finding functions, but no regulatory authority.<sup>200</sup> The agency would be guided by the Fair Information Principles (FIPs), established in the Privacy Act of 1974, in

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192. Federal Trade Commission Act, 15 U.S.C. § 45 (2002).

193. Passport Agreement, FTC No. 012 3240 (2002), *supra* note 171.

194. *See In re Eli Lilly & Co.*, FTC No. 012 3214, Agreement Containing Consent Order (2002).

195. *See id.* (requiring Eli Lilly to pay nothing for its privacy violations).

196. *See* Cohen, *supra* note 76, at 1375 (noting that “[t]here is much disagreement about what comes next, but there is also a growing (if still inchoate) consensus that something needs to be done”).

197. *See* Raphael Winick, *Searches and Seizures of Computers and Computer Data*, 8 HARV. J.L. & TECH. 75, 77 (1994) (mentioning Professor Lawrence Tribe's proposal for a constitutional privacy amendment).

198. *See generally* DAVID BRIN, *THE TRANSPARENT SOCIETY: WILL TECHNOLOGY FORCE US CHOOSE BETWEEN PRIVACY AND FREEDOM?* (1998) (arguing that the impending complete loss of privacy due to digital technology is a positive thing).

199. Robert Gellman, *A Better Way to Approach Privacy Policy in the United States: Establish a Federal Privacy Protection Board*, 54 HASTINGS L.J. (forthcoming 2003) (manuscript at 1).

200. *Id.* at 13-19.

its investigations of private entities.<sup>201</sup> Others suggest the adoption of a general data protection law, as Europe has done.<sup>202</sup> Both of these proposals see the problem as largely one of incomplete legal authority.

Other commentators have defined new conceptions of privacy more attuned to the information age. Julie Cohen advances a “vision of data privacy” based on “zones of personal autonomy” rather than on the outdated “reasonable expectation of privacy.”<sup>203</sup> She searches for a conception that embodies the values “data protection” seeks to protect, while simultaneously avoiding conflict with free flows of knowledge and expression.<sup>204</sup> Similarly, Robert Post finds, at the heart of all the “branches” of privacy, the sanctity of community norms.<sup>205</sup> Communities, he argues, build their own conceptions of the self through socialization. When these norms are threatened—say, by invasion of the socialized sphere of the private—the personal identity of the individual is at stake. Thus, privacy rights are protected by identifying and protecting norms, and requiring others to respect the norms of others.<sup>206</sup> Daniel Solove takes a more pragmatic approach.<sup>207</sup> He analyzes and rejects as insufficient or too rigid the existing conceptions of privacy, including the “right to be let alone” and “control over personal information. Judges could apply an ad hoc, contextual conception to see the nature of the privacy interests in a given situation.”<sup>208</sup>

These suggestions, both practical and theoretical, hold out hope that privacy can grow to encompass meaningful protections in the digital age. They all address the shortcomings of the existing, dysfunctional framework. But whether the new conception of privacy is embodied in a new, flexible legal framework or simply provides a guiding theory to aid lawmakers and judges, the approach would ideally allow a systematic means of weighing privacy harms and remedies. Without such a guide, privacy violations often go unpunished and victims uncompensated.<sup>209</sup> Worse yet, the violators do not have a clear idea of how to act properly in the future.

This country will be facing tough privacy questions in the short and long term. The second round of the Patriot Act is already under discussion

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201. *Id.* at 13.

202. *See* European Commission Council Directive 95/46/EC, 1995 O.J. (L 281).

203. Cohen, *supra* note 76, at 1377.

204. *Id.* at 1374-78.

205. Robert Post, Remarks at the Enforcing Privacy Rights Symposium (Nov. 15, 2002).

206. *Id.*

207. Solove, *supra* note 17, at 1091.

208. *Id.* at 1146-47.

209. *See generally In re DoubleClick, Inc. Privacy Litig.*, 154 F. Supp. 2d 497 (S.D.N.Y. 2001).

in Congress. The amount of digital information available continues to grow. The existence of a new privacy conception will not answer the tough questions: How can the public better understand what they give up when they provide their information on a credit application or a website? How can we differentiate between public and private information? How do we balance anti-terrorism efforts with respect for personal privacy? A new approach, one that adequately values privacy interests at a practical and conceptual level, will help.

Since September 11th, 2001, we have been in a crisis. The threat of terrorism means many are willing to trade privacy for the reassurance an informed government provides. The problem with this trade is less the privacy we voluntarily sacrifice and more that the ever-vigilant eyes of the watchers may become so commonplace as to evoke no concern or sense of loss. This is not an idle fear—the economic and political markets dictate that if no one demands privacy, no one will provide or protect it. Post-9/11 fears, if unchallenged, could crystallize into anti-privacy norms. Justice Brandeis described privacy as “the most comprehensive of rights and the right most valued by civilized men.”<sup>210</sup> For the sake of civility if not civilization itself, we must defend that right.

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210. *Olmstead v. United States*, 277 U.S. 438, 478 (1928) (Brandeis, J., dissenting).



## A SURVEY OF CYBERCRIME IN THE UNITED STATES

By Aaron Burstein

Several commentators have questioned whether cyberlaw is a meaningful category within law.<sup>1</sup> Few areas of law, these critics assert, rely upon the instrument for activity as the basis for defining a body of law.<sup>2</sup> A natural corollary to this criticism is that using a computer to commit a crime deserves no special attention. It was precisely this instrumental distinction, however, that has proven determinative in a subset of cybercrime cases involving “unauthorized access.”<sup>3</sup> The cases have two archetypal features: (1) behavior that clearly deprived a person of something of value, and (2) indictment under a property crime or fraud statute.<sup>4</sup> All too often, however, conviction appeared to rest upon “the law of harm”: harm to the victim implies that she was deprived of something of value—property—and therefore was the victim of theft.<sup>5</sup>

Legislators have felt compelled to create new statutes to address these problems, but the analytical difficulties that computers presented to law enforcement continue to grow. A complex body of statutes and caselaw

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1. See Frank Easterbrook, *Cyberspace and the Law of the Horse*, 1996 U. CHI. LEGAL F. 207 (arguing that teaching the “law of cyberspace” would be as frivolous as teaching the “Law of the Horse”). But see Lawrence Lessig, *The Law of the Horse: What Cyberlaw Might Teach*, 113 HARV. L. REV. 501, 502-03 (1999) (arguing that cyberspace poses peculiar challenges about “the limits on law as a regulator and about the techniques for escaping those limits”).

2. Easterbrook, *supra* note 1, at 207.

3. See generally Orin S. Kerr, *The Troubling Trigger of Cybercrime* (forthcoming 2003) (manuscript on file with author).

4. Compare *United States v. Collins*, 56 F.3d 1416, 1422 (D.C. Cir. 1995) (defendant used computer to store ballroom dancing-related documents and was convicted of conversion of government property), *United States v. Girard*, 601 F.2d 69, 70-71 (2d Cir. 1979) (defendant Drug Enforcement Agency (DEA) agent, who downloaded and planned to sell to drug dealers files identifying undercover DEA agents, was convicted of stealing government property), and *United States v. Seidlitz*, 589 F.2d 152, 153-56 (4th Cir. 1978) (upholding conviction of former government employee who used password, after employment terminated, to download a computer program, and was convicted of wire fraud), with *United States v. Czubinski*, 106 F.3d 1069, 1074 (1st Cir. 1997) (overturning conviction of defendant IRS employee, who browsed taxpayer records without authorization, and was convicted under wire fraud statute).

5. Kerr, *supra* note 3, at 22.

comprise an identifiable area of criminal law, cybercrime, which is “the use of a computer to facilitate or carry out a traditional (criminal) offense.”<sup>6</sup>

Cybercrime laws have developed with frequent reference to property law. Statutes such as the Computer Fraud and Abuse Act (CFAA)<sup>7</sup> and the Digital Millennium Copyright Act (DMCA)<sup>8</sup> create rights akin to a property owner’s right to exclude. The basis of the property metaphor in cybercrime development, however, leads to a rather surprising limitation in the legal protection of most electronic communications. E-mail and voice mail that reside on a remote server receive substantially less protection than they would receive if they were stored at home. Thus, while the property metaphor has expanded the protection of intellectual property, data that resides on a computer in one’s possession, and computer users and resources against intruders, this has led, practically speaking, to less protection for an increasing range of communications. An important factor in determining the government’s ability to search communications and data is the ownership of the computer hardware that stores or transmits the data. Most Internet users store significant amounts of data on remote computers, which effectively reduces barriers to government acquisition relative to the physical counterparts of identical data.

Part I of this Note tracks the property-based analysis that has become standard in the development of cybercrime prosecutions and statutes. In Part II, this Note reviews recent substantive developments in cybercrime, and Part III reviews developments in the procedures that the government must follow to search electronic data.

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6. Neal Kumar Katyal, *Criminal Law in Cyberspace*, 149 U. PA. L. REV. 1003, 1014 (2001). A certain class of crimes is implicitly excluded from this definition. For example, “using a computer as a blunt instrument in an assault is, obviously, not a computer crime.” Douglas H. Hancock, *To What Extent Should Computer Related Crimes be the Subject of Specific Legislative Attention?*, 12 ALB. L.J. SCI. & TECH. 97, 98 (2001). Even with this limitation, such a broad definition of cybercrime has not been uniformly adopted. A special section of the Department of Justice’s Criminal Division—the Computer Crime and Property Section (CCIPS)—separates “computer crime” from “intellectual property crime,” at least in its title. See CCIPS, *What Does CCIPS Do?*, at <http://www.cybercrime.gov/ccips.html> (last visited March 15, 2003).

7. 18 U.S.C. § 1030 (2000).

8. Pub. L. No. 105-304, 112 Stat. 2860 (1998) (codified in scattered sections of 17 U.S.C.).

## I. THE RISE OF THE PROPERTY METAPHOR IN CYBERCRIME

The confusion that marks early cybercrime prosecutions can, in large part, be explained by the statutes that prosecutors had at their disposal: wire fraud, mail fraud, theft, and trespass. Prosecutions under statutes defining theft and trespass—property crimes—seem to have developed from cases where defendants themselves accessed computer systems, and used the output toward some criminal end. For prosecutors to define the end as criminal, however, they had to identify a property interest as well as prove that the defendant's actions deprived the owner of its property.<sup>9</sup> Both computer use<sup>10</sup> and the data stored in computers<sup>11</sup> were identified as property interests, but this treatment resulted in an inconsistent view of when fraud was committed or the property owner was deprived of his property. In other cases, courts drew attention to statutory ambiguities and resolved these ambiguities in favor of defendants.<sup>12</sup> Computer-based activities simply began to fall outside the act or *mens rea* requirements (or both) of mail and wire fraud, theft, and trespass.<sup>13</sup> The result was “an unsatisfying, result-oriented jurisprudence.”<sup>14</sup>

Congress and state legislatures took note of these failures, especially the failures of prosecutions under property-based statutes, and began to define new crimes that applied to this new breed of activity. These statutes broke away from requiring prosecutors to prove literal trespass to real property or theft of personal property, but they did not leave the underlying notions of physical property far behind.<sup>15</sup> For the most part these new statutes outlawed “unauthorized access”<sup>16</sup> to computer systems. Instead of maintaining a single system of “realspace” criminal statutes—

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9. Kerr, *supra* note 3, at 20.

10. *Collins*, 56 F.3d at 1421.

11. *United States v. Girard*, 601 F.2d 69, 70-71 (2d Cir. 1979); *United States v. Seidlitz*, 589 F.2d 152 (4th Cir. 1978); *see also* Kerr, *supra* note 3, at 18.

12. This rule of narrow construction of criminal statutes, the rule of lenity, requires that “when choice has to be made between two readings of what conduct [a legislature] has made a crime, it is appropriate, before [choosing] the harsher alternative, to require that [the legislature] should have spoken in language that is clear and definite.” *Dowling v. United States*, 473 U.S. 207, 214 (1985) (internal quotations and citations omitted).

13. Kerr, *supra* note 3, at 20.

14. *Id.* at 15.

15. *Id.* at 26, n.118 (noting that statutes in Georgia, Virginia, Arkansas, New York, and Washington are labeled “computer trespass” laws).

16. *Id.* at 24. Kerr uses “unauthorized access” as a label for all statutes that employ access to a computer system as a trigger for criminal liability. Other variants in statutory language include “access without authorization” and “exceeding authorized access.”

trespass, theft, wire and mail fraud—and encouraging artful indictments,<sup>17</sup> Congress passed a specialized computer misuse statute, the Computer Fraud and Abuse Act (CFAA).<sup>18</sup>

The definition of copyright infringement has followed a similar course. The Supreme Court once expressed doubt that “wrongful appropriation of statutorily protected rights in copyright” could be considered “theft, conversion or fraud.”<sup>19</sup> The inherent differences between physical property and intellectual property led to the latter being “carefully defined and carefully delimited” and protected by “correspondingly exact” measures.<sup>20</sup> As the court in *United States v. LaMacchia*<sup>21</sup> noted, this careful definition of rights, coupled with narrow construction of criminal statutes, seriously limited the ability of prosecutors to use either existing copyright laws or property-based statutes to obtain convictions where defendants had used new technology to commit acts with motives that simply were not within the contemplation of legislatures at the time they passed the relevant laws. The No Electronic Theft Act (NETA),<sup>22</sup> which was passed to “reverse the practical consequences of *United States v. LaMacchia*,”<sup>23</sup> only tweaked the *mens rea*<sup>24</sup> requirements for criminal copyright infringement, and thus could do little to halt unauthorized copying *ex ante*.<sup>25</sup>

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17. See *id.* at 23 (citing a former state prosecutor’s argument that charging computer crimes under theft statutes “require[s] that the victim produce evidence of an injury other than that which he is really concerned”).

18. 18 U.S.C. § 1030 (2000).

19. *Dowling v. United States*, 473 U.S. 207, 216 (1985).

20. *Id.*

21. 871 F. Supp 535, 536-37, 543 (D. Mass. 1994) (granting defendant’s motion to dismiss charge of wire fraud, 18 U.S.C. § 1843, for making unauthorized copies of computer software and distributing them free of charge, because “copyright is unique and distinguishable from the indisputably broad range of property interests protected by the mail and wire fraud statutes”).

22. Pub. L. No. 105-147, 111 Stat. 2678 (Dec. 16, 1997) (codified as amended at 17 U.S.C. § 506(a) (2000) and 18 U.S.C. § 2319 (2000)).

23. H.R. REP. NO. 105-339, at 3 (1997).

24. NETA created two subparagraphs in the definition of criminal copyright infringement. 17 U.S.C. § 506(a)(1) preserved the old provision, which defined criminal infringement as “infring[ing] a copyright willfully for purposes of commercial advantages or private financial gain.” 17 U.S.C. § 506(a)(2), the NETA provision, defines criminal copyright infringement in terms of a statutory threshold for the value of the works distributed: “Any person who infringes a copyright willfully by the reproduction or distribution, including by electronic means, during any 180-day period, of 1 or more copies or phonorecords of 1 or more copyrighted works, which have a total retail value of more than \$1,000, shall be” liable for criminal infringement.

25. See Katyal, *supra* note 6, at 1006.

The DMCA changed this temporal lag in copyright enforcement by borrowing a page from the CFAA. In effect, the DMCA granted copyright owners a kind of property right: the right to control access to copyrighted works.<sup>26</sup> As the discussion of the first criminal prosecution under the DMCA shows,<sup>27</sup> copyright owners can encrypt their works, thus placing them in “the electronic equivalent of . . . a locked room,”<sup>28</sup> and the government will prosecute entities that manufacture the tools required to break into these “locked rooms.” Recognizing that many commercially deployed encryption schemes would not withstand the attacks that mass-market distribution of copyrighted works would draw, Congress conferred legal protection upon the encryption measures themselves.<sup>29</sup>

Thus, intellectual property crimes have begun to bridge the gap between the disparate laws that constitute cybercrime. The DMCA’s creation of legal protection substantially expands to copyright owners the kind of property right that lurks behind the CFAA and related state laws. Congress’ decision to award copyright holders a real property-inspired right in their works, however, falls short of providing a single, unifying theme for cybercrime, for two reasons. First, other “traditional” crimes that have arguably become easier to commit because of digital technology resist property-based remedies. The property-based notion of having a right to restrict access, or to exclude unwanted parties, does not have an obvious analogue in the area of child pornography, for example. The second and more important limitation on the appeal of property-based laws to govern online activities is that the adoption of the property metaphor does not usurp the property reality in the investigation of crimes. This limitation in the development of procedural law is explored in Part III of this Note.

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26. See 17 U.S.C. § 1201(a)(1)(A) (2000) (stating that “[n]o person shall circumvent a technological measure that effectively controls access to” a copyrighted work); *Id.* § 1204(a)(1) (2000) (providing criminal punishment for “any person who violates section 1201 . . . willfully and for purposes of commercial advantage or private financial gain”).

27. *United States v. Elcom Ltd.*, 203 F. Supp. 2d 1111 (N.D. Cal. 2002). See *infra* Part II.D.

28. David Nimmer, *A Riff on Fair Use in the Digital Millennium Copyright Act*, 148 U. PA. L. REV. 673, 686 (2000) (citing H.R. REP. NO. 105-551, pt. 1, at 17 (1998)).

29. See Peter S. Menell, *Envisioning Copyright Law’s Digital Future*, 46 N.Y.L. SCH. L. REV. 63 (2003).

## II. THE SUBSTANTIVE LAW OF CYBERCRIME: THE TENACITY OF THE REAL PROPERTY METAPHOR

Not all cybercrime presents such stark questions about the coverage of criminal statutes. Computers often reduce the deterrent effect of nonlegal regulators of crime—the threat of physical harm, “perprtration costs,” and social norms<sup>30</sup>—but do not change the underlying harm. The computer-based element of these “traditional” crimes has not required new laws. Recent developments in these traditional crimes are discussed in Part II.A. Many other kinds of cybercrime, however, have been defined by new statutes, and these statutes often betray an underlying real property-based mindset. The extent to which the quintessential cybercrime statute, the Computer Fraud and Abuse Act (CFAA), displays this conception is reviewed in Part II.B. Intellectual property laws have also begun to adopt a version of the property owner’s right to exclude. Congress pushed trade secret law in this direction with the Economic Espionage Act (EEA); recent developments under this law are reviewed in Part II.C of this Note. Finally, Congress’ most blatant move to import real property concepts to intellectual property crimes is the Digital Millennium Copyright Act (DMCA), which is discussed in Part II.D of this Note.

### A. “Traditional” Crimes

Child pornography provides a prime example of how existing law has proven capable of handling some forms of cybercrime,<sup>31</sup> though the ease of distributing child pornography across national borders has prompted the development of new law enforcement strategies.<sup>32</sup> Indeed, attempts to expand the reach of the existing law have run afoul of constitutional concerns.<sup>33</sup> The medium of distribution of child pornography does not changed the underlying harm, potential psychological and physical danger to the children who are the subjects of the pornography. Current United States law maintains its focus on punishing people who traffic in child pornography, regardless of how the images are distributed.

Other “traditional” crimes that have received attention as cybercrimes also appear to have done so because computers reduce some of the

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30. Katyal, *supra* note 6, at 1006-10.

31. 18 U.S.C. § 2252 (2000).

32. Katyal, *supra* note 6, at 1028-31.

33. *Ashcroft v. Free Speech Coalition*, 535 U.S. 234, 256-58 (2002) (invalidating as overbroad those provisions of the Child Pornography Prevention Act of 1996 that banned any image which “appears to be of a minor engaging in sexually explicit conduct” or which “conveys the impression that the material is or contains a visual depiction of a minor engaging in sexually explicit conduct”).

deterrents to committing them by the usual means. “Cyberstalking,”<sup>34</sup> for example, drew the attention of former Vice President Gore,<sup>35</sup> and led to several convictions under both the interstate communications statute<sup>36</sup> and the more recent interstate stalking statute.<sup>37</sup> Defendants in these cases took advantage of the Internet’s ability to “lower the barriers to harassment,” lack of physical confrontation, and ability to use remarks from third parties to conduct their harassment,<sup>38</sup> but the laws under which they were prosecuted make no special reference to online activities. Similarly, the Department of Justice has been actively prosecuting Internet-related identity theft, gambling, fraud, and prescription drug sales.<sup>39</sup>

A more striking example of the scale of some “traditional”<sup>40</sup> crime operations on the Internet is evident from the arrests resulting from “Operation Buccaneer.”<sup>41</sup> On December 11, 2001, CCIPS and Customs Service agents simultaneously executed more than 100 search warrants<sup>42</sup> against individuals who were suspected of being involved in “warez”<sup>43</sup>

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34. “Cyberstalking occurs when someone is threatened or harassed online.” Katyal, *supra* note 6, at 1034.

35. See CCIPS, *Prosecuting Crimes Facilitated by Computers and the Internet*, § F, at <http://www.cybercrime.gov/crimes.html#IXf> (last visited Feb. 21, 2003); see also Janet Reno, *Cyberstalking: A New Challenge for Law Enforcement and Industry: A Report from the Attorney General to the Vice President*, <http://www.cybercrime.gov/cyberstalking.htm> (1999) [hereinafter *Cyberstalking Report*].

36. 18 U.S.C. § 875 (2000).

37. *Id.* § 2261A.

38. See *Cyberstalking Report*, *supra* note 35.

39. See generally CCIPS, *Prosecuting Crimes Facilitated by Computers and by the Internet*, at <http://www.cybercrime.gov/crimes.html> (summarizing applicable laws and noteworthy prosecutions) (last visited Feb. 21, 2003).

40. Citing an example of a sweep of alleged participants in an Internet-based copyright infringement operation may appear to be at odds with the use of copyright law to illustrate some of the difficulties in defining cybercrime. Operation Buccaneer is relevant, however, because the convictions do not involve NETA or more recent copyright developments, but rather alleged violations of the well-established rights of copyright holders to reproduce, 17 U.S.C. § 106(1) (2000), and distribute, 17 U.S.C. § 106(3) (2000), copies of their works.

41. For an overview see CCIPS, *Operation Buccaneer*, at <http://www.cybercrime.gov/ob/OBMain.htm> (Oct. 7, 2002).

42. Press Release, CCIPS, *Federal Law Enforcement Targets International Internet* (Dec. 11, 2001), at <http://www.cybercrime.gov/warezoperations.htm> (last visited Mar. 14, 2003).

43. “Warez” refers to “illegally copied and distributed commercial software.” *Arista Records, Inc. v. MP3Board, Inc.*, 2002 U.S. Dist. LEXIS 16165, \*34 (S.D.N.Y. 2002).

operations. The sweep resulted in seventeen convictions, most of them arising from guilty pleas to conspiracy counts.<sup>44</sup>

Operation Buccaneer reveals that the size and sophistication of warez operations have increased since *LaMacchia*,<sup>45</sup> but the threat of criminal prosecution has not eradicated these operations. One convict, Chris Tresco, stated that his “motivation was purely and simply putting technology to work.”<sup>46</sup> If Tresco’s motivation is widely held by warez conspirators,<sup>47</sup> then a severe disconnect is likely to remain between the increasingly severe criminal penalties for copyright infringement, and the perception of the threat of these sanctions.

## B. The Computer Fraud and Abuse Act

Existing laws did not extend so readily to threats to computer systems as they did to threats against people or the value of copyrights. Early efforts to apply theft and trespass laws frequently failed,<sup>48</sup> yet the temptation in many legislatures to apply a property law structure to computer system access proved strong. From this failure of imagination at the federal level, the Counterfeit Access Device and Computer Fraud and Abuse Act of 1984 (CFAA)<sup>49</sup> was born. The CFAA defines a variety of civil and criminal violations arising from “access[ing] a computer without authorization or exceeding authorized access.”<sup>50</sup> Despite strong criticism that the CFAA’s failure to define “access”<sup>51</sup> renders it incoherent and

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44. CCIPS, *Operation Buccaneer Defendant Chart*, at <http://www.cybercrime.gov/ob/Dchart.htm> (Jan. 27, 2003).

45. *United States v. LaMacchia*, 871 F. Supp. 535 (D. Mass. 1994).

46. Slashdot Interview, *Former DrinkOrDie Member Chris Tresco Answers*, at <http://interviews.slashdot.org/interviews/02/10/04/144217.shtml?tid=123> (Oct. 4, 2002).

47. By no means are all technologists impressed by these displays. A remark by Ken Thompson, a pioneer of the Unix operating system, is apposite: the “misguided use of a computer is no more amazing than drunk driving of an automobile.” Ken Thompson, *Reflections on Trusting Trust*, 27 COMM. ACM 761 (1984), available at <http://www.acm.org/classics/sep95/>.

48. See generally *infra* Part II. More recently, however, civil plaintiffs have had some success with property-based theories, especially trespass to chattel. See *Intel Corp. v. Hamidi*, 94 Cal. App. 4th 325 (2001), review granted, 43 P.3d 587 (Cal. Mar. 27, 2002); *eBay v. Bidder’s Edge*, 100 F. Supp. 2d 1058 (C.D. Cal. 2000); *CompuServ, Inc. v. Cyberpromotions, Inc.*, 962 F. Supp. 1015 (S.D. Ohio 1997).

49. Pub. L. 98-473, 98 Stat. 1837, 2190 (Oct. 12, 1984) (codified as amended at 18 U.S.C. § 1030 (2000)).

50. 18 U.S.C. §§ 1030(a)(1)-(5) (2000).

51. The CFAA does define “exceeds authorized access,” but not in a way that helps determine when access occurs, or by what means authorization is to be ascertained. 18 U.S.C. § 1030(e)(6) (“‘exceeds authorized access’ means to access a computer with au-

broader than intended,<sup>52</sup> the CFAA remains the statute of choice in a broad range of criminal computer misuse cases. As discussed below, it is possible that the CFAA's range will become even broader.

One of the most typical roles of the CFAA is in the prosecution of virus,<sup>53</sup> worm,<sup>54</sup> and Trojan horse<sup>55</sup> writers. In a particularly disruptive and expensive episode, David L. Smith, who created and released the "Melissa" virus in 1999, was sentenced to twenty months in federal prison.<sup>56</sup> Smith had earlier pled guilty to violations of 18 U.S.C. § 1030(a)(5)(A)<sup>57</sup> and 18 U.S.C. § 1030(a)(2).<sup>58</sup> Smith's conviction points to the breadth of the meaning of "unauthorized access" that the landmark

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thorization and to use such access to obtain or alter information in the computer that the accessor is not entitled so to obtain or alter").

52. Kerr, *supra* note 3, at 26.

53. A virus is a "program that searches out other programs and 'infects' them by embedding a copy of itself in them." The corrupt program often performs malicious acts, such as deleting files, on the host computer before it is discovered. Even worse, when programs that contain a virus execute, they often spread copies of the virus to other computers. Eric S. Raymond, *The New Hacker's Dictionary*, Version 4.0.0, at [http://www.jargon.8hz.com/jargon\\_37.html#TAG1916](http://www.jargon.8hz.com/jargon_37.html#TAG1916) (July 25, 1996).

54. A worm is a program that a "program that propagates itself over a network." Raymond, *supra* note 53, at [http://www.jargon.8hz.com/jargon\\_38.html#TAG2005](http://www.jargon.8hz.com/jargon_38.html#TAG2005). The difference between a worm and a virus is that a worm is a complete, standalone program, whereas a virus is a piece of code that must be executed by a host program. A worm, however, may need to exploit a security weakness in another program in order to gain access to a remote computer.

55. A Trojan horse is a "malicious, security-breaking program that is disguised as something benign." Raymond, *supra* note 53, at [http://www.jargon.8hz.com/jargon\\_35.html#TAG1840](http://www.jargon.8hz.com/jargon_35.html#TAG1840). A program that has been infected by a virus is an example of a Trojan horse, whereas the corrupt, infectious code itself is the virus.

56. Press Release, CCIPS, Creator of Melissa Computer Virus Sentenced to 20 Months in Federal Prison (May 1, 2001), at <http://www.cybercrime.gov/melissaSent.htm> (describing further the details of how the virus spread to "untold numbers of computers and computer networks" and caused an estimated \$80 million in damage).

57. Section 1030(a)(5)(A) creates liability for "[w]hoever . . . knowingly causes the transmission of a program, information, code, or command, and as a result of such conduct, intentionally causes damage without authorization, to a protected computer."

58. Section 1030(a)(2) creates liability for

[w]hoever . . . intentionally accesses a computer without authorization or exceeds authorized access, and thereby obtains (A) information contained in a financial record of a financial institution, or of a card issuer as defined in section 1602(n) of title 15, or contained in a file of a consumer reporting agency on a consumer, as such terms are defined in the Fair Credit Reporting Act (15 U. S. C. § 1681 et seq.); (B) information from any department or agency of the United States; or (C) information from any protected computer if the conduct involved an interstate or foreign communication.

case of *United States v. Morris*<sup>59</sup> established: exploiting a weakness on one system can give rise to a massive number of unauthorized accesses to other systems,<sup>60</sup> a phenomenon rather remote from the real property underpinnings of many unauthorized access statutes.

The vision of property rights that underlies the CFAA not only remains intact but could become even stronger. The day may soon be at hand when it will be possible to violate both the CFAA and the Digital Millennium Copyright Act (DMCA)<sup>61</sup> during a single access of a copyrighted work. Some proposed systems for providing digital works would not distribute copies of the works at all, but would instead offer access to the works in remote "rights lockers."<sup>62</sup> The technological measures restricting access fall within either 17 U.S.C. § 1201(a) or (b), or both. The more interesting case would be if a technological measure fell under section 1201(b), because that section does not ban the circumvention of usage controls. It appears likely, however, that this act of circumvention would fall under a CFAA provision; § 1030(a)(2)(C)<sup>63</sup> appears to be the most applicable. It is possible that some property interest of the consumer, and would-be intruder, would preclude application of the CFAA, if a court adopted a "logical"<sup>64</sup> view of the purchased work. As the discussion in Part III indicates, however, the applicable statutes preclude this "logical" view, forcing courts to rely heavily upon the physical configuration of computer equipment when confronting cybercrime. In the preceding hypothetical, the physical view of the distribution of information subjects a person to criminal liability under multiple statutes. That situation remains hypothetical, but it only slightly extends the current reality of how the wide physical distribution of computer components alters the rights of individuals and the government to access electronic

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59. 928 F.2d 504, 510-11 (2d Cir. 1991) (holding that individuals with some authorized access to protected computers could still be liable for acts of "unauthorized access").

60. Kerr, *supra* note 3, at 43.

61. Pub. L. No. 105-304, 112 Stat. 2860, 1 (1998); *see also* discussion *infra* Part II.D.

62. Nic Garnett & Tomas Sander, *What DRM Can and Cannot Do . . . and What It Is or Isn't Doing Today*, at <http://www.cfp2002.org/fairuse/garnett.pdf> (last visited Mar. 14, 2003).

63. 18 U.S.C. § 1030(a)(2)(C) makes it a crime to "intentionally acces[s] a computer without authorization . . . and thereby obtai[n] . . . information from any protected computer if the conduct involved an interstate or foreign communication."

64. I borrow this term from the more technological context of computer systems, where a "logical" disk volume is one that appears to the user to be one hard disk, but is in fact made of several distinct disks.

data. As the *ElcomSoft*<sup>65</sup> case shows, the idea of “unauthorized access” is becoming part of criminal copyright law.

### C. The Economic Espionage Act

Congress has realized that keepers of trade secrets, like proprietors of computer systems, often have an interest in exercising the power to exclude. It has responded by offering protection that is partly colored by a property right.<sup>66</sup> The Economic Espionage Act (EEA),<sup>67</sup> the first federal statute to protect trade secrets, defined two crimes: economic espionage and theft of trade secrets. These crimes differ primarily in the beneficiary of the misappropriation. Economic espionage,<sup>68</sup> used in an indictment for the first time this year,<sup>69</sup> outlaws appropriation of a trade secret with the intent or knowledge that the appropriation will benefit a foreign power. The trade secret theft statute<sup>70</sup> bans identical conduct but does not require a foreign beneficiary of the misappropriation.

The most striking provisions in the EEA are the identically worded §§ 1831(a)(2) and 1832(a)(2), which create criminal liability for a person who “*without authorization* copies, duplicates, sketches, draws, photographs, downloads, uploads, alters, destroys, photocopies, replicates, transmits, delivers, sends, mails, communicates, or conveys a trade secret.”<sup>71</sup> In contrast to state civil trade secret misappropriation statutes, which generally require that the secret be obtained by “improper means,”<sup>72</sup> the EEA takes a more property-based approach by making the authorization by the trade secret owner, or lack thereof, the basis for

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65. See discussion *infra* Part II.D.

66. Geraldine Szott Moohr, *The Problematic Role of Criminal Law in Regulating Use of Information: The Case of the Economic Espionage Act*, 80 N.C. L. REV. 853, 853, 862 (2002); James H. A. Pooley, Mark A. Lemley & Peter J. Toren, *Understanding the Economic Espionage Act of 1996*, 5 TEX. INTELL. PROP. L.J. 177, 194 (1997).

67. Pub. L. No. 104-294, 110 Stat. 3488 (Oct. 11, 1996) (codified at 18 U. S. C. §§ 1831-1839 (2000)).

68. 18 U.S.C. § 1831 (2000).

69. A research scientist was alleged to have stolen genetic research materials from the Cleveland Clinic Foundation and to have transported them to RIKEN, a research institute operated by the Japanese government. Press Release, CCIPS, Scientist Pleads Guilty to Providing False Statements Regarding Trade Secret Theft from Cleveland Clinic Foundation (May 1, 2002), at <http://www.cybercrime.gov/serizawaPlea.htm>.

70. 18 U.S.C. § 1832 (2000).

71. *Id.* § 1831(a)(2); *Id.* § 1832(a)(2). (emphasis added).

72. Pooley, Lemley & Torren, *supra* note 66, at 192.

liability.<sup>73</sup> Moreover, in contrast to most states' provision of civil remedies, the EEA provides only criminal remedies.<sup>74</sup>

The EEA's criminal provisions and property-based themes represent a legislative endorsement of an approach that prosecutors and private plaintiffs had tried to advance, but which faltered when the misappropriation of "[p]urely intellectual property"<sup>75</sup> was at issue. In *United States v. Brown*, for example, defendant John Brown escaped prosecution under the National Stolen Property Act (NSPA)<sup>76</sup> because Brown's former employer had shipped the alleged trade secrets, a computer program and software manuals from a former employer, to Brown on backup tapes that Brown himself owned.<sup>77</sup> The Tenth Circuit affirmed dismissal of the case, holding that the NSPA "applies only to physical 'goods, wares or merchandise' that were themselves 'stolen, converted or taken by fraud.'"<sup>78</sup> Without protection for the information itself, prosecutors face a gap in the criminal law.<sup>79</sup> The federal wire<sup>80</sup> and mail<sup>81</sup> fraud statutes, moreover, cannot "completely close the enforcement

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73. The legislative history also contains evidence of Congress' intent to create a property-like right, insofar as possessing information without the owner's authorization can trigger liability. H.R. REP. NO. 104-788, at 8 (1996) ("The concept of control also includes the mere possession of the information, regardless of the manner by which the non-owner gained possession of the information.").

74. The penalties can be quite severe. Economic espionage is punishable by a maximum fine of \$500,000, or 15 years in prison, or both. 18 U.S.C. § 1831(a)(5). Trade secret theft is punishable by a maximum fine of \$5,000,000, or 10 years in prison, or both. *Id.* § 1832(a), (b).

75. *United States v. Brown*, 925 F.2d 1301, 1307 (10th Cir. 1991).

76. Ch. 645, § 1, 62 Stat. 806 (1948) (codified at 18 U.S.C. § 2314).

77. *Brown*, 925 F.2d at 1303.

78. It is worth noting that the construction of the NSPA adopted by the Tenth Circuit in *Brown* is not universal. *See, e.g.*, *United States v. Riggs*, 739 F. Supp. 414, 420 (N. D. Ill. 1991) (holding that a telephone company's computer file satisfied section 2314's requirement of "goods, wares, or merchandise," and so was protected by § 2314 from being "stolen, converted or taken by fraud"); *see also* Todd H. Flaming, *The National Stolen Property Act and Computer Files: A New Form of Property, a New Form of Theft*, 1993 U. CHI. L. SCH. ROUNDTABLE 255, 259-67 (arguing that *Dowling* applies only to copyright infringement cases, and that "any language in the opinion to the effect that the statute only covers tangible 'goods, wares or merchandise' is dictum"). At least one recent case has followed *Riggs*. *See United States v. Farraj*, 142 F. Supp. 2d 484, 490 (S.D.N.Y. 2001) (holding that "the transfer of electronic documents via the internet across state lines does fall within the purview of § 2314").

79. Pooley, Lemley & Torren, *supra* note 66, at 178.

80. 18 U.S.C. § 1343 (2000).

81. *Id.* § 1341.

gap,”<sup>82</sup> because these statutes apply only when the victims of trade secret misappropriation are permanently defrauded of their information.<sup>83</sup> Although the Supreme Court suggested that a trade secret could form the basis of a legally cognizable property interest,<sup>84</sup> that suggestion fell far short of creating a broad right that would allow federal prosecutors to intercede in cases of nascent appropriation.<sup>85</sup>

The EEA may have overfilled this gap by defining crimes that could overlap with both the NSPA and with various intellectual property crimes. In June 2002, for example, two individuals pled guilty to theft of trade secret<sup>86</sup> counts for stealing and transporting across state lines chemical reagents that were used in immunosuppression research.<sup>87</sup> This activity might have been cognizable under the NSPA. Similarly, the Justice Department recently obtained a guilty plea from Robert Keppel, whom it accused of § 1832(a)(2) trade secret theft for purchasing, and subsequently selling via a Web site, copies of Microsoft certification exams.<sup>88</sup> The Keppel case could mark a shift in prosecutions for cases that implicate copyright’s reproduction<sup>89</sup> and distribution<sup>90</sup> rights.<sup>91</sup> Trade secret charges,

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82. Pooley, Lemley & Torren, *supra* note 66, at 186 (citing additional cases in which wire and mail fraud counts were dismissed).

83. *Id.*

84. *Ruckelshaus v. Monsanto*, 467 U.S. 986, 1003–04 (1984) (“[T]o the extent that Monsanto has an interest in its . . . data cognizable as a trade-secret property right under Missouri law, that property right is protected by the Takings Clause of the Fifth Amendment.”).

85. Press Release, CCIPS, Former Engineer of White Plains Software Company Receives Two Years in Prison for Theft of Trade Secret (Oct. 15, 2002), at <http://www.cybercrime.gov/kissaneSent.htm> (describing plea by individual offered to sell parts of employer’s closely guarded source code to competitors, in violation of his employment agreement, which stated that he agreed to “forever keep secret” confidential SMARTS information that he had access to, including “software codes.”) [hereinafter *CCIPS Keppel Press Release*].

86. 18 U.S.C § 1832 (2000).

87. Press Release, CCIPS, Pair Charged With Theft Of Trade Secrets From Harvard Medical School (June 19, 2002), at <http://www.cybercrime.gov/zhuCharges.htm>.

88. Press Release, CCIPS, Former Vancouver, Washington, Resident Pleads Guilty to Theft of Trade Secrets from Microsoft Corporation (Aug. 23, 2002), at <http://www.usdoj.gov/criminal/cybercrime/keppelPlea.htm>.

89. 17 U.S.C § 106(1) (2000).

90. *Id.* § 106(3) (2000).

91. Press Release, CCIPS, Former Vancouver, Washington, Resident Pleads Guilty to Theft of Trade Secrets from Microsoft Corporation (Aug. 23, 2002), at <http://www.usdoj.gov/criminal/cybercrime/keppelPlea.htm> (stating that “the sale and distribution of [the exams] violated Microsoft copyright and constituted a conversion of Microsoft proprietary information for personal gain”). *See also* Becky Nagel, *Cheet-Sheets.com Owner Pleads Guilty; May Face Jail Time*, CERTCITIES NEWS, at

when applicable, could prove more attractive than copyright, because the act and *mens rea* requirements for trade secret misappropriation are easier to meet. There is no need to engage in the sometimes messy task of proving copyright infringement, nor does § 1832 require prosecutors to prove that the accused acted for “commercial advantage or private financial gain.”<sup>92</sup>

As the Keppel case shows, works may be protected under both the EEA and copyright law, but the EEA may obviate the need to stay within the “precisely defined limits”<sup>93</sup> of the Copyright Act’s criminal provisions. These provisions—at the time that the Court wrote, at least—reflected the difference between ownership of a copyright and “the possessory interest of the owner of simple ‘goods, wares, [or] merchandise,’” to prosecute copyright crimes.<sup>94</sup> As applied to Keppel, however, the EEA’s provisions embrace both the rhetoric<sup>95</sup> and the legal effect<sup>96</sup> of real property. Previously unable to persuade courts to expand intellectual property protection on theories of “unjust enrichment” or “restitution,”<sup>97</sup> and certainly unable to convince courts to expand criminal penalties beyond existing statutes,<sup>98</sup> federal prosecutors now have at their disposal a trade secret law whose operative language is more expansive than state trade secret laws. Although this approach potentially creates grounds for challenging a statute as being unconstitutionally vague, no such challenge against the EEA has prevailed.<sup>99</sup>

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<http://certcities.com/editorial/news/story.asp?EditorialsID=336> (Aug. 27, 2002) (quoting the assistant United States Attorney who prosecuted the Keppel case for the proposition that § 1832 is becoming a more attractive prosecution tool in “braindump” cases).

92. 17 U.S.C. § 506(a) (2000).

93. *Dowling v. United States*, 473 U.S. 207, 217 (1985).

94. *Id.*

95. Section 1832 is entitled “*Theft of trade secrets*” and defines the requisite *mens rea* for a violation as “intent to convert a trade secret.”

96. The value that the EEA afforded Microsoft’s copyrighted certification exams was in Microsoft’s right to set the terms that governed access to the exams. More specifically, “‘banner’ pages” shown at the beginning of MSCE and MSCD exams “require the test-taker to agree to certain terms regarding the test material including an agreement not to copy or release the test material.” CCIPS *Keppel Press Release*, *supra* note 85.

97. Wendy J. Gordon, *On Owning Information: Intellectual Property and the Restitutionary Impulse*, 78 VA. L. REV. 149, 154 n.20 (1992) (discussing *Feist Publ’ns v. Rural Tel. Serv. Co.*, 499 U. S. 340 (1991)).

98. *Dowling*, 473 U.S. at 213 (reiterating that “federal crimes, of course, are solely creatures of statute” (internal quotations and citations omitted)).

99. *See, e.g., United States v. Krumrei*, 258 F.3d 535, 536 (6th Cir. 2001) (holding that the EEA’s definition of “trade secret” in 18 U.S.C. § 1839(3) was not unconstitutionally vague as applied to defendant).

## D. The DMCA

The justifications for assigning liability on the basis of unauthorized access to computer systems, or the use of trade secrets “without authorization,” are less apparent in the context of copyrighted works, where wide dissemination of works is an important goal of copyright law.<sup>100</sup> Congress did create such a right with the DMCA. Once again, the complexities of digital computers—this time, their capacity to make and distribute perfect copies of works at almost zero cost—led Congress<sup>101</sup> to augment criminal copyright liability with a form of *ex ante* liability based upon circumventing the “digital walls”<sup>102</sup> that may protect a work. This shift in copyright law from *ex post* enforcement to *ex ante* control raised general concerns; the arrest of Russian programmer Dmitry Sklyarov<sup>103</sup> for alleged DMCA violations caused outrage.<sup>104</sup> This first test of the DMCA’s criminal provisions resulted in an acquittal,<sup>105</sup> but *United States v. ElcomSoft* has still affirmed that the DMCA supplies copyright holders with a powerful right to exclude unwanted users from accessing their works.<sup>106</sup>

### 1. DMCA Provisions at Issue in *ElcomSoft*

The government based its charges against Sklyarov<sup>107</sup> and his employer, Elcom, Ltd. (“ElcomSoft”), on their allegedly production<sup>108</sup> and

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100. See, e.g., Julie E. Cohen, *Copyright and the Perfect Curve*, 52 VAND. L. REV. 1799, 1814 (2000).

101. H.R. REP. 105-551, pt. 2, at 25 (1998) (“In contrast to the analog experience, digital technology enables pirates to reproduce and distribute perfect copies of works—at virtually no cost at all to the pirate. As technology advances, so must our laws.”).

102. *Universal City Studios, Inc. v. Corley*, 273 F.3d 429, 435 (2d Cir. 2001).

103. Dave Wilson, *Programmer Arrested in E-Book Case; Employee of Russian Company Allegedly Distributed Software That Cracks Encryption Used for Some Electronic Books*, L.A. TIMES, July 18, 2001, part 3, at 1.

104. Lawrence Lessig, *Jail Time in the Digital Age*, N.Y. TIMES, July 30, 2001, at A17.

105. Matt Richtel, *Russian Company Cleared of Illegal Software Sales*, N.Y. TIMES, Dec. 18, 2002, at C4.

106. Since the DMCA has been analyzed in detail elsewhere, only the provisions relevant to the *ElcomSoft* case are discussed here. For more general analyses, see generally *Universal City Studios, Inc. v. Corley*, 273 F.3d 429 (2d Cir. 2001); *Universal City Studios, Inc. v. Reimerdes*, 111 F. Supp. 2d 294 (S.D.N.Y. 2000); Nimmer, *supra* note 28.

107. The government deferred prosecution against Sklyarov in exchange for his agreement to testify in the trial of ElcomSoft. Pretrial Diversion Agreement, CR 01-20138 RMW, available at [http://www.eff.org/IP/DMCA/US\\_v\\_Elcomsoft/20011213\\_sklyarov\\_agreement.pdf](http://www.eff.org/IP/DMCA/US_v_Elcomsoft/20011213_sklyarov_agreement.pdf) (Dec. 13, 2001).

marketing<sup>109</sup> of the Advanced eBook Processor (AEBPR). The government alleged that the primary purpose of the AEBPR was to “remove any and all limitations on an ebook purchaser’s ability to copy, distribute, print, have the text read audibly by the computer, or any other limitation imposed by the publisher.”<sup>110</sup> On the basis of these capabilities, the government categorized the AEBPR as a technology that circumvents “rights controls,”<sup>111</sup> rather than a technology that circumvents an “access control”<sup>112</sup> measure, such as a password.<sup>113</sup> Some of the features that ElcomSoft advertised in connection with the AEBPR included “Advanced PDF Password Recovery,” however, so the AEBPR arguably had the potential to be an access control circumvention technology.<sup>114</sup> Moreover, eBooks, like DVDs, are encrypted, and thus use a technological measure that falls within the meaning of section 1201(a).<sup>115</sup> Finally, since ElcomSoft sold the AEBPR, the alleged violation of sections

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108. 17 U.S.C. § 1201(b)(1)(A); Indictment, *United States v. Elcom Ltd.*, CR 01-20138 (N.D. Cal. 2001) at 5 [hereinafter *ElcomSoft Indictment*]. 17 U.S.C. § 1201(b)(1)(A) provides:

No person shall manufacture, import, offer to the public, provide, or otherwise traffic in any technology, product, service, device, component, or part thereof, that . . . is primarily designed or produced for the purpose of circumventing protection afforded by a technological measure that effectively protects a right of a copyright owner under this title in a work or a portion thereof.

109. 17 U.S.C. § 1201(b)(1)(C); *ElcomSoft Indictment*, *supra* note 108, at 6. 17 U.S.C. § 1201(b)(1)(A) provides:

No person shall manufacture, import, offer to the public, provide, or otherwise traffic in any technology, product, service, device, component, or part thereof, that . . . is marketed by that person or another acting in concert with that person with that person’s knowledge for use in circumventing protection afforded by a technological measure that effectively protects a right of a copyright owner under this title in a work or a portion thereof.

110. *ElcomSoft Indictment*, *supra* note 108, at 2.

111. Jane C. Ginsburg, *Copyright and Control Over New Technologies of Dissemination*, 101 COLUM. L. REV. 1613, 1631-32 (2001) (coining this term for technologies that fall under 17 U.S.C. § 1201(b)).

112. 17 U.S.C. § 1201(a).

113. *ElcomSoft Indictment*, *supra* note 108, at 9-10.

114. O’Connell Aff., *United States v. Elcom Ltd.*, CR 01-20138 (N.D. Cal. 2001), ¶ 11, at <http://www.planetpdf.com/mainpage.asp?webpageid=2394> (last visited Mar. 15, 2003).

115. *Universal City Studios, Inc. v. Reimerdes*, 111 F. Supp. 2d 294 (S.D.N.Y. 2000), *aff’d sub nom*, *Universal City Studios, Inc. v. Corley*, 273 F.3d 429 (2d Cir. 2001).

1201(b)(1)(A) and 1201(b)(1)(C) formed the basis for the criminal charges against it.<sup>116</sup>

## 2. *The Legal Protection of Technological Measures in ElcomSoft*

*ElcomSoft* demonstrates that United States copyright law now provides criminal punishment not only for “bad acts” but also “bad machines.”<sup>117</sup> In its defense, *ElcomSoft* argued that the the statutory definition of which machines are “bad” is unconstitutionally vague.<sup>118</sup> Citing the textual differences between the access control circumvention ban in section 1201(a) and the rights control circumvention ban in section 1201(b), *ElcomSoft* urged the court to consider that section 1201(b) defines “no underlying substantive provision,”<sup>119</sup> which “renders it impossible to determine which tools [section 1201(b)] in fact bans.”<sup>120</sup> The court rejected this constitutional challenge.<sup>121</sup> Addressing *ElcomSoft*’s argument that section 1201(b) provided no useful standard to determine which devices circumvent usage control measures, the court held that “all tools that enable circumvention of use restrictions are banned, not merely those use restrictions that prohibit infringement.”<sup>122</sup>

This holding marks a pronounced shift in copyright law from *ex post* enforcement to *ex ante* control. Not only does the DMCA protect Adobe eBooks from devices “primarily designed”<sup>123</sup> or “marketed”<sup>124</sup> to circumvent an eBook’s usage control measures, but it does so before any devices has been alleged, let alone proven, to have violated “a right of a copyright owner.”<sup>125</sup> Although the DMCA provides some exemptions

116. See 17 U.S.C. § 1204 (crating criminal liability for “[a]ny person who violates section 1201 or 1202 willfully and for purposes of commercial advantage or private financial gain”).

117. Nimmer, *supra* note 28, at 684.

118. See Motion to Dismiss Indictment for Violation of Due Process at 12 (Jan. 29, 2002), [http://www.eff.org/IP/DMCA/US\\_v\\_Elcomsoft/20020129\\_elcom\\_mtd\\_notice.pdf](http://www.eff.org/IP/DMCA/US_v_Elcomsoft/20020129_elcom_mtd_notice.pdf) [hereinafter *ElcomSoft Motion to Dismiss*], *United States v. Elcom Ltd.*, 203 F. Supp. 2d 1111, 1122-25 (N.D. Cal. 2002) [hereinafter *ElcomSoft*] (arguing that § 1201(b) “is not directed at unauthorized access, but at more traditional unlawful behavior,” that is, “unauthorized use of copyrighted material once authorized access is obtained”).

119. *ElcomSoft Motion to Dismiss*, *supra* note 118, at 13.

120. *Id.* at 17.

121. The court also rejected facial and as applied challenges to section 1201(b) based on the First Amendment, an argument that is not discussed in this Note. For the court’s disposition of the Constitutional arguments, see *ElcomSoft*, 203 F. Supp. 2d at 1132-1142.

122. *ElcomSoft*, 203 F. Supp. 2d at 1124.

123. 17 U.S.C. § 1201(b)(1)(A) (2000).

124. *Id.* § 1201(b)(1)(C).

125. *Id.* § 1201(b)(1).

from the act-of-circumvention ban,<sup>126</sup> and creates a safety valve from the circumvention ban, commentators have questioned whether these exemptions will do much to qualify the absolute property right that would formally exist without them.<sup>127</sup> The criminal charges against ElcomSoft, as well as the civil lawsuit against distributors of an unauthorized DVD decryption device, have continued to make the DMCA unpopular among computer professionals<sup>128</sup> and have even prompted some legislators to call for reform.<sup>129</sup>

In addition to illustrating how broad the DMCA's circumvention device bans are, *ElcomSoft* also possesses considerable symbolic value. It represents the first test of the government's willingness to punish makers of devices that threaten the "digital walls" around digital works, and thus to enforce the legal prong that copyright holder have asserted is necessary to support technological measures used to guard commercial works.<sup>130</sup> A copyright holder can distribute a work to the public with access controls and usage rules—that is, with the exclusive attributes of physical property—and the government will sanction activities that might undermine the enforcement of this exclusivity.

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126. Section 1201(a)(1)(B) exempts from section 1201(a) liability persons who "are likely to be . . . adversely affected . . . in their ability to make noninfringing uses" of works in a certain class of works identified by the Librarian of Congress. Section 1201(a)(1)(C) prescribes a procedure for determining these classes of users.

128. See Nimmer, *supra* note 28, at 715-41 (comparing an original version of § 1201, which showed no "special solicitude for user rights," to the version ultimately adopted into law and presenting case studies that demonstrate that the "unjustifiably broad" anti-trafficking provisions in section 1201(b) could render its exceptions largely meaningless); Pamela Samuelson, *Intellectual Property and the Digital Economy: Why the Anti-Circumvention Regulations Need to Be Revised*, 14 BERKELEY TECH. L.J. 519, 537-49 (1999) (criticizing § 1201(a)'s act-of-circumvention provisions as "unduly narrow" and the anti-device provisions as overbroad).

128. Letter from Barbara Simons and Eugene Spafford, Co-Chairs, United States Association for Computing Machinery Public Policy Committee, to Representative Rick Boucher (Oct. 31, 2002), available at <http://www.acm.org/usacm/Letters/BoucherDMCABill.htm> (citing computer security researchers' concerns that their activities run afoul of the DMCA and are not within the anticircumvention exemptions).

129. Rep. Rick Boucher (D-VA) and Rep. John Doolittle (R-CA) introduced the Digital Media Consumers' Rights Act, H.R. 5544, 107th Cong. (2002), which proposed, *inter alia*, strengthening scientific research and fair use exemptions in the DMCA.

130. See Dean S. Marks and Bruce H. Turnbull, *Technical Protection Measures: The Intersection of Technology, Law and Commercial Licenses*, 46 J. COPYRIGHT SOC'Y U.S. 563, 563-64 (1999) (explaining that both technological and legal protections are necessary to prevent the unauthorized duplication and distribution of digital works).

### III. PROCEDURE AND CYBERCRIME

The physical property characteristics of technologically protected, widely disseminated, copyrighted works provide a stark contrast to the legal status of electronic communications in general, regardless of how strongly protected or widely disseminated they are. As discussed throughout Part III of this Note, Congress has created property-based protection for computer systems, declared that a trade secret is capable of being stolen, and created a right—whose violation may precipitate criminal penalties—for copyright holders to restrict access to and usage of their works. Congress has generally applied a property analysis in a manner that strengthens the protection of the threatened interest.

When electronic communications play a role in a criminal investigation, however, a property-based analysis leads in exactly the opposite direction. Extending the Fourth Amendment's guarantees of security in one's "persons, houses, papers, and effects"<sup>131</sup> to communications that do not fit easily into any of these categories requires judicial determination. Other information to which a person might wish to restrict the government's access receives only the protection that a relevant statute, if any, offers. As electronic communications become more important in daily life,<sup>132</sup> on the one hand, and a more important means for criminal investigation<sup>133</sup> and intelligence surveillance<sup>134</sup> on the other, these limitations are likely to become more widely noticed. An odd dynamic has developed; the Supreme Court's extension of Fourth

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131. U. S. CONST. amend. IV. The amendment states, in its entirety:

The right of the people to be secure in their persons, houses, papers, and effects, against unreasonable searches and seizures, shall not be violated, and no Warrants shall issue, but upon probable cause, supported by Oath or affirmation, and particularly describing the place to be searched, and the persons or things to be seized.

132. Eric M. Uslaner, *Trust, Civic Engagement and the Internet*, at [http://www.pewtrust.org/pdf/vf\\_pew\\_internet\\_trust\\_paper.pdf](http://www.pewtrust.org/pdf/vf_pew_internet_trust_paper.pdf) (May 2001).

133. See Hill Decl., In the Matter of the Application of the United States of America for an Order Authorizing the Installation of a Pen Register and Trap and Trace Device Criminal No. 99-2713M (C.D. Cal. Feb. 4, 2000) at ¶¶ 2-5 (explaining the purpose and operating principles of "Carnivore," the alleged equivalent of a pen register or trap-and-trace device for e-mail), at [http://www.epic.org/privacy/carnivore/fbi\\_dec.html](http://www.epic.org/privacy/carnivore/fbi_dec.html) (last visited March 15, 2003).

134. A new project funded by the Department of Defense, the Information Awareness Office, proposes to collect massive amounts of data in order to achieve "Total Information Awareness," and hence "to revolutionize the ability of the United States to detect, classify and identify foreign terrorists—and decipher their plans." Program Objective, Information Awareness Office, at <http://www.darpa.mil/iao/TIASystems.htm> (last visited Feb. 3, 2003).

Amendment beyond a property-based concept, to activities surrounded by a “reasonable expectation of privacy,” did not dispose of the role of property in determining the level of protection that a given communication receives. Ownership of property is as important as ever; the ownership and physical state of computer equipment determines the showing that the government needs to conduct a search.

#### A. The Fourth Amendment

A pair of 1967 Supreme Court decisions initiated the application of Fourth Amendment<sup>135</sup> protection beyond the property-based standard<sup>136</sup> in the text of the amendment. In *Berger v. New York*,<sup>137</sup> the Court invalidated New York’s eavesdropping statute<sup>138</sup> on the grounds that its “broad . . . sweep result[ed] in a trespassory intrusion into a constitutionally protected area.”<sup>139</sup> In *Katz v. United States*,<sup>140</sup> the Court broadened Fourth Amendment protection from this explicitly property-based conception to one that incorporated a conception of a right to privacy. In his concurrence in *Katz*, Justice Harlan stated what has become the guiding principle for the constitutionality of a search: a search is unconstitutional if it violates an individual’s (1) “actual (subjective) expectation of privacy”<sup>141</sup> and (2) “the expectation [is] one that society is prepared to recognize as ‘reasonable.’”<sup>142</sup> *Katz*, however, narrowed *Berger* by holding that electronic surveillance, if brief, narrowly focused, and approved in advance by a judge, could be constitutional.<sup>143</sup>

Subsequent cases began to limit this expansive view of the Fourth Amendment. In *United States v. Miller*,<sup>144</sup> the Court held that business and banking records “lack . . . any legitimate expectation of privacy”<sup>145</sup> once they are given to a third party, “even if the information is revealed on the assumption that it will be used only for a limited purpose and the

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135. See *supra* note 131.

136. Frank J. Eichenlaub, Comment, *Carnivore: Taking a Bite out of the Fourth Amendment?*, 80 N.C. L. REV. 315, 334 (2001).

137. 388 U.S. 41 (1967).

138. N.Y. CODE CRIM.PROC. § 813-a (McKinney’s 1967).

139. *Berger*, 388 U.S. at 44.

140. 389 U.S. 347 (1967).

141. *Katz*, 389 U.S. at 361 (Harlan, J. concurring).

142. *Id.* at 354.

143. James X. Dempsey, *Communications Privacy in the Digital Age: Revitalizing the Federal Wiretap Laws to Enhance Privacy*, 8 ALB. L.J. SCI. & TECH. 65, 70–71 (1997).

144. 425 U.S. 435 (1976).

145. *Id.* at 442.

confidence placed in the third party will not be betrayed.”<sup>146</sup> In *Smith v. Maryland*,<sup>147</sup> the Court applied *Miller* and held that there is no legitimate expectation of privacy in the information that pen registers collect.<sup>148</sup> Determining the level of protection that a given form of communication should receive is a task that continues to bedevil Congress and the courts, as the following sections of this Note illustrate.

## B. Statutory Framework

In Title III of the Omnibus Crime Control and Safe Streets Act of 1968,<sup>149</sup> (“Title III” or the “Wiretap Act”), Congress codified the Supreme Court’s holding in *Katz*. The Wiretap Act also illustrates, however, that the protections of the Fourth Amendment do not easily translate to new technologies, absent application of the Fourth Amendment by the Supreme Court. Congress has taken some measures to maintain the balance between advances in technology and the potential “evisceration of Constitutional rights”<sup>150</sup> that technological advances could effect.

The resulting body of electronic surveillance law is complex. The same laws govern state and private conduct and simultaneously provide civil and criminal penalties. Changes enacted under the USA PATRIOT Act (USAPA)<sup>151</sup> further complicate the statutes. Only a few of the many changes<sup>152</sup> that the USAPA effected will be discussed here.<sup>153</sup>

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146. *Id.* at 443.

147. 442 U.S. 735 (1979).

148. *Id.* at 743-44 (holding that, just as a bank depositor “‘assume[s] the risk’ of disclosure” of the contents of financial records to third parties, so does a person “assume[e] the risk that the [phone] company would reveal to police the numbers he dialed”). 18 U.S.C. §§ 2510-2522 (2000).

150. *United States v. Scarfo*, 180 F. Supp. 2d 572, 583 (D.N.J. 2001).

151. *Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism*, Pub. L. No. 107-56, 115 Stat. 272 (2001).

152. The final version of the Act was 342 pages long and modified fifteen statutes. Elec. Frontier Found., *Analysis of The Provisions of The USA PATRIOT Act*, at [http://www.eff.org/Privacy/Surveillance/Terrorism\\_militias/20011031\\_eff\\_usa\\_patriot\\_analysis.html](http://www.eff.org/Privacy/Surveillance/Terrorism_militias/20011031_eff_usa_patriot_analysis.html) (Oct. 31, 2001).

153. Many detailed analyses of the USAPA are available. Ctr. for Democracy & Tech., *Analysis of USA PATRIOT Act by CDT and Others*, at <http://www.cdt.org/security/usapatriot/analysis.shtml> (collecting resources) (Feb. 21, 2003). Sources that are particularly relevant to the topics discussed here are CCIPS, *Searching and Seizing Computers and Obtaining Electronic Evidence in Criminal Investigations*, at <http://www.cybercrime.gov/s&smanual2002.pdf> (July 2002) (summarizing Title III and ECPA and the procedures for conducting surveillance and gathering evidence under these laws) [hereinafter CCIPS, *Searching and Seizing Computers*] and *USA PATRIOT Act (P.L. 107-56) Amendments Made by Key Provisions to: Electronic Communications Pri-*

### C. Title III and the Electronic Communications Privacy Act (ECPA)

Title III bans wiretapping by the government except in investigations of enumerated crimes,<sup>154</sup> and only after showing a neutral magistrate that ordinary investigative techniques are ineffective.<sup>155</sup> Title III also requires that investigators minimize the data that they collect and provides procedural opportunities to object to evidence collected in a wiretap before it is introduced into a criminal trial.<sup>156</sup> In its original form, however, Title III applied only to the interception<sup>157</sup> of a “wire communication,” which is “any aural transfer made in whole or in part through the use of facilities for the transmission of communications by the aid of wire, cable, or other like connection between the point of origin and the point of reception,”<sup>158</sup> or an “oral communication.”<sup>159</sup>

When computer-based communications became more common, Congress expanded Title III protection to “electronic communications.”<sup>160</sup> In Title I of the ECPA,<sup>161</sup> Congress created statutory protection for electronic communications in transmission, including “any transfer of signs, signals, writing, images, sounds, data, or intelligence of any nature transmitted in whole or in part by a wire, radio, electromagnetic, photoelectronic or photooptical system that affects interstate or foreign commerce.”<sup>162</sup> Thus, the ECPA extended protection to electronic communications, but did so by creating a separate category of communications based on the underlying medium of transmission.

The distinction between wire and electronic communications is important because Title III provides a suppression remedy for illegally

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*vacy Act; Communications Act; Foreign Intelligence Surveillance Act; Computer Fraud & Abuse Act*, at <http://www.cdt.org/security/usapatriot/keyprovisions.pdf> (Nov. 2001).

154. 18 U.S.C. § 2516.

155. *Id.* § 2518(3)(c); Dempsey, *supra* note 143, at 71-72.

156. *Id.* § 2518(5); Dempsey, *supra* note 143, at 71-72.

157. The focus on *interception* is highly significant. See the discussion of *Konop*, *infra* Part III.A.4.

158. 18 U.S.C. § 2510(1).

159. “[O]ral communication’ means any oral communication uttered by a person exhibiting an expectation that such communication is not subject to interception under circumstances justifying such expectation.” *Id.* § 2510(2).

160. See *Steve Jackson Games, Inc. v. Secret Serv.*, 36 F.3d 457, 460 (5th Cir. 1994) (citing the prohibition on intercepting an “electronic communication” in 18 U.S.C. § 2511(a)).

161. Electronic Communications Privacy Act of 1986, Pub. L. No. 99-508, 100 Stat. 1848 (codified at 18 U.S.C. §§ 2510-2522, 2701-2716, 3121-3127).

162. 18 U.S.C. § 2510(12) (2000).

intercepted wire communications,<sup>163</sup> but not for illegally intercepted electronic communications.<sup>164</sup> It is also worth re-emphasizing that Title III applies only to the interception—the acquisition of the contents of a communication contemporaneous with transmission<sup>165</sup>—of wire and electronic communications; but Title III does not apply to communications in storage. Recognizing that this gap left the increasing volume of non-voice and electronic communications without Fourth Amendment or Title III protection,<sup>166</sup> Congress created in Title II of the ECPA protection for stored electronic communications.<sup>167</sup>

Until Congress passed the USAPA, wire and electronic communications became “stored” at different times. Specifically, an electronic communication entered electronic storage when “a copy of a communication [is] created at an intermediate point that is designed to be sent on to its final destination.”<sup>168</sup> The USAPA left this definition unchanged but altered the classification of voice mail. Whereas voice mail used to be a wire communication “in transmission” until its recipient listened to it, and so was protected by Title III’s suppression remedy, the USAPA placed all voice mail within the ambit of Title II of the ECPA.<sup>169</sup> Thus, investigators’ failure to obtain the proper warrant for voice mail can no longer serve as a basis for exclusion of that evidence.<sup>170</sup>

163. *Id.* §§ 2510(11), 2515, 2518(10)(a); CCIPS, *Searching and Seizing Computers*, *supra* note 153, at 134-35.

164. § 2518(10)(c); CCIPS, *Searching and Seizing Computers*, *supra* note 153, at 134-35.

165. 18 U.S.C. § 2510(4); *Steve Jackson Games*, 36 F.3d at 460.

166. *Dempsey*, *supra* note 143, at 73-74.

167. Title II of the ECPA is also known as the Stored Communications Act (SCA). *Konop v. Hawaiian Airlines*, 302 F.3d 868, 874 (9th Cir. 2002).

168. CCIPS, *Searching and Seizing Computers*, *supra* note 153, at 86 (analyzing the definition of “electronic storage”).

169. *Uniting and Strengthening America by Providing Appropriate Tools Required to the Intercept and Obstruct Terrorism*, Pub. L. 107-56, 115 Stat. 272 (2001) *Uniting and Strengthening America by Providing Appropriate Tools Required to the Intercept and Obstruct Terrorism* § 209, Pub. L. 107-56, 115 Stat. 272 (2001) (striking electronic storage of communications carrying a human voice from the definition of “wire communication” in 18 U.S.C. § 2510(1)). *See also* CCIPS, *Searching and Seizing Computers*, *supra* note 153, at 118 (“Stored wire communications (e.g. voice mails) are covered not under Title III, but instead under the ECPA provisions that also apply to stored electronic communication, or e-mails”). Even before Congress passed the USAPA, voice mail became a communication in electronic storage once the recipient had listened to the message. *See id.* at 86-87 (analyzing the definition of “electronic storage” in 18 U.S.C. § 2510(17)).

170. 18 U.S.C. § 2708 (“The [damages] remedies and sanctions described in this chapter are the only judicial remedies and sanctions for nonconstitutional violations of

Underlying the ECPA's approach to regulating government access to e-mail, account records, or subscriber information,<sup>171</sup> is the fact that the relevant communications are almost always stored on a computer that is not the property of the recipient of the relevant communication, or to whom the data subscription data pertains. The baseline of protection is therefore not the Fourth Amendment's guarantee of security in a person's papers or effects, but rather the rule of third-party possession, which makes unreasonable the expectation of privacy in a communication held by a third party.<sup>172</sup> Although this result makes sense in terms of the history<sup>173</sup> of third-party possession, it is incongruous with the laws discussed in Part II. of this Note. The CFAA creates the rough equivalent of a criminal trespass statute with respect to intrusions against the owner of the computer. The DMCA criminalizes penetrations of the "digital walls" around copyrighted works, no matter where they are stored. The reliance of Internet users upon third parties for almost all aspects of their activities, however, excludes them from such strong, property-based protection, regardless of the prevalent perception of e-mail as deserving of Fourth Amendment protection.

#### **D. Judicial Anticipation of the USAPA**

Despite the obvious relevance of Title III and the ECPA to criminal investigations, the differences in the statutory language regarding the interception of wire and electronic communications were first explored in civil cases. In *Steve Jackson Games v. Secret Service*, the Fifth Circuit was the first court to squarely confront the disparate treatment of wire communications and electronic communications. The *Steve Jackson Games* court held that "an intercept requires participation by the one charged with an 'interception' in the contemporaneous acquisition of the communication through the use of the device."<sup>174</sup> Absent explicit inclusion of storage of an electronic communication in the definition of the communication, in a manner parallel to that of wire communication, the Fifth Circuit held that interception, and thus the Title III warrant requirements, apply to electronic communications only as they pass over the wires from one computer to another.

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this chapter."); CCIPS, *Searching and Seizing Computers*, *supra* note 153, at 107 ("ECPA does not provide a suppression remedy.").

171. CCIPS, *Searching and Seizing Computers*, *supra* note 153, at 82.

172. *Id.* at 82 n.14.

173. *See id.* for a brief account of important historical cases.

174. *See Steve Jackson Games, Inc. v. Secret Serv.*, 36 F.3d 457, 460 (5th Cir. 1994) (emphasis added) (quoting *United States v. Turk*, 526 F.2d 654 (5th Cir. 1976)).

The Ninth Circuit was the next court to confront this issue, and in *Konop v. Hawaiian Airlines*, the court expressed its agreement with the holding in *Steve Jackson Games*.<sup>175</sup> The court, applying Title III and the ECPA as they stood before passage of the USAPA, noted that Congress, through the USAPA, “accepted and implicitly approved the judicial definition of ‘intercept.’”<sup>176</sup> Thus, beginning with the notion that Konop’s website was somehow his “property” would be seriously misleading. Although Congress has given statutory protection to most forms of electronic communications, those communications are not protected as ordinary property. Instead, a complex body of surveillance law, in which the ownership of the equipment on which the communication resides, plays a deciding role. Simply put, a home page is not like a home with respect to government searches and surveillance.

#### IV. CONCLUSION

These judicial and legislative developments draw attention to the sharp contrast between computer intrusions and disseminated intellectual property on the one hand, and the communications of individuals on the other. As shown in Part II, Congress has revised both copyright law and the quintessential cybercrime statute, the CFAA, to incorporate more explicitly the protections grounded in the concepts of real and personal property into any given piece of computing equipment, or any copy of a piece of copyrighted material. Owners of “protected computers”<sup>177</sup> and copyrights are acquiring ever-stronger rights against the world because Congress continues to lean on “access” to a resource as a means of regulating online behavior. This protection against unauthorized access is limited in an important way, however, because it applies to the owner of the resource.<sup>178</sup>

The legal protection that attaches to the owner of the machinery itself is stronger than the protection that the owner of the information enjoys. The distribution of personal information continues to decentralize, spreading among the three “legal regimes for access to electronic data”<sup>179</sup>—the Fourth Amendment for information stored on one’s own devices, the recently amended Title III and ECPA standards for

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175. *Konop v. Hawaiian Airlines*, 302 F.3d 868, 878 (9th Cir. 2002).

176. *Id.*

177. 8 U.S.C. § 1030(e)(12) (2000).

178. Thus, the fact that someone “owns” an e-mail message counts for little when that e-mail message resides in electronic storage, or on a remote computing resource. See CCIPS, *Searching and Seizing Computers*, *supra* note 153, at 85-89.

179. Dempsey, *supra* note 143, at 88-89.

communications in transmission and storage, and the ambiguous category of records stored on a remote server.<sup>180</sup> This trend, coupled with the USAPA's recent relaxations of the regulations governing law enforcement agents' access to communications, points to the need for Congress to ensure that procedural protections for access to electronic communications keep pace with their role in society. Whether this calls for the creation of a new property right in remotely stored communications<sup>181</sup> should be the subject of future debate. A more urgent challenge is to raise public awareness of exactly how divergent are the traditional protections of the Fourth Amendment from those that actually extend to most electronic communications, despite the increasingly strong protections that Congress has extended through federal rights in copyright, trade secrets, and the control of access to computer systems.

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180. *Id.*

181. For an argument against this particular approach, but a persuasive case for the need to debate this question, see Pamela Samuelson, *Privacy as Intellectual Property?*, 52 STAN. L. REV. 1125 (2000).

## ADDITIONAL DEVELOPMENTS—CYBERLAW

### *FIRTH V. STATE OF NEW YORK*

*98 N.Y.2d 365 (2002)*

The Court of Appeals of New York affirmed a summary judgment ruling holding that an unrelated modification to an unrelated portion of a website does not constitute a republication of an alleged defamatory article for the purposes of the statute of limitations.

Firth was employed by the Department of Environmental Conservation. In December 1996, the Office of the State Inspector General issued a report criticizing Firth's management style. On the same day, the State Education Department posted an executive summary of the report on its website, with links to the full text of the report. Although subsequent minor modifications were made to the website, no changes were made to the text of the executive summary or the report. Firth filed suit for defamation in March 1998, which was beyond the one-year statute of limitations for defamation running from the initial posting of the report on the Internet. Firth, however, claimed that each viewing of the website ("hit"), or each modification to the overall website, constituted a new publication that re-triggered the statute of limitations. The Court of Claims rejected this argument and granted summary judgment to the State. The Appellate Division affirmed.

The Court of Appeals of New York affirmed the lower courts' ruling. In rejecting Firth's argument that Internet publication should not be subject to the "single publication rule" applicable to mass media, the court stated that the same justifications for adopting the rule in mass media exist in Internet publications, namely, reducing the exposure of publishers to stale claims, multiplicity of suits and harassment actions. In responding to Firth's republication by modification argument, the court pointed out that the republication exception to the "single publication rule," where a republication re-triggers the statute of limitations, is that the subsequent publication is intended to and actually reaches a new audience. In the present case, the website was not modified to reach a new audience. The court reasoned that a rule applying the republication exception under these circumstances would discourage the placement of information on the Internet. Therefore, the court held that an unrelated modification of a website does not constitute a republication of the defamatory communication itself.

However, as the court noted, Firth did not raise the claim, and the court did not answer the question whether the State effectively republished the report by posting an additional link to it on a different website.

***FISCHER V. MT. OLIVE LUTHERAN CHURCH, INC.***

*207 F. Supp. 2d 914 (W.D. Wis. 2002)*

The United States District Court for the Western District of Wisconsin declined to grant summary judgment to an employer who intercepted and listened to an employee's allegedly homosexual telephone conversation and then retained a consultant who correctly guessed the employee's Hotmail password, which the employer used to access the employee's account without his authorization.

Mt. Olive Lutheran Church employed Fischer as a youth minister to provide counseling services to minors and adults. One day defendants Salzman and Janiszewski, two church employees, accidentally intercepted Fischer's telephone call and then listened at length to the allegedly homosexual phone conversation. Fischer's telephone call was made in a room in the church that defendant Connor, the pastor at the church, instructed Fischer to use when making personal calls or in any situation where he needed privacy. Defendants Salzman and Janiszewski were concerned about the effects of Fischer's improper behavior on the youth that he was supposed to counsel. Defendant Connor then hired a computer consultant who correctly guessed Fischer's Hotmail password so Mt. Olive could investigate Fischer's email correspondence. The church eventually terminated Fischer's employment. Fischer brought action alleging violation of the Electronic Communications Privacy Act (ECPA) and the Electronic Communications Storage Act (ECSA), among others. Defendants moved for summary judgment.

In examining Fischer's ECPA claim, the court determined that Fischer's alleged homosexual phone conversation might be personal in nature, and thus not part of his counseling duty. Therefore, it was outside the scope of the ECPA, making a grant of summary judgment improper. In coming to this conclusion, the court primarily relied on *Watkins v. Berry & Co.*, 704 F.2d 577 (11th Cir. 1983), where the presiding court held that if the intercepted call is a business call, then the employer's monitoring of it is in the ordinary course of business. With regard to personal calls however, such monitoring is probably not in the ordinary course of business. Defendant's' summary judgment motion on the ECPA claim was therefore denied.

The court then turned to Fischer's ECSA claim. The court found that Fischer's emails were still on the remote server when they were obtained by defendant Connor, which is distinguishable from situations like the one in *Fraser v. Nationwide Mutual Insurance Co.*, 35 F. Supp. 2d 623 (E.D. Pa. 2001) where a district court concluded that accessing emails after they had been downloaded to a local hard drive did not violate the ECSA. The court determined that Congress intended the ECSA to cover the exact situation in this case. In addition, it is disputed whether defendant Connor changed the password to Fischer's Hotmail account, denying him access to the account. Defendants' summary judgment motion on the ECSA claims was therefore also denied.

***ASHCROFT V. THE FREE SPEECH COALITION****535 U.S. 234 (2002)*

The Free Speech Coalition (“Coalition”), a California trade association for the adult entertainment industry, challenged the constitutionality of the Child Pornography Prevention Act of 1996 (“CPPA”). Resolving a circuit split, the Supreme Court affirmed a Ninth Circuit decision reversing the district court’s grant of summary judgment to the government.

Unlike earlier anti-child pornography statutes, the CPPA targeted any visual depiction “that is, or appears to be, of a minor engaging in sexually explicit conduct,” even if the production of the images required the use of no actual children. The language covered both computer generated images and images produced by more traditional means. The statute also prohibited sexually explicit material that was “advertised, promoted, presented, described, or distributed in such a manner that conveys the impression that the material is or contains a visual depiction of a minor engaging in sexually explicit conduct.”

Although Coalition members did not use children in their publications, their activities could be covered under the broad language of the CPPA. The Court held that the provision restricting images that “appear to depict” children engaging in sexual conduct improperly neglected the obscenity standard articulated in *Miller v. California*, 413 U.S. 15 (1973), and consequently risked banning lawful speech in addition to unlawful speech. In rejecting the government’s argument that the CPPA protects children from indirect harms, the Court stated that the government cannot ban speech fit for adults simply because it may fall into the hands of children. Additionally, the Court pointed out that the statute’s “conveys the impression” language requires little judgment of the content. Instead, the statute prohibits possession of materials described or pandered as child pornography by someone earlier in the distribution chain. In short, the court held that the CPPA was “substantially overbroad and in violation of the First Amendment.”

Underlying the district court decision was the concern that “computer-generated pictures are often indistinguishable from photographic images of actual children.” The concurring and dissenting opinions also considered the implications of the sophisticated technological generation of “virtual child pornography.” For example, Justice Thomas in his concurring opinion noted that “technology may evolve to the point where it becomes impossible to enforce actual child pornography laws because the Government cannot prove that certain pornographic images are of real children.”

## *ASHCROFT V. AMERICAN CIVIL LIBERTIES UNION*

*535 U.S. 564 (2002)*

The Supreme Court held that the application of the “contemporary community standards” test, as set forth in *Miller v. California*, 413 U.S. 15 (1973), by itself did not render the Child Online Protection Act (“COPA”) unconstitutional.

Congress enacted COPA in response to the Court’s 1998 holding in *Reno v. American Civil Liberties Union*, 521 U.S. 844 (1997). The Court held in *Reno* that the Communications Decency Act of 1996 (“CDA”) in prohibiting transmission of obscene or indecent messages to minors unconstitutionally prevented adults from accessing a substantial amount of lawful speech over the Internet (including the World Wide Web, e-mail, and chat rooms). COPA narrowed the CDA’s prohibitions to include only knowing transmission via the Web for commercial purposes of material that is harmful to minors.

The American Civil Liberties Union, on behalf of respondents who operate commercial Web sites, challenged the constitutionality of COPA, alleging that it, like the CDA, restricted adult access to lawful speech. The district court held that COPA was likely to fail a close scrutiny on First Amendment grounds and enjoined enforcement of COPA. The Third Circuit affirmed, holding that COPA’s use of “community standards” to identify material that is harmful to minors on the Web rendered the statute overbroad. Addressing only the “community standards” issue, the Supreme Court vacated the Third Circuit’s opinion. However, the Court did not conduct a thorough analysis of the constitutionality of COPA and decided to allow the Third Circuit to first examine the issues.

The Court emphasized that COPA, following *Miller*, also uses the “serious value” and “prurient value” prong, in addition to the “community standards” prong. The Court concluded that these two additional requirements, which were absent in CDA, limited the reach of COPA as compared to CDA. Relying primarily on *Hamling v. United States*, 418 U.S. 87 (1974), and *Sabre Communications of Cal., Inc. v. FCC*, 492 U.S. 115 (1989), the Court held that when the scope of an obscenity statute’s coverage is sufficiently narrowed by the *Miller* test, requiring a speaker disseminating material to a national audience to observe varying community standards does not violate the First Amendment. The Court refused to alter the standard because of the unique characteristics of the Internet, and required the publishers to use an appropriate medium to target their desired communities.

Justices O’Connor and Breyer delivered partially concurring opinions recommending the adoption of a national standard rather than local community standards for testing material’s harmfulness to children. Justice Stevens dissented, noting that one community’s prohibition would eliminate the offending material from the entire Internet.

***AMERICAN LIBRARY ASSOCIATION V. UNITED STATES****201 F. Supp. 2d 401 (E.D. Penn. 2002)*

A three-judge panel for the Eastern District of Pennsylvania held the Children's Internet Protection Act ("CIPA") unconstitutional.

Congress enacted CIPA in 2001 to control Internet access in public libraries to obscenity, child pornography, and other material harmful to children. CIPA conditioned libraries' receipt of federal funds for Internet-related services on certification by libraries applying for the funds that Internet software filters had been installed on all Internet access terminals within the library.

Library associations, libraries, and library patrons challenged the constitutionality of CIPA on the ground that the statute would unlawfully induce libraries to violate the First Amendment in order to receive the government subsidy. Internet filters, alleged the plaintiffs, were inherently unreliable tools for effectively filtering and blocking the kinds of inappropriate content specified by CIPA. Consequently, libraries who installed filters in compliance with the statutory condition would unavoidably block Web sites containing protected expression and would therefore violate the First Amendment.

Finding credible evidence that the leading commercial filters suffer from substantial underblocking and overblocking, the district court agreed with the plaintiffs. The court concluded that the statute's requirement that public libraries use anti-pornography filtering on their public access to the Internet is not narrowly tailored to address the library's legitimate interests to protect children. Overblocking in particular prevented public access to substantial amounts of constitutionally protected speech. In addition, the court found that less restrictive means, such as Internet use policies, exist to prevent patrons from accessing illegal speech.

The court produced an expansive opinion detailing the operation of the Internet and the World Wide Web, Internet search engines and filtering technology, library collection development policies, and government subsidies to public library Internet access. The Supreme Court noted probable jurisdiction in November 2002 and will hear the case in March 2003.

***ALS SCAN, INC. v. DIGITAL SERVICE CONSULTANTS, INC.***  
*293 F.3d 707 (4th Cir. 2002)*

The Fourth Circuit ruled on whether the defendant, a Georgia-based Internet Service Provider (ISP), subjected itself to personal jurisdiction in Maryland by enabling a website owner to publish photographs on the Internet, which allegedly infringed plaintiff Maryland corporation's copyrights.

ALS Scan (ALS), a Maryland corporation, brought an action for copyright infringement against Digital Service Consultants (Digital), a Georgia corporation, and Digital's customers, Robert Wilkins and Alternative Products. ALS creates and markets adult photographs of female models for distribution on the Internet. ALS claimed that Alternative Products appropriated hundreds of ALS' copyrighted photographs and placed them on its websites, using them to generate revenue through membership fees and advertising. ALS alleged that Digital enabled Alternative Products to publish ALS' photographs by providing Alternative Products the service needed to maintain its websites. Digital filed a motion to dismiss under Federal Rules of Civil Procedure 12(b)(2) for lack of personal jurisdiction, which the district court granted. The court found that it had neither specific nor general jurisdiction over Digital. ALS appealed.

The Fourth Circuit affirmed. The court found that granting a State unlimited judicial power over every citizen in each other State who uses the Internet would violate traditional due process and limit State sovereignty principles. Instead, the court stated, the inquiry turned on whether Digital had sufficient minimum contacts in Maryland to support specific or general jurisdiction. For specific jurisdiction, the court adapted the rule in *Zippo Manufacturing Co. v. Zippo Dot Com, Inc.*, 952 F. Supp. 1119 (W.D. Pa. 1997): a State may, consistent with the due process clause, exercise judicial power over a person outside the State when that person (1) directs electronic activity into the State, (2) with the manifested intent of engaging in business or other interactions within the State, and (3) that activity creates, in a person within the State, a potential cause of action cognizable in the State's courts. Under this standard, a person who simply puts information on the Internet does not subject himself to jurisdiction in each State where people can retrieve it. Digital's activity was, at most, passive. It did not purposely direct communication to or transact business in Maryland and therefore did not subject itself to specific jurisdiction.

For general jurisdiction, the threshold of minimum contacts is significantly higher than that for specific jurisdiction. Since Digital did not engage in activity in Maryland, any contacts, although possibly numerous and repeated, occurred when people in Maryland accessed Digital's website. These contacts did not add up to the quality of contacts necessary for a State to have jurisdiction over a person for all purposes. The court concluded that something more than these facts is needed to establish general jurisdiction in Internet cases, but declined to decide what "something more" is because ALS had not shown any other activities or contacts in Maryland.

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**CONSTITUTIONAL LAW**



# RECENT DEVELOPMENTS—CONSTITUTIONAL LAW

## *AMERICAN BOOKSELLERS FOUNDATION FOR FREE EXPRESSION V. DEAN*

*202 F. Supp. 2d 300 (D. Vt. 2002)*

The United States District Court for the District of Vermont ruled on the constitutionality of two Vermont statutes that prohibit the distribution of indecent or obscene materials to minors.

A group of business and membership-based advocacy organizations challenged that two Vermont statutes, 13 V.S.A. Sections 2802 and 2802a, violate the First Amendment and the dormant Commerce Clause. Section 2802 prohibits disseminating indecent material to a minor in the presence of a minor; and § 2802a prohibits *knowingly* disseminating indecent material to a minor through the Internet or other electronic means.

The court first determined that two of the plaintiffs, the American Civil Liberties Union (ACLU) of Vermont and Sexual Health Network, Inc., had standing to challenge section 2802a. Both parties provide through their websites materials potentially “harmful” to minors and therefore have a credible or well-funded fear of being prosecuted under the statute. The court, however, found that Sexual Health Network does not have a standing to challenge section 2802.

The court held that § 2802a violates the First Amendment. In doing so, the court primarily relied on *Reno v. ACLU*, 521 U.S. 844 (1997), in which the Supreme Court unanimously held that a federal statute with a language similar to § 2802a was unconstitutional under the First Amendment. Similar to *Reno*, the court found that § 2802a broadly restricted indecent but constitutionally protected speech by adults, because: (1) the law forces every speaker on the Internet to abide by Vermont’s standards; (2) there is no financially and practically effective ways to verify age on the Internet; and (3) the defendants fail to demonstrate why less restrictive provisions would not be as effective as § 2802a in protecting minors from sex exploitation. In response to the defendants’ argument that § 2802a only punishes individuals with “actual knowledge” that a minor is receiving the “indecent” material, the court stated that online speakers cannot readily verify the age of an online “heckler” nefariously seeking to chill and suppress certain online speech.

The court further held that § 2802a violates the dormant Commerce Clause, because it regulates Internet commerce occurring wholly outside Vermont’s borders. Although the court recognized that Vermont has a legitimate local interest in protecting children from sex predators, given the lack of proven effectiveness of § 2802a, the court concluded that the local benefits are outweighed by the burden on interstate commerce. Therefore the court permanently enjoined Vermont from enforcing § 2802a.

***RIO PROPERTIES, INC. V. RIO INTERNATIONAL INTERLINK****284 F.3d 1007 (9th Cir. 2002)*

The Court of Appeals for the Ninth Circuit ruled on the appropriateness of the use of email for court-ordered alternative service of process under Federal Rules of Civil Procedure 4(f)(3).

Rio Properties, Inc. (RIO) is a Las Vegas hotel and casino operator. Rio International Interlink (RII) is a Costa Rican entity operating an Internet sports gambling business, initially at [www.riosports.com](http://www.riosports.com) and later at [www.betrio.com](http://www.betrio.com). RIO brought a trademark infringement suit against RII and attempted to locate RII for service of process. RII's contacts in the United States refused to accept service on RII's behalf, and RIO was unable to locate RII in Costa Rica. The district court then authorized alternative service under Rule 4(f)(3), ordering service by mail to RII's attorney and international courier, both in the United States, and by email to the email address listed as the preferred contact method on RII's website. The district court denied RII's motion to dismiss for insufficient service of process and lack of personal jurisdiction. When RII later failed to comply with discovery orders, the court entered default judgment against RII.

RII appealed the denial of the motion to dismiss as well as the entry of default judgment. The Ninth Circuit affirmed on all counts. In particular, the Ninth Circuit held that email could be an appropriate method to effect service of process if it is ordered by the district court under Rule 4(f)(3). The Ninth Circuit noted that it was the first federal court of appeals to rule on this specific issue. Based on the language, structure, and associated advisory committee notes of Rule 4(f), the Ninth Circuit first determined that it was not necessary to attempt all feasible alternatives before the district court could authorize alternative service under Rule 4(f)(3). It further found that the Constitution only requires that the method selected for service be reasonably calculated to provide notice and an opportunity to respond. The court recognized the difficulty of ensuring the receipt of email and the potential problems in transmitting attachments, but it also noted that many companies, including RII, relied primarily on email for communication. The Ninth Circuit held that it would leave to the district court the discretion to balance the limitations of email service against its benefits in any particular case. In light of RII's attempts to evade service of process in the instant case, the court approved the district court's decision.

In affirming the exercise of specific jurisdiction, the court ruled that RII's radio and print advertising in Nevada constituted forum-related activities from which the claim arose, and that there is no alternative forum available. Finally, in affirming the entry of default judgment, the Ninth Circuit held that the district court acted within its discretion because of RII's repeated attempts to evade service of process and its failure to comply with the district court's discovery order.

***FERGUSON V. FRIENDFINDERS, INC.****95 Cal. App. 4th 1255 (2002)*

The California Court of Appeals ruled that California Business and Professions Code § 17538.4, regulating unsolicited commercial e-mail (UCE), does not violate the dormant Commerce Clause.

Ferguson sued Friendfinders, Inc. and Conru Interactive, Inc. for sending him UCE in violation of the California Business and Professions Code § 17538.4. The superior court dismissed all of Ferguson's claims, largely on the grounds that § 17538.4 violated the dormant Commerce Clause. Ferguson appealed, and the California Court of Appeals reversed.

Section 17538.4 requires that UCE senders identify their e-mail messages by placing the letters "ADV:" in the subject line and provide a toll-free telephone number or valid return e-mail address through which senders can opt out from further e-mails. The statute is limited to UCEs that are delivered to a California resident via an email service provider's service or equipment located in California.

The California Court of Appeals reiterated the Supreme Court standard in adjudicating constitutionality issues involving the dormant Commerce Clause: a statute does not violate the Commerce Clause if it (1) does not discriminate against or directly regulate or control interstate commerce (strict scrutiny analysis) and (2) serves a legitimate local public interest which outweighs any burden imposed on interstate commerce (the balancing test). Under the strict scrutiny analysis, the court found that § 17538.4 only regulates individuals or entities that (1) do business in California, (2) utilize equipment located in California, and (3) send UCEs to California residents. According to the court, these limitations distinguished the instant case from *Healy v. The Beer Institute*, 491 U.S. 324, 109 S.Ct. 2491 (1989). In *Healy*, the Supreme Court struck down a Connecticut statute that required out-of-state shippers of beer to affirm that their price charged to Connecticut wholesalers was no higher than that charged to the neighboring states. The Supreme Court held that the Connecticut statute had the practical effect of controlling beer prices in other states. Here, the court held that the three limitations effectively restricted the scope of the statute and rejected the defendants' argument that geographic limitations on § 17538.4 are ineffectual in regulating the Internet and that the statute conflicts with other state's laws. The court also rejected the defendants' argument that it is impossible to determine the geographical residence of a UCE recipient.

Under the balancing test, the court found that UCEs are easy and inexpensive to create, yet difficult and costly to eliminate, especially when UCE senders use deceptive tactics to disguise the origin and nature of their emails. The court concluded that protecting a state's citizens from economic damage caused by the deceptive UCE constitutes a legitimate local purpose, and that the requirement imposed by § 17538.4 does not burden interstate commerce but facilitates it by eliminating fraud and deception.



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

**BUSINESS LAW**



**THE COPYRIGHT-CONTRACT INTERSECTION:  
SOFTMAN PRODUCTS CO. V. ADOBE SYSTEMS, INC.  
& BOWERS V. BAYSTATE TECHNOLOGIES, INC.**

By Deanna L. Kwong

Although copyright and contract law have long co-existed symbiotically,<sup>1</sup> their relationship has faced increasingly greater scrutiny in light of the explosive growth of digital information technology over the last few years.<sup>2</sup> Two related factors have impelled courts and commentators to ponder the proper balance between copyright law and contract law. First, the idiosyncratic nature of digital information technology exacerbates the “public goods” problem of intellectual property rights and disrupts the traditional “tangible goods” paradigm upon which copyright protection is based.<sup>3</sup> Second, there has been a consequent “movement to contract,”<sup>4</sup> as computer software companies increasingly depend on prohibitive contractual provisions to assert and arguably even expand their intellectual property rights in an attempt to gain market dominance.<sup>5</sup> Contract law offers a

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1. Raymond T. Nimmer, *Breaking Barriers: The Relation Between Contract and Intellectual Property Law*, 13 BERKELEY TECH. L.J. 827, 829 (1998) (“Contract and intellectual property law have always co-existed, not only peacefully, but [also] in an aggressive interaction between mutually supportive fields.”).

2. See Maureen A. O’Rourke, *Striking a Delicate Balance: Intellectual Property, Antitrust, Contract, and Standardization in the Computer Industry*, 12 HARV. J.L. & TECH. 1, 3 (1998) (asserting that debate over the former proposed Uniform Commercial Code Article 2B on Software Contracts and Licenses of Information actuated analysis of the appropriate relationship between contract law and intellectual property law); see also Dennis S. Karjala, *Copyright Owners’ Rights and Users’ Privileges on the Internet: Federal Preemption of Shrinkwrap and On-Line Licenses*, 22 U. DAYTON L. REV. 511, 512 (1997) (“While [the issue of the intersection of copyright and contract law] could theoretically have arisen with traditional copyright-protected works, it is only . . . the digital age . . . that [has] pressed it upon us with practical force.”).

3. See Michael J. Madison, *Legal-Ware: Contract and Copyright in the Digital Age*, 67 FORDHAM L. REV. 1025, 1035-1049 (1998) (explaining that digital technology disrupts implicit assumptions about traditional forms of intellectual property, such as books, and that digitization decreases the costs and increases the ease of free-riding and piracy).

4. Maureen A. O’Rourke, *Copyright Preemption After the ProCD Case: A Market-Based Approach*, 12 BERKELEY TECH. L.J. 53, 54 (1997).

5. See O’Rourke, *supra* note 2, at 3-4 (1998) (“[T]he computer industry has brought to the fore the issue of how to address a dominant market participant’s use of

potential conduit through which a copyright holder may not only bolster the protection of his rights under federal copyright provisions, but also create protection that is otherwise unavailable under current intellectual property law.<sup>6</sup>

Scholars disagree and courts are in conflict as to the proper balance between contract and copyright. The underlying questions are twofold:

“Are the traditional copyright balances between the rights of copyright owners and the rights of users merely a 'default position' that is subject to variation by contractual agreement between owners and the users of particular copies? Or do those balances represent, rather, a resolution of policy tensions that are not amenable to private reordering by the transacting parties?”<sup>7</sup>

This Note seeks to examine two recent judicial decisions, *SoftMan Products Co. v. Adobe Systems, Inc.*,<sup>8</sup> and *Bowers v. Baystate Technologies, Inc.*,<sup>9</sup> in the context of the conflicting scholarship and inconsistent caselaw regarding whether contract law may appropriately supplement or supplant federal copyright law. This Note concludes that economic efficiency and public policy considerations strongly disfavor the holdings in both *SoftMan* and *Bowers*.

## I. BACKGROUND

### A. The Idiosyncratic Nature of Digital Information Technology

Information is a public good.<sup>10</sup> Unlike a private good that, “once consumed, cannot be consumed by another,”<sup>11</sup> multiple individuals may use a public good simultaneously, without depleting the value of the good itself.<sup>12</sup> Furthermore, an individual who does not have authorized access to

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intellectual property and restrictive contractual provisions to attain and maintain market power.”); Stephen P. Tarolli, Comment, *The Future of Information Commerce Under Contemporary Contract and Copyright Principles*, 46 AM. U. L. REV. 1639, 1642 (1997).

6. O'Rourke, *supra* note 4, at 54.

7. Karjala, *supra* note 2, at 512.

8. 171 F. Supp. 2d 1075 (C.D. Cal. 2001).

9. 302 F.3d 1334 (Fed. Cir. 2002), *aff'd in part and rev'd in part*, 2003 U.S. App. LEXIS 1423 (Fed. Cir. 2003).

10. Niva Elkin-Koren, *Copyright Policy and the Limits of Freedom of Contract*, 12 BERKELEY TECH. L.J. 93, 98 (1997).

11. Lydia Pallas Loren, *Redefining the Market Failure Approach to Fair Use in an Era of Copyright Permission Systems*, 5 J. INTELL. PROP. L. 1, 22-23 (1997).

12. See Madison, *supra* note 3, at 1036-1037; see also Norman Siebrasse, *A Property Rights Theory of the Limits of Copyright*, 51 UNIV. OF TORONTO L.J. 1, 4-7 (2001)

a particular public good may nevertheless get a copy of the work and use it for unauthorized purposes.<sup>13</sup> Given that a public good is “virtually inexhaustible once produced,”<sup>14</sup> there is a high probability of both free-riding and piracy.<sup>15</sup> Copyright law seeks to protect the expression of information, and information is a public good; consequently, the public goods problem may deter content providers from creating or supplying copyrighted works.<sup>16</sup> Copyright law attempts to remedy this market imperfection by allowing a copyright owner to limit who may use the copyrighted work.<sup>17</sup>

The unprecedented ease with which digital information may be accessed, copied, and distributed exacerbates the public goods dilemma.<sup>18</sup> Although digital storage and transmission technologies profitably optimize the potential for widespread availability of copyrighted digital works,<sup>19</sup> they also create two market imperfections. First, digital storage and transmission technologies lower the costs of pirating and free-riding.<sup>20</sup> Second, digital storage and transmission technologies raise the costs of policing the use of copyrighted digital works and protecting the copyright owner's rights.<sup>21</sup>

Digital information technology not only aggravates the public goods problem, but also disrupts the tangible goods paradigm upon which tradi-

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(discussing how several courts and commentators assert that the distinguishing public goods characteristics of intellectual property rights are its significant sunk costs of creation and low costs of copying).

13. See Madison, *supra* note 3, at 1037; Loren, *supra* note 11, at 23 n.94.

14. Siebrasse, *supra* note 12, at 59.

15. Madison, *supra* note 3, at 1037; Loren, *supra* note 11, at 23 n.94.

16. Elkin-Koren, *supra* note 10, at 98.

17. *Id.*

18. See, e.g., David A. Rice, *Public Goods, Private Contract and Public Policy: Federal Preemption of Software License Prohibitions Against Reverse Engineering*, 53 U. PITT. L. REV. 543, 545 (1992) (explaining that the software market exemplifies an imperfect market for public goods, because (1) individuals who have not paid for a copy of software cannot be excluded from using the program, and (2) one individual's use of a copy of a software program does not necessarily deplete the supply of copies to which others have access). The Internet, for example, enables pervasive and relatively effortless imitation, duplication, and unauthorized usage of copyrighted digital works. See Tarolli, *supra* note 5, at 1642 (presenting a hypothetical that illustrates how the Internet enables pervasive and effortless piracy of copyrighted digital works).

19. See, e.g., Jay P. Kesan & Thomas S. Ulen, *Intellectual Property Challenges in the Next Century*, 2001 U. ILL. L. REV. 57, 60 (2001) (“Easy access to multitudes of protected works in cyberspace has created an environment for [copyright] infringement on a mammoth scale. Literally billions of dollars are lost annually to electronic pirates.”).

20. Madison, *supra* note 3, at 1037-38.

21. *Id.*

tional copyright law is based.<sup>22</sup> For traditional copyrighted works, such as novels, paintings, or other “hard-copied” goods, courts have applied the idea/expression dichotomy to demarcate the scope of copyright protection.<sup>23</sup> In doing so, courts have extended copyright protection only to the original, non-functional, expressive elements that they are able to separate definitively from the functional, non-original, non-protectable elements.<sup>24</sup>

On the other hand, for digital information works, the distinction between expressive elements and utilitarian elements is less definitive.<sup>25</sup> While users may analyze and access the elements of traditionally protected works “on the face of the commercial product[s] sold in the marketplace,”<sup>26</sup> users generally need to reverse engineer digital works such as software, in order to access and analyze their unexpressive and unprotectable elements, in most circumstances. Before the arrival of digital information technology, the issue of reverse engineering within the copyright context was virtually irrelevant and unnecessary.<sup>27</sup>

## B. Digital Information Technology's Movement to Contract

Given that digital information technology is inherently distinct from traditional copyrighted works, digital information providers increasingly believe that application of current copyright provisions to protect their works may be inefficient or ineffective.<sup>28</sup> Thus, digital content providers increasingly have utilized contractual provisions to protect their copyrighted works.<sup>29</sup> Software license agreements, for example, often require

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22. See generally Himanshu A. Amin, *The Lack of Protection Afforded Software Under the Current Intellectual Property Laws*, 43 CLEV. ST. L. REV. 19 (1995) (discussing how digital information technology both aggravates the public goods problem and disrupts the tangible goods paradigm upon which traditional copyright law is based); Peter S. Menell, *Envisioning Copyright Law's Digital Future*, 46 N.Y.L. SCH. L. REV. 63 (2003) (examining copyright law's adaptations to the digital age).

23. See Fred Anthony Rowley, Jr., Note, *Dynamic Copyright Law: Its Problems and a Possible Solution*, 11 HARV. J. L. & TECH. 481, 489 (1998).

24. *Id.*

25. See Andre R. Jaglom, *Computer Related Distribution Issues: Current Developments in Liability On-Line, Business Methods Patents and Software Distribution, Licensing, and Copyright Protection Questions*, SE47 ALI-ABA 729, 761 (2000); see also Menell, *supra* note 22, at 83-84.

26. Paula Samuelson & Suzanne Scotchmer, *The Law and Economics of Reverse Engineering*, 111 YALE L.J. 1575, 1585 (2002).

27. See *id.*

28. See Menell, *supra* note 22, at 66.

29. O'Rourke, *supra* note 4, at 53.

consumers to agree to provisions that are more restrictive than copyright law compels.<sup>30</sup>

The software industry pioneered the use of private contractual provisions to supplement, and even supplant, federal copyright provisions.<sup>31</sup> Originally, Congress, courts, and commentators were unsure as to the copyrightability of software.<sup>32</sup> Because copyright law purports to protect the expressive, non-functional elements of a particular work, the general functional value of software and the utilitarian nature of its object code appeared to preclude its copyrightability.<sup>33</sup> Thus, software providers needed to find another legal mechanism that could provide copyright-like protection for their works.<sup>34</sup> Providers began to utilize private contracts to define the products they offered, to control liability, and to separate concretely the rights granted with the transfer of software from the rights thereby excluded.<sup>35</sup> Software providers originally relied on two types of licensing agreements, “bargained agreements” in transferring custom software and “unbargained shrinkwrap licenses” in distributing mass-market software.<sup>36</sup> During the late 1970s, Congress attempted to address, for the first time, the issue of software copyrightability. Upon recommendations from the National Commission on New Technological Uses of Copyrighted Works (CONTU), Congress broadly asserted that software was indeed copyrightable.<sup>37</sup> Federal courts subsequently concluded that software is protectable as a copyrighted literary work.<sup>38</sup> Since then, copyright law has become the primary source of legal protection for computer

30. Mark A. Lemley, *Intellectual Property and Shrinkwrap Licenses*, 68 S. CAL. L. REV. 1239, 1239-40 (1995).

31. See O’Rourke, *supra* note 2, at 3-4 (“[T]he computer industry has brought to the fore the issue of how to address a dominant market participant’s use of intellectual property and restrictive contractual provisions to attain and maintain market power.”).

32. Brett Frischmann & Dan Moylan, *The Evolving Common Law Doctrine of Copyright Misuse: A Unified Theory and Its Application to Software*, 15 BERKELEY TECH. L.J. 865, 903-04 (2000).

33. *Id.* at 905-13 (2000); Amin, *supra* note 22, at 32.

34. Maureen A. O’Rourke, *Drawing the Boundary Between Copyright and Contract: Copyright Preemption of License Terms*, 45 DUKE L.J. 479, 488-89 (1995).

35. See *id.*; Holly K. Towle, *Mass Market and Consumer Contracts in Computer Information*, 600 PLI/Pat 197, 201-03 (2000).

36. Lemley, *supra* note 30, at 1239.

37. The copyrightability of software was codified in the 1976 Copyright Act and the corresponding amendments in 1980. See Peter S. Menell, *An Analysis of the Scope of Copyright Protection for Application Programs*, 41 STAN. L. REV. 1045, 1046-48 (1989).

38. See Frischmann & Moylan, *supra* note 32, at 904-05 nn. 165 & 169 (citing to various cases holding that copyright protects software as a literary work).

software.<sup>39</sup> Moreover, as software became a “mass-market commodity,” unbargained shrinkwrap licenses, rather than individually bargained agreements, became an industry norm.<sup>40</sup> Congress, however, has failed to delineate exactly how courts should apply copyright law to computer programs.<sup>41</sup> In light of this uncertainty, to minimize or eliminate free copying of their programs, software providers continue to distribute only object code and to use shrinkwrap licensing agreements in transfers of software.<sup>42</sup>

### C. Purpose of Shrinkwrap Licensing Agreements in the Software Market

Software providers structure shrinkwrap licensing agreements so as to contract around two primary statutory limitations on the rights of copyright holders.<sup>43</sup> First, by characterizing transfers of software as licenses, and not sales, software providers aim to avoid copyright law's “first sale” doctrine.<sup>44</sup> Second, by prohibiting the reverse engineering, decompilation, or disassembly of their software, copyright owners attempt to deprive users of activities that, notwithstanding the contractual prohibition, may otherwise qualify as fair use under copyright law.<sup>45</sup>

#### 1. Avoidance of the “First Sale” Doctrine

Under 17 U.S.C. § 106(3), the owner of a copyright has the exclusive right “to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending . . . .”<sup>46</sup> The distribution method that the copyright owner ultimately

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39. Menell, *supra* note 22, at 13; Amin, *supra* note 22, at 30.

40. Lemley, *supra* note 30, at 1239.

41. Lloyd L. Weinreb, *Copyright for Functional Expression*, 111 HARV. L. REV. 1149, 1151 (1998).

42. Lemley, *supra* note 30, at 1243-44 (stating that vendors can obtain protection of their programs by only distributing the programs' object code); O'Rourke, *supra* note 34, at 493 (“As a result [of judicial uncertainty], software providers are never sure, *ex ante*, exactly what part(s) of their program will be protected and what will not.”).

43. See Karjala, *supra* note 2, at 518 (1997) (noting that federal copyright law limits the exclusive rights of copyright owners); Apik Minassian, *The Death of Copyright: Enforceability of Shrinkwrap Licensing*, 45 UCLA L. REV. 569, 572 (1997) (stating the main purposes for terms included in software licensing agreements).

44. Raymond T. Nimmer, THE LAW OF COMPUTER TECHNOLOGY § 7:72, at 3 (2002) (stating that, in the absence of a contractual provision to the contrary, copyright law gives a first sale purchaser limited redistribution and modification rights).

45. Eric Douma, *The Uniform Computer Information Transactions Act and the Issue of Preemption of Contractual Provisions Prohibiting Reverse Engineering, Disassembly, or Decompilation*, 11 ALB. L.J. SCI. & TECH. 249, 250 (2001).

46. 17 U.S.C. § 106(3) (2000).

chooses is extremely significant, because it determines how much control he will have over the distribution rights of downstream users who own copies of the copyrighted work.<sup>47</sup>

If the copyright owner opts to sell copies, he subjects himself to the “first sale” doctrine under federal copyright law.<sup>48</sup> The first sale doctrine allows the first purchaser and any subsequent owners of a particular copy of a copyrighted work to sell or otherwise transfer possession of that copy, without the copyright owner’s permission.<sup>49</sup> Conflict potentially arises when a copyright owner alleges that a copy owner is violating the copyright owner’s distribution rights under 17 U.S.C. § 106(3) and the copy owner asserts first sale rights under 17 U.S.C. § 109(a), as a defense to the infringement claim.<sup>50</sup>

## 2. *Attempt to Eliminate Fair Use Exceptions for Reverse Engineering*

Computer programs consist of both source code and object code. A programmer writes the program in human-readable source code.<sup>51</sup> Then, a compiler program translates the source code into object code, which consists of binary sequences that are only machine-readable.<sup>52</sup> Commercial

47. See generally Elkin-Koren, *supra* note 10 (asserting that contractual arrangements may provide owners with rights not granted to them under copyright law, thus confining access information in a way not intended by the law).

48. 17 U.S.C. § 109(a) states:

Notwithstanding the provisions of section 106(3), the owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord. Notwithstanding the preceding sentence, copies or phonorecords of works subject to restored copyright under section 104A that are manufactured before the date of restoration of copyright or, with respect to reliance parties, before publication or service of notice under section 104A(e), may be sold or otherwise disposed of without the authorization of the owner of the restored copyright for purposes of direct or indirect commercial advantage only during the 12-month period beginning on—

(1) the date of the publication in the Federal Register of the notice of intent filed with the Copyright Office under section 104A(d)(2)(A), or

(2) the date of the receipt of actual notice served under section 104A(d)(2)(B), whichever occurs first.

17 U.S.C. § 109(a).

49. *Id.*

50. See, e.g., *Quality King Distrib., Inc. v. L’Anza Research Int’l, Inc.*, 523 U.S. 135 (1998).

51. Amin, *supra* note 22, at 21.

52. *Id.*

software developers normally distribute the software program in object code form only.<sup>53</sup> Consequently, the uncopyrightable elements and ideas of most software programs are only available through reverse engineering processes such as decompilation and disassembly, or through the derivation of the software's human-readable source code from the unreadable object code.<sup>54</sup> Because decompilation and disassembly require the making of unauthorized intermediate copies of software programs, many commercial software providers contend that reverse engineering of software constitutes copyright infringement and trade secret misappropriation.<sup>55</sup>

Courts, however, have held that decompilation and disassembly are legal if they are undertaken for the purpose of obtaining specifications needed to make interoperable or competitive products, and if reverse engineering is the only means by which the user can access the program's uncopyrightable elements.<sup>56</sup> Furthermore, Section 117 of the Federal Copyright Act specifically allows a computer program user to make an adaptation of that program, if such adaptation is an essential step in the utilization of the program.<sup>57</sup>

#### **D. Enforceability of Shrinkwrap Licensing Agreements**

To determine the enforceability of shrinkwrap licensing agreements, courts consider three legal issues: (1) whether the shrinkwrap license is valid as a matter of contract formation, (2) whether the transfer of software is a sale or a license, and (3) whether federal copyright law preempts state contractual claims.<sup>58</sup> Currently, there is no judicial consensus or standard statutory resolution of these issues. The Uniform Computer Information Transactions Act (UCITA), which began as proposed U.C.C.

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53. Commercial developers do not normally provide the source code because (1) object code sufficiently serves the users' functional purposes and (2) software providers wish to maintain privately source code as trade secrets. Samuelson & Scotchmer, *supra* note 26, at 1608-09.

54. See Menell, *supra* note 22, at 21-22; Dennis S. Karjala, *A Coherent Theory for the Copyright Protection of Computer Software and Recent Judicial Interpretations*, 66 U. CIN. L. REV. 53, 113 (1997) ("[Computer] [p]rograms, however, cannot be 'read' like books. In order for a human being to understand the ideas and other unprotected elements contained in the object-code form of a computer program, a technological process known as 'reverse analysis' is necessary.").

55. Samuelson & Scotchmer, *supra* note 26, at 1609.

56. See generally *Sony Computer Entm't, Inc. v. Connectix Corp.*, 203 F.3d 596 (9th Cir. 2000); *Sega Enters. v. Accolade, Inc.*, 977 F.2d 1510 (9th Cir. 1992); *Atari Games Corp. v. Nintendo of Am., Inc.*, 975 F.2d 832 (9th Cir. 1992); see also Samuelson & Scotchmer, *supra* note 26, at 1608-12.

57. See 17 U.S.C. § 117(a)(1).

58. See generally Samuelson & Scotchmer, *supra* note 26.

Article 2B, has been the only legislative attempt to resolve dispute over the enforceability of shrinkwrap licensing agreements. However, many state legislators and commentators have criticized UCITA, contending that the model legislation deprives consumers of their rights and is too pro-computer industry.<sup>59</sup> UCITA has been largely unsuccessful, as only two states have adopted the model legislation.<sup>60</sup>

1. *Is the Shrinkwrap License Valid as a Matter of Contract Formation?*

A shrinkwrap licensing agreement does not result from a bargain between the parties.<sup>61</sup> Unlike traditionally enforceable contracts, which are comprised of the elements of offer, acceptance, and consideration, shrinkwrap licenses are essentially “reverse unilateral contracts.”<sup>62</sup> Accordingly, in the 1980s and early 1990s, courts declared that U.C.C. Sections 2-207 and 2-209 rendered shrinkwrap licenses generally unenforceable.<sup>63</sup> However, in the late 1990s, in *ProCd, Inc. v. Zeidenberg*, the Seventh Circuit pioneered a judicial trend toward the enforcement of shrinkwrap licenses.<sup>64</sup> In *ProCd*, the Seventh Circuit held that a shrinkwrap license accompanying boxes of computer software was enforceable.<sup>65</sup> Since then, courts have considered shrinkwrap licenses generally enforceable as a matter of contract formation.<sup>66</sup>

2. *Is the Transfer of Software a Sale or a License?*

There are four appropriate lines of inquiry to determine whether the transfer of software is a sale or a license.<sup>67</sup> A court should consider (1) whether the copy of software was lawfully produced under the authority of the copyright owner; (2) whether that particular copy was lawfully transferred under the authority of the copyright owner; (3) whether the defen-

59. See generally Brian D. McDonald, *Contract Enforceability: The Uniform Computer Information Transactions Act*, 16 BERKELEY TECH. L.J. 461 (2001) (tracking and analyzing the most significant recent UCITA developments).

60. *Id.* at 484.

61. Lemley, *supra* note 30, at 1248-49.

62. *Id.* at 1241-42.

63. *Id.* at 1248-53; see, e.g., *Step-Saver Data Sys., Inc. v. Wyse Tech.*, 939 F.2d 91 (3d Cir. 1991) (holding that U.C.C. §§ 2-207 and 2-209 rendered shrinkwrap licenses generally unenforceable).

64. 86 F.3d 1447, 1448 (7th Cir. 1996).

65. *Id.*

66. Scott J. Spooner, *The Validation of Shrink-Wrap and Click-Wrap Licenses by Virginia's Uniform Computer Information Transactions Act*, 7 RICH. J.L. & TECH. 27, 34 (2001).

67. 2 NIMMER ON COPYRIGHT § 8.12 (2002).

dant qualifies as the lawful owner of that copy; and (4) whether the defendant distributed that copy.<sup>68</sup>

There are only a few lower court cases holding that copies of software are sold.<sup>69</sup> The majority of courts conclude that copies of software are licensed.<sup>70</sup> In *Microsoft Corp. v. Harmony Computers & Electronics, Inc.*,<sup>71</sup> for example, plaintiff Microsoft Corporation alleged that, by illegally copying and distributing Microsoft products, defendants were in violation of Microsoft's exclusive right as copyright holder to govern the distribution of Microsoft products. Microsoft argued that it neither licensed nor authorized defendants to distribute copyrighted Microsoft products.<sup>72</sup> Microsoft also contended that, by unbundling the Microsoft products from their complementary personal computer systems, defendants violated Microsoft's licensing restrictions.<sup>73</sup> Defendants admitted to distributing Microsoft Products and unbundling some items from their corresponding personal computer systems.<sup>74</sup> However, defendants justified their actions by asserting that the first sale doctrine immunized them from copyright infringement claims.<sup>75</sup> The Court held that, because defendants could not prove that they had received an authorized transfer of ownership title from the copyright holder, they failed to demonstrate that they had the authority to sell Microsoft products.<sup>76</sup> The Court concluded that Microsoft only licensed the use of its products.<sup>77</sup>

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68. *Id.* at 7.

69. Raymond T. Nimmer, *Copyright and Computer Technology*, § 1:97 LAW COMPUTER TECH. 1, n.5 (2002) ("The very few lower court cases that hold to the contrary are outside the mainstream and inconsistent with commercial practice. Among the few courts that have suggested this result, two were reversed on appeal . . . [and] two were vacated . . . DSC Communications Corp. v. Pulse Communications, Inc., 170 F.3d 1354, 50 U.S.P.Q.2d (BNA) 1001 (Fed. Cir. 1999) (reversing District Court ruling that licensee was an owner and expressly rejecting the view that a single payment perpetual license means that the transfer of the copy was a sale); *Novell, Inc. v. Network Trade Center, Inc.*, 25 F. Supp. 2d 1218, 37 U.C.C. Rep. Serv. 2d 528 (D. Utah 1997), *related reference*, 25 F. Supp. 2d 1233 (D. Utah 1998), *vacated in part*, 187 F.R.D. 657 (D. Utah 1999); *Novell, Inc. v. CPU Distrib., Inc.*, 200 WL 33672900 (S.D. Texas. 2000) (opinion vacated).").

70. Nimmer, *supra* note 69.

71. 846 F. Supp. 208, 210 (E.D.N.Y. 1994).

72. *Id.*

73. *Id.*

74. *Id.*

75. *Id.*

76. *Id.* at 212-13.

77. *Id.*

Similarly, in a recent case, *Adobe Systems, Inc. v. One Stop Micro, Inc.*, plaintiff Adobe Systems, Inc., alleged that defendant One Stop Micro, a distributor, improperly acquired Adobe educational software packages, cut open and removed Adobe's shrink-wrapped licenses, peeled off and destroyed package identification stickers and labels, and then re-shrink-wrapped and distributed the boxes of software.<sup>78</sup> Adobe asserted that all of its software products were subject to the shrink-wrap End User License Agreement (EULA) provision of the Off/On Campus Educational Reseller Agreement, which granted the copy owner a license and prohibited copying or commercial re-distribution of the software copies.<sup>79</sup> One Stop Micro, however, contended that Adobe's Off/On Campus Educational Reseller Agreement constituted a sales agreement, and that the first sale doctrine was applicable.<sup>80</sup> The Court agreed with Adobe and found that Adobe's Off/On Campus Educational Reseller Agreement was a licensing agreement, which meant that the first sale doctrine was inapplicable.<sup>81</sup> The Court also concluded that the licensing agreement applied to One Stop Micro even though the distributor was not a signatory thereto.<sup>82</sup> Furthermore, the Court held that One Stop Micro had committed copyright infringement by violating the license agreement.<sup>83</sup> Recently, in *Adobe Systems, Inc. v. Stargate Software, Inc.*,<sup>84</sup> the district court of Northern California re-affirmed the *One Stop Micro, Inc.* analysis and held that the structure and language of the EULAs at issue clearly indicated Adobe's licensing of its software.<sup>85</sup>

### 3. *Does a Federal Copyright Claim Preempt the State Contractual Claim?*

Federal copyright law may preempt either a specific cause of action asserted under a state law or the state law itself.<sup>86</sup> There are two basic types of copyright preemption.<sup>87</sup> First, "direct conflict preemption" or "statutory preemption" occurs when federal copyright law preempts state statutes or state-governed contractual provisions that directly conflict with

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78. *Id.* at 1088.

79. *Id.* at 1090.

80. *Id.* at 1088.

81. *Id.* at 1091-92.

82. *Id.* at 1092.

83. *Id.*

84. 216 F. Supp. 2d 1051 (N.D. Cal. 2002).

85. *See id.*

86. *See* RAYMOND T. NIMMER, *Copyright Preemption*, INFORMATION LAW, available at Westlaw, INFOLAW 2:13 (November 2001).

87. *See* Lemley, *supra* note 30, at 1269-72.

the Copyright Act.<sup>88</sup> Section 301 of the Copyright Act, which establishes statutory copyright preemption, states that “all legal or equitable rights that are equivalent to any of the exclusive rights within the general scope of copyright” are exclusively governed by federal copyright law.<sup>89</sup> Second, “delicate balance preemption” or “constitutional preemption” arises under the Supremacy Clause, when claims under state laws do not directly conflict with federal copyright law, but nevertheless “upset the balance struck by Congress.”<sup>90</sup> Most courts reject delicate balance preemption only if the claim under state law involves an “extra element” that is not explicitly present in federal copyright law.<sup>91</sup> For example, some commentators contend that the agreement of the parties is enough to satisfy the “extra element” test.<sup>92</sup> Unlike statutory preemption, constitutional preemption requires an inquiry into not only whether the rights at issue are equivalent to those that the Copyright Act establishes, but also consideration of policy decisions underlying the Copyright Act.<sup>93</sup>

Courts are in conflict as to when federal copyright law preempts contractual prohibitions.<sup>94</sup> In *Vault Corp. v. Quaid Software Ltd.*, a case of first impression, the Fifth Circuit considered whether a user's intermediate copying of software violated the copyright owner's exclusive rights and breached a license agreement prohibiting decompilation or disassembly of the software program at issue.<sup>95</sup> The Court held that the license agreement provision prohibiting reverse engineering was unenforceable on the grounds of preemption.<sup>96</sup> The Fifth Circuit concluded that the Louisiana License Act, which governed the breach of agreement claim, “touched” upon the area of federal copyright law embodied in the Federal Copyright Act.<sup>97</sup> *Vault*, thus, established a broad principle of copyright preemption. On the other hand, in *ProCd*, the Seventh Circuit concluded that the contractual claim at issue was not equivalent to any of the exclusive rights

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88. *Id.*

89. 17 U.S.C. § 301(a) (2000).

90. Lemley, *supra* note 30, at 1272.

91. *Id.*; *see, e.g.*, *Data Gen. Corp. v. Grumman Sys. Support Corp.*, 36 F.3d 1147 (1st Cir. 1994).

92. Lemley, *supra* note 30, at 1272.

93. Daniel B. Ravicher, *Facilitating Collaborative Software Development: The Enforceability of Mass-Market Public Software Licenses*, 5 VA. J.L. & TECH. 11, 57 (2000).

94. Samuelson & Scotchmer, *supra* note 26, at 1626.

95. 847 F.2d 255, 258 (5th Cir. 1988).

96. *Id.* at 270.

97. *Id.*

granted by federal copyright law and was, therefore, not preempted.<sup>98</sup> The Court noted, however, that it did not hold that all “contracts” are never preempted by federal copyright law.<sup>99</sup>

## II. CASE SUMMARIES

### A. *SoftMan Products Co. v. Adobe Systems, Inc.*

#### 1. *Factual Background*

Adobe Systems Inc. (“Adobe”) is a software development and publishing company that produces, among other things, Adobe “Collections” consisting of individual Adobe products bundled together as collective Adobe “Retail Boxes.”<sup>100</sup> Each Collection is sold at a price discounted from the retail price of each individual product in the set.<sup>101</sup> SoftMan Products Company (“SoftMan”) is a distributor of computer software products.<sup>102</sup> The company's main distribution channel is its website, [www.buycheapsoftware.com](http://www.buycheapsoftware.com).<sup>103</sup> Adobe alleged that, since at least November 1997, SoftMan began distributing unauthorized Adobe products, which consisted of software components separated from unbundled Adobe Collections.<sup>104</sup>

Adobe brought action against SoftMan, alleging that SoftMan had infringed its copyright.<sup>105</sup> Adobe contended that by distributing the individual software components from unbundled Adobe Collections, SoftMan infringed upon Adobe's exclusive right, as the copyright owner, to govern the terms concerning distribution of Adobe products.<sup>106</sup> More specifically, Adobe argued that SoftMan's unbundling of Adobe Collections and distribution of the individual components “exceeded the scope” of the End User License Agreement (“EULA”), which stated that the end user of an Adobe

98. 86 F.3d 1447, 1455 (7th Cir. 1996).

99. *Id.* (“[W]e think it prudent to refrain from adopting a rule that anything with the label ‘contract’ is necessarily outside the preemption clause: the variations and possibilities are too numerous to foresee.”).

100. *Softman Prod. Co. v. Adobe Sys., Inc.*, 171 F. Supp. 2d 1075, 1080 (C.D. Cal. 2001).

101. *Id.* at 1080 n.2.

102. *Id.* at 1079.

103. *Id.* at 1079-80.

104. *Id.*

105. Adobe's counterclaim apparently arises from an action brought by SoftMan Products Co. (“SoftMan”) that also alleges copyright and trademark infringement. *See id.* at 1080.

106. *Id.* at 1080-81.

product could transfer all his rights to the use of that software to another person, provided that he also transfer the EULA and all other software or hardware bundled with that particular Adobe product.<sup>107</sup>

SoftMan argued that its resale of the Adobe Collection software was allowable under the first sale doctrine.<sup>108</sup> Adobe, however, contended that the first sale doctrine was inapplicable because Adobe neither sells nor authorizes any sale of its software.<sup>109</sup> Rather, Adobe asserted that throughout the stream of commercial transactions involving Adobe software, the software is always licensed.<sup>110</sup>

On August 27, 2001, the District Court of the Central District of California granted Adobe's request for a temporary restraining order and seizure order against SoftMan.<sup>111</sup> Then, on September 10, 2001, the Court ordered a preliminary injunction for the duration of the Court's review of supplemental materials.<sup>112</sup> Finally, on October 19, 2001, the Court heard oral argument regarding Adobe's motion for a preliminary injunction.

## 2. *The District Court's Holding and Analysis*

The district court held that Adobe did not demonstrate a likelihood of success on the merits regarding its copyright infringement claim.<sup>113</sup>

First, although Adobe characterized the EULA as a "shrinkwrap license," the Court concluded that the transfer of Adobe software to the end user is a "sale" and not a license.<sup>114</sup> The Court also concluded that Adobe likewise sells its software to distributors.<sup>115</sup> The Court reasoned that because the distributors pay full value for the software and bear the risk that the products may be lost or damaged or otherwise unfit for resale, the ex-

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107. *Id.* Adobe also brought a trademark claim. Adobe alleged that because the individual pieces of software from an Adobe Collection may not be accompanied by registration information allowing the software purchaser to access Adobe's customer support and technical services, SoftMan's distribution of unbundled Adobe Collection products would create customer confusion and blur the distinction between authorized Adobe software and unauthorized items. More specifically, Adobe contended that it would suffer dilution of customer goodwill, price erosion of Adobe software, tarnishment of the Adobe trade name, and dilution of Adobe trademarks. *Id.*

108. *Id.* at 1082.

109. *Id.* at 1083.

110. *Id.*

111. *Id.* at 1080.

112. *Id.*

113. *Id.* at 1094.

114. *Id.* at 1085.

115. *Id.*

change of consideration and risk of loss for the transfer of title in the software constitutes a sale.<sup>116</sup>

Second, the Court held that SoftMan did not assent to the EULA terms and, therefore, is not bound by the EULA.<sup>117</sup> The Court reasoned that because the end user is asked to agree to the electronically recorded EULA terms only when he attempts to install the software, and SoftMan never loaded the software, SoftMan never agreed to be bound by the EULA.<sup>118</sup> Additionally, the Court explicitly noted that it would not determine the general validity of shrinkwrap licenses.<sup>119</sup>

## **B. *Bowers v. Baystate Technologies, Inc.***

### *1. Background*

Plaintiff Harold L. Bowers patented and marketed Cadjjet, a template for streamlining computer aided design (CAD) software.<sup>120</sup> Defendant Baystate Technologies, Inc., which creates and sells tools for CAD software, purchased copies of Bowers' Cadjjet, reverse engineered the Cadjjet software, and then developed its own slightly modified version of the product.<sup>121</sup> Bowers asserted that, by reverse engineering the Cadjjet software, Baystate infringed on Bowers' copyright and breached the shrinkwrap license agreement governing Baystate's possession of the copy of Cadjjet software.<sup>122</sup> Baystate, on the other hand, contended that the Copyright Act preempted the contractual prohibition of reverse engineering found in the shrinkwrap license agreement.<sup>123</sup>

The case went to trial, whereby a jury awarded Bowers damages for both copyright infringement and breach of contract.<sup>124</sup> The district court, however, set aside the copyright damages, reasoning that they were duplicative of the contract damages.<sup>125</sup>

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116. *Id.*

117. *Id.* at 1087.

118. *Id.*

119. *Id.* at 1088.

120. *Bowers v. Baystate Techs., Inc.*, 302 F.3d 1334, 1340 (Fed. Cir. 2002).

121. *Id.* at 1340.

122. *Id.* at 1339.

123. *Id.* at 1341.

124. *Id.* at 1340.

125. *Id.*

## 2. *The Federal Circuit's Holding and Analysis*

The Federal Circuit held that the federal Copyright Act did not preempt Bowers' breach of contract claim.<sup>126</sup> First, the Federal Circuit concluded that the shrinkwrap license contained the "extra element" necessary to qualitatively distinguish Bowers' contractual claim from his copyright infringement claim.<sup>127</sup> In reaching this conclusion, the Federal Circuit relied upon *ProCD*, in which the Seventh Circuit held that the mutual assent and consideration necessary for a valid contract are sufficient to prevent federal copyright law from preempting a state contractual claim.<sup>128</sup> Second, the Federal Circuit reasoned that, because the shrinkwrap license prohibited any reverse engineering of Bowers' product, the scope of the shrinkwrap license was far broader than that of copyright protection.<sup>129</sup>

On January 29, 2003, on a combined petition that Baystate filed, the Federal Circuit denied rehearing en banc and granted the petition for rehearing of the case by the panel.<sup>130</sup> Upon examination of new briefs that the parties had submitted, the Federal Circuit affirmed its prior decision.<sup>131</sup>

### III. DISCUSSION

#### A. **Precedent Cases Indicate that Software is Licensed and that Economic Efficiency and Public Policy Favor the Licensing of Software**

First, in concluding that Adobe sold, rather than licensed, its software to authorized distributors, the district court in *Softman* ignored industry standards and misapplied precedent. To support its holding, the court reasoned that "many courts and commentators [have] conclude[d] that a 'shrinkwrap license' transaction is a sale of goods rather than a license."<sup>132</sup> However, the court failed to cite to any cases that both concluded that a "shrinkwrap license" transaction is a sale of goods and that consisted of facts similar to the situation in *Softman*. For example, the court heavily

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126. *Id.* at 1341.

127. *Id.* at 1341-43.

128. *Id.* at 1342-43.

129. *Id.*

130. *Bowers v. Baystate Technologies, Inc.*, No. 01-1108, 01-1109, 2003 U.S. App. LEXIS 1422, at \*1 (Fed. Cir. Jan. 29, 2003).

131. *Bowers v. Baystate Technologies, Inc.*, No. 01-1108, 01-1109, 2003 U.S. App. LEXIS 1423, at \*36-\*37 (Fed. Cir. Jan. 29, 2003).

132. *Softman Prod. Co. v. Adobe Sys., Inc.*, 171 F. Supp. 2d 1075, 1085 (C.D. Cal. 2001).

relied on *Novell, Inc. v. CPU Distributors, Inc.*,<sup>133</sup> to bolster its holding that Adobe sold its software.<sup>134</sup> However, *Novell* involved an OEM Agreement that unambiguously and repetitiously used the terms “sell,” “sells,” “resellers,” “resale,” and “sold.”<sup>135</sup> In *SoftMan*, on the other hand, there was no evidence of such concrete language to indicate that Adobe’s agreements with its authorized distributors were sales.<sup>136</sup> *Novell* is, thus, factually distinguishable from *Softman* and would seem to be inapplicable.

Furthermore, the court’s dismissal of *Microsoft Corporation v. Harmony Computers and Electronics, Inc.*,<sup>137</sup> and *Adobe Systems Inc. v. One Stop Micro, Inc.*,<sup>138</sup> was unsubstantiated and improper.<sup>139</sup> The court found that, because the defendants in *Harmony* were allegedly selling counterfeit Microsoft products and the defendants in *SoftMan* were not, the two cases were incomparable.<sup>140</sup> However, the court misconstrued both *Harmony* itself and Adobe’s reliance thereon. Contrary to the court’s assumption, only some of the products at issue in *Harmony* were allegedly counterfeit.<sup>141</sup> Furthermore, the counterfeit issue was not a dispositive factor upon which the *Harmony* court based its holding; in fact, the *Harmony* court declined to even make a finding on that issue.<sup>142</sup> Rather, the court in *Harmony* held that, as Adobe correctly argued, Microsoft only licensed and did not sell its products.<sup>143</sup>

Rather than provide any explanation as to why *One Stop Micro, Inc.*, is distinguishable from *SoftMan*, the *SoftMan* court “simply decline[d] to adopt that analysis.”<sup>144</sup> An examination of the factual background and legal issues in *One Micro, Inc.*, however, reveals its applicability to *SoftMan*. Adobe alleged copyright infringement in both *SoftMan* and *One Mi-*

133. No. H-97-2326, 2000 U.S. Dist. LEXIS 9952, at \*1 (S.D. Tex. May 12, 2000).

134. *SoftMan Prod.*, 171 F. Supp. 2d at 1084.

135. *Novell, Inc.*, 2000 U.S. Dist. LEXIS 9952, at \*13-\*19.

136. *See SoftMan Prod.*, 171 F. Supp. 2d 1075.

137. 846 F. Supp. 208 (E.D.N.Y. 1994).

138. 84 F. Supp. 2d 1086 (N.D. Cal. 2000).

139. 171 F. Supp. 2d at 1086.

140. *Id.* at 1086-87.

141. *See Microsoft*, 846 F. Supp. at 210.

142. *See id.* at 212 (“[T]he Court declines at this juncture to make a finding as to the genuineness of the Microsoft Products sold by defendants.”); *see also* Nimmer, *supra* note 67, at 7 (asserting that the court in *Harmony* clearly did not base its ruling on whether the software at issue was counterfeit).

143. *See Microsoft Corp. v. Harmony Computers & Electronics, Inc.*, 846 F. Supp. 208, 213 (E.D.N.Y. 1994); *see also* Nimmer, *supra* note 67, at 7.

144. *See SoftMan Prod.*, 171 F. Supp.2d at 1086.

*cro, Inc.*<sup>145</sup> More importantly, the dispositive issue in both *SoftMan* and *One Micro, Inc.*, was whether the subject shrinkwrap EULA constituted a sale, thereby allowing the alleged infringer to assert a first sale defense to Adobe's copyright claims.<sup>146</sup> Additionally, in both cases, the alleged infringer was not a signatory to the agreement at issue.<sup>147</sup>

Second, the *SoftMan* court reasoned that fundamental economic realities and public policy considerations weighed in favor of finding that Adobe sold its software.<sup>148</sup> However, economic efficiency and public interest strongly indicate that *SoftMan* was decided incorrectly.

By creating opportunities for arbitrage, the resale of software inhibits price discrimination and renders the market inefficient. Price discrimination occurs when a seller charges different prices for different groups of consumers purchasing commensurate or identical products.<sup>149</sup> For example, a seller may categorize purchasers according to the degree to which they value the product.<sup>150</sup> Purchasers who have a stronger demand or need for the product are "high valuation" consumers, whereas purchasers who have a weaker demand or need for the product are "low valuation," less-favored consumers.<sup>151</sup> In a perfectly efficient software market, a seller would know exactly what product each user desires and how much each user is willing to pay for that product.<sup>152</sup> The seller would be able to modify and price discriminate his products accordingly.<sup>153</sup> Arbitrage occurs when the favored customers purchase the products and then re-sell them to the disfavored customers.<sup>154</sup> If high valuation, favored software users can

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145. Compare *id.* at 1080 with *Adobe Sys., Inc. v. One Stop Micro, Inc.*, 84 F. Supp. 2d 1086, 1088 (N.D. Cal. 2000).

146. See *SoftMan Prod.*, 171 F. Supp. 2d at 1088.

147. See *id.* at 1092.

148. See *id.* at 1084, 1087, 1090-91.

149. Michael J. Meurer, *Price Discrimination, Personal Use and Piracy: Copyright Protection of Digital Works*, 45 *BUFF. L. REV.* 845, 869 (1997) [hereinafter Meurer, *Price Discrimination*].

Three conditions are necessary to sustain effective price discrimination: the seller can measure consumer preferences and correlate prices thereto; the seller has some measure of market power; and the seller can stop arbitrage of price differentials. Michael J. Meurer, *Copyright Law and Price Discrimination*, 23 *CARDOZO L. REV.* 55, 59 (2001) [hereinafter Meurer, *Copyright Law*].

150. See Meurer, *Copyright Law*, *supra* note 149, at 67-80 (illustrating the "profit maximizing pricing strategy," which is to charge every buyer his/her valuation as long as the valuation exceeds marginal cost).

151. See *id.*

152. *Id.* at 105.

153. *Id.*

154. Meurer, *Price Discrimination*, *supra* note 149, at 850.

re-sell their acquired copies to low valuation, disfavored users, then price discrimination fails.<sup>155</sup> The re-sale of software inefficiently inflates the minimum price at which the seller would sell his product to anyone.<sup>156</sup>

Moreover, the re-sale of software inhibits a seller's ability to use bundling, a price discrimination technique with several potential benefits.<sup>157</sup> Bundling averages demand over multiple products so as to achieve the most effective price, given the different groups of consumers.<sup>158</sup> Bundling reduces transaction and enforcement costs by potentially avoiding wasteful investment in the valuation of the components of a bundle.<sup>159</sup> By rendering bundling ineffective, the re-sale of software inefficiently increases transaction and enforcement costs.

Adobe, for example, bundled the "Collections" and Educational software at issue in *SoftMan* and offered the bundled software at a discount from the price of the individual retail products contained therein.<sup>160</sup> The *SoftMan* court's holding renders such bundling impossible, since consumers can, just as *SoftMan* had done, purchase the bundled software, unbundle the software, and then resell each individual retail products at its higher price. To offset the costs of such resale, Adobe would need to raise the minimum price at which it sells the bundled "Collections" and Educational software to anyone.

In sum, precedent caselaw, public policy, and economic efficiency all disfavor the holding in *SoftMan* and the effects thereof.

### **B. Public Policy Favors Preemption Analysis that Considers Constitutional Preemption and Available Remedies, and Disfavors the Blanket Prohibition of Reverse Engineering**

The Federal Circuit's preemption analysis in *Bowers* completely failed to consider constitutional preemption under the Supremacy Clause.<sup>161</sup> Under a constitutional preemption analysis, the Federal Circuit may have come to a different conclusion in *Bowers*. Contractual prohibitions on reverse engineering, like the one at issue in *Bowers*, are unconstitutional because their overbreadth disturbs the proper owner-user balance underlying

155. *Id.* at 83.

156. *See* ProCd, Inc. v. Zeindenberg, 86 F.3d 1447, 1450 (7th Cir. 1996).

157. Meurer, *Copyright Law*, *supra* note 149, at 131.

158. *Id.* at 123-25 (illustrating the profit-enhancing effect of the averaging technique achieved through bundling).

159. *Id.* at 131.

160. *See SoftMan Prod.*, 171 F. Supp. 2d at 1080.

161. Mark A. Lemley, Amicus Brief for Defendant-Appellant at 10, *Bowers v. Baystate Technologies, Inc.*, 302 F.3d 1334 (Fed. Cir. 2002) (No. CV-91-40079) [hereinafter Lemley, *Amicus*].

the Copyright Act.<sup>162</sup> Shrinkwrap licensing agreements in the software industry may be characterized as a type of private legislation because of their uniformity and non-negotiability.<sup>163</sup> Thus, like various state legislation that courts have preempted, contractual prohibitions on reverse engineering wholly subvert important federal policy allowing reverse engineering under specified, limited circumstances.<sup>164</sup>

Moreover, the equivalence of rights analysis should include not only an examination of the rights themselves, but also a consideration of their means of enforcement.<sup>165</sup> Courts should compare applicable copyright remedies with applicable contract remedies and then determine, on a case-by-case basis, whether they are comparable in terms of availability, appropriateness, and effectiveness. Although a particular contractual right may appear equivalent to a statutory right, their respective enforcement may differ in terms of availability, appropriateness, and effectiveness.<sup>166</sup> For example, federal copyright law offers strong remedies such as injunctive relief and seizure or destruction of infringing copies, whereas contract remedies offer arguably weaker remedies, such as specific performance, which are harder to obtain.<sup>167</sup>

Public policy considerations, moreover, strongly disfavor a blanket prohibition on reverse engineering and, instead, favor the allowance of reverse engineering under limited, federally specified circumstances.<sup>168</sup> Interoperability is crucial to mitigate "tipping," which occurs when a single interface becomes the monopolizing marketplace standard.<sup>169</sup> Reverse

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162. Douma, *supra* note 45, at 257.

163. Robert P. Merges, *Expanding Boundaries of the Law: Intellectual Property and the Costs of Commercial Exchange: A Review Essay*, 93 MICH. L. REV. 1570, 1613 (1995).

164. *Id.*

165. Jane C. Ginsburg, *Copyright, Common Law, and Sui Generis Protection of Databases in the United States and Abroad*, 66 U. CIN. L. REV. 151, 167-68 (1997).

166. *Id.* at 168.

167. *Id.*

168. Lemley, *Amicus*, *supra* 161, at 9.

169. See Samuelson & Scotchmer, *supra* note 26, at 1624-1625:

"Tipping" means that a single interface succeeds in becoming the standard in the market, creating a monopoly. Such tipping may be detrimental to consumers, but it is beneficial to the winning platform owner. By buying up talented independent application developers, entering into exclusive licensing agreements with them, or simply attracting them with its large installed base, a platform owner may create sufficient network externalities to drive out rivals and remain the sole platform provider. A right to reverse-engineer may neutralize this threat of tipping. If the interface becomes open through reverse engineering or

engineering is the primary means for software manufacturers to achieve interoperability. Blanket contractual prohibitions on reverse engineering may increase tipping and leave consumers at the mercy of a single manufacturer.<sup>170</sup> Additionally, without interoperability, developers will waste costs associated with the development of different applications for different interfaces.<sup>171</sup> Moreover, caselaw and statutory fair use allowances for reverse engineering are sufficiently narrow to prohibit most reverse engineering without the use of contractual prohibitions.<sup>172</sup> Reverse engineering is a sufficiently costly and difficult endeavor so as to preclude widespread abuse of the fair use exceptions.<sup>173</sup>

#### IV. CONCLUSION

In determining the proper balance between copyright law and contract law, courts ought to consider whether the agreement or contractual provision at issue (1) achieves the Copyright Act's goal of furthering the progress of knowledge and (2) threatens to displace the owner-user balance that is the foundation of the Copyright Act.<sup>174</sup> The re-sale of software disrupts the owner-user balance without furthering the progress of knowledge. Thus, economic realities and public policy strongly disfavor the conclusion reached in *SoftMan*. Similarly, a blanket rule establishing that contractual prohibitions on reverse engineering are never preempted could eventually deprive users of the benefits of interoperability. In *Bowers*, the Federal Circuit ignored "the fundamental purpose of the Copyright Act," which "is to encourage the production of original works by protecting the expressive elements of those works while leaving the ideas, facts, and functional concepts in the public domain for others to build on."<sup>175</sup> These recent decisions indicate that courts still have not delineated a copyright-

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otherwise, other firms can develop platforms to compete with the proprietary platform and thereby undermine the latter's monopoly pricing strategy. Insofar as this interface becomes a de facto standard, consumers will benefit because more applications will be available for the platform and application developers will be in a better position to negotiate with firms competing in the platform market for better access to interface information.

170. *Id.*

171. *Id.*

172. *Id.*

173. *Id.*

174. See Ginsburg, *supra* note 165, at 168 (1997).

175. *Sega Entertainments v. Accolade, Inc.*, 977 F.2d 1510, 1527 (9th Cir. 1992); see also Lemley, *Amicus*, *supra* 161, at 11.

contract balance that not only maintains the owner-user balance but also achieves the goal of “furthering the progress of knowledge.”<sup>176</sup>

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176. See Ginsburg, *supra* note 165, at 168.

## GARDNER V. NIKE

By Kate Williams

The goal of U.S. copyright law has always been to promote the “useful arts” by striking a comfortable balance between providing authors and creators with enough incentive to create, while at the same time not stifling creativity through oppressive ownership regimes.<sup>1</sup> Before the Copyright Act of 1976 (“1976 Act”), judges and legislators attempted to accomplish this goal through the “doctrine of indivisibility.” The doctrine allowed creators to license their works to others in the hopes of more fully exploiting their works, but the doctrine did not give licensees full ownership rights. Over time, as the nature of many copyright industries changed, licensees’ lack of ownership status began to cause both legal and practical problems. By the mid-1970s, legislators recognized the need to abolish the doctrine of indivisibility and with passage of the 1976 Act, arguably provided exclusive licensees with full ownership rights.<sup>2</sup> In the past year, however, the Ninth Circuit’s decision in *Gardner v. Nike*<sup>3</sup> has once again opened the issue of ownership rights of exclusive licensees.<sup>4</sup>

*Gardner* is both an important and problematic decision. *Gardner* held that under the 1976 Act, owners of exclusive licenses cannot assign or sublicense copyrighted works to third parties without permission from the owners of their copyrights.<sup>5</sup> It does not deny exclusive licensees the right to retransfer their works, but rather sets a default rule that forces licensees to bargain with licensors for the right to retransfer.<sup>6</sup> Unfortunately, after

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1. See *Gardner v. Nike*, 279 F.3d 774, 781 (9th Cir. 2002); See generally ROBERT P. MERGES ET AL., *INTELLECTUAL PROPERTY IN THE NEW TECHNOLOGICAL AGE* 12-18 (2000) [hereinafter MERGES, ET AL.] (discussing the economic incentives to create and invent intellectual property).

2. See generally 3 MELVILLE B. NIMMER & DAVID NIMMER, *NIMMER ON COPYRIGHT* § 10.02[A] (2002) [hereinafter NIMMER] (discussing recognition of “the principle of divisibility” with regard to exclusive licensees under section 201(d)(2) of the 1976 Copyright Act).

3. *Gardner*, 279 F.3d 774.

4. *Id.*; See generally David Halberstadter & Katherine McDaniel, *Copyright Licensee Must Have Owner’s Approval to Sublicense*, L.A. DAILY J., Mar. 22, 2002 [hereinafter HALBERSTADTER] (discussing the *Gardner* court’s ruling requiring consent from copyright owners by licensees wishing to sublicense copyrighted material).

5. *Gardner*, 279 F.3d at 781.

6. See *Exclusive Copyright Licensees May Not Sub-License or Assign Their Rights Without Copyright Owners’ Consent, Federal Court of Appeals Affirms, So Nike’s Exclu-*

passage of the 1976 Act, many in the entertainment industry assumed that this default rule operated to the contrary.<sup>7</sup> Creators and licensees in the entertainment industry signed countless license agreements after 1978 that said nothing about the retransfer rights of licensees.<sup>8</sup> Because the entertainment industry is headquartered under the jurisdiction of the Ninth Circuit, *Gardner* will have a profound effect on exclusive licensees in the entertainment industry.

The implications of *Gardner* to the entertainment industry would not be so troubling if the decision itself stood on firmer legal ground and was better aimed to achieve Congress' policy goals. Instead, it will likely disrupt business in the entertainment industry where instability might have been avoided. While *Gardner* clarifies the ownership status of an exclusive licensee, it does so in a way that undermines the purposes of copyright law. The decision misreads the statute, it ignores prior decisions, and it improperly analogizes to patent law. The decision also operates under the false assumption that federal copyright law must decide the case, when state contract law would better govern the issue. These considerations suggest that the United States Supreme Court should grant certiorari and correct this decision, or else Congress may need to revisit the issue and amend the 1976 Act.

This paper will look first at the background for the decision, tracing the origins of the doctrine of indivisibility from early common law through the Copyright Act of 1909 ("1909 Act") until its partial abolishment under the 1976 Act. Then it will describe how the *Gardner* decision partially revives the doctrine. The paper will demonstrate how this partial preservation of the doctrine undermines the purposes of copyright law and is not good law. Finally, the paper will discuss the effect of the decision on the entertainment industry and suggest possible future courses of action that might remedy the problems created by *Gardner*.

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*sive License to Sony of Rights in Nike's Copyrighted Cartoon Character "MC Teach" Were Not Validly Sub-Licensed or Assigned to Third Party, Because Nike's Consent Was Not Obtained*, 23 No. 9 ENT. L. R. 11, 2 (2002) [hereinafter EXCLUSIVE COPYRIGHT].

7. See generally e-mail from Lon Sobel, Attorney, Entertainment Law Reporter, to Peter S. Menell, Professor of Law, University of California, Berkeley 2 (Aug. 24, 2002, 10:28 AM) (on file with author) [hereinafter SOBEL] (discussing how for many years a large number of deals in the entertainment industry made no mention of assignability and this leaves many distributors vulnerable to challenges of invalid copyright transfers); see generally HALBERSTADTER, *supra* note 4 (discussing how exclusive licensors in the motion picture, software, advertising and merchandising industries "may well have intended the licensee to have the ability to sublicense or assign certain rights to others [and] the inability to do so may even undermine the very purpose of the agreement").

8. SOBEL, *supra* note 7, at 2.

## I. BACKGROUND

To critique the *Gardner* decision, it is first necessary to understand the doctrine of indivisibility. U.S. copyright law seeks to promote the arts by providing artists with the impetus to create, but at the same time not squelch, the creative process with overly burdensome ownership rules.<sup>9</sup> To further this goal, judges in the United States in the early part of the twentieth century developed the “doctrine of indivisibility.”<sup>10</sup> According to this doctrine, the author of a work was entitled to a single copyright, which included a bundle of rights that could not be divided or assigned in parts.<sup>11</sup> The transfer of anything less than the entire bundle constituted a license rather than an assignment and licensees did not enjoy the full rights of a copyright proprietor.<sup>12</sup> Judges looked to early English copyright law and an American patent case as the basis for the doctrine.<sup>13</sup>

### A. The Doctrine of Indivisibility Under the Copyright Act of 1909

The doctrine of indivisibility first entered into U.S. statutory copyright law in the 1909 Act. Under the 1909 Act, the doctrine operated to protect alleged infringers from harassment by successive lawsuits.<sup>14</sup> Because the licensor remained the copyright proprietor, only she could sue potential infringers.<sup>15</sup> This created problems in some cases for owners of exclusive licenses who could not protect their property interests. Over time, the rules were revised such that exclusive licensees could bring infringement suits as long as they were joined by the copyright proprietor in the suit.<sup>16</sup> But the distinction between an assignment and a license under the 1909 Act still meant that only assignees, not licensees, could resell or sublicense their rights unless a contract stated otherwise.<sup>17</sup>

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9. See *Gardner*, 279 F.3d at 778 (citing *Harris v. Emus Records Corp.*, 734 F.2d 1329, 1334 (9th Cir. 1984)).

10. See generally NIMMER, *supra* note 2, at § 10.01[A] (discussing the roots of the concept of “indivisibility” of copyright).

11. *Id.* (citing *Tasini v. New York Times Co.*, 206 F.3d 161, 168 (2d Cir. 2000), *aff'd*, 533 U.S. 483 (2001)).

12. NIMMER, *supra* note 2, at § 10.01[A].

13. *Id.* (citing *Jeffreys v. Boosey*, 4 H.L. (Clark) 814, 10 Eng. Rep. 681 (1854); but cf. *Roberts v. Meyers*, 20 F. Cas. 898, No. 11906 (C.C. Mass. 1860); also citing *Waterman v. Mackenzie*, 138 U.S. 252 (1891)).

14. *Id.* (citing Justice Frankfurter’s dissent in *Commissioner v. Wodehouse*, 337 U.S. 369, 401 (1949) and *Fields v. Commissioner*, 14 T.C. 1202 (1950), *aff'd*, 189 F.2d 950 (1951) and *New Fiction Publishing Co. v. Star Co.*, 220 F. 994 (S.D.N.Y. 1915) for a discussion of the “procedural considerations underlying the doctrine of indivisibility”).

15. NIMMER, *supra* note 2, at § 10.01[A].

16. *Id.*

17. *Id.* at § 10.01[C][4].

As technological advances changed the nature of many artistic industries, the doctrine of indivisibility began to hinder new artistic industries. When legislators wrote the 1909 Act, they mainly wished to protect the right of reproduction.<sup>18</sup> At that time, the primary value of a book was in the right to publish it.<sup>19</sup> As the motion picture industry developed, book authors could derive more money from the sale of a novel's motion picture rights than its book rights.<sup>20</sup> Likewise, more money could be made recording and performing songs than selling copies of sheet music.<sup>21</sup> The term "copyright" came to encompass a broad range of separately marketable rights as television, legitimate stage productions, phonograph records, motion pictures, and performing rights societies emerged.<sup>22</sup> The doctrine of indivisibility began to hinder rather than encourage the development of these new artistic industries because the doctrine would not allow copyright owners to assign separate rights to different assignees depending upon who was in the best position to exploit each particular right.<sup>23</sup> As a result, a more formal revision of the doctrine became necessary.

#### **B. Revision of the Doctrine of Indivisibility under the Copyright Act of 1976**

When legislators revised the 1909 Act in the 1970s, they recognized many of the problems caused by the doctrine of indivisibility in the 1909 Act. It is not entirely clear, however, how far Congress intended to proceed in overhauling the doctrine. In the 1976 Act, legislators defined a "transfer of copyright ownership" to include both an assignment and an exclusive license, "whether or not it was limited in time or place of effect," but not a nonexclusive license.<sup>24</sup> In § 201(d)(2) of the Act, Congress also provided that "the owner of any particular exclusive right is entitled, to the extent of that right, to all of the protection and remedies accorded to the copyright owner by this title."<sup>25</sup> In the same section of the 1976 Act, legislators provided that "any of the exclusive rights comprised in a copyright, including any subdivision of the rights specified in section 106," could be divided.<sup>26</sup> Read together, these sections of the 1976 Act appeared

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18. *See id.* at § 10.01[A].

19. *Id.*

20. *Id.*

21. *Id.*

22. *Id.*

23. *Id.*

24. *Id.* at § 10.02[A]; 17 U.S.C. § 101 (2001).

25. 17 U.S.C. § 201(d)(2) (2001).

26. *Id.*

to replace the doctrine of indivisibility with a more general policy of divisibility.<sup>27</sup>

This general policy of divisibility clarified many rights for exclusive licensees under the 1976 Act, but left others open for question. For instance, owners of exclusive rights now had standing to sue in their own name so long as they sued for infringement of the particular right that they had been granted.<sup>28</sup> Unfortunately, the 1976 Act did not clarify the law on the issue of the right of an exclusive licensee to transfer or sublicense an exclusive license. The 1976 Act gave exclusive licensees the “protection and remedies” of a copyright proprietor.<sup>29</sup> Courts and scholars disagree, however, about whether the “rights” of copyright are included in the protection and remedies.

## II. CASE SUMMARY

### A. Facts and Procedural History

In *Gardner*, the Ninth Circuit attempted to clarify the law regarding the transfer and sublicensing of exclusive licenses. In the case, Nike, Inc. (“Nike”) and Sony Music Entertainment Corporation (“Sony”) entered into a licensing agreement in 1992 whereby Nike transferred to Sony the exclusive, perpetual, worldwide rights to use the Nike-created cartoon character, MC Teach in a variety of different copyright-protected ways.<sup>30</sup>

In exchange for the use of MC Teach, Sony agreed to pay Nike fifteen percent (15 %) of the profits earned from the use of MC Teach in merchandise other than records.<sup>31</sup> According to the agreement, Nike also owned the copyright in the material and any published copy of the material was to bear the notice: © 1992 Nike, Inc.<sup>32</sup> The parties agreed that this was an exclusive license, but the agreement said nothing about whether or not Sony could assign its rights to a third party.<sup>33</sup>

When Sony assigned all of its rights in the exclusive license to Michael Gardner (“Gardner”) on a quitclaim basis in June 1996 and Gardner began use of MC Teach, Nike threatened legal action against Sony, Gardner and Bien Licensing Agency, Inc. (“Bien”).<sup>34</sup> Gardner and Bien first

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27. *Gardner*, 279 F.3d at 778.

28. NIMMER, *supra* note 2, at § 10.02[B][1].

29. 17 U.S.C. § 201(d)(2) (2001).

30. *Gardner*, 279 F.3d at 776.

31. *Id.*

32. *Id.*

33. *Id.*

34. *Id.*

filed a state court suit asking for declaratory relief on a slander of title and intentional interference with economic relations claim.<sup>35</sup> Gardner and Bien then agreed to dismiss the two tort causes of action, but left the request for declaratory relief.<sup>36</sup> The series of legal actions that ensued included various claims over subject matter jurisdiction with the case eventually landing in the United States District Court for the Central District of California.<sup>37</sup> The district court ruled that because the 1976 Act did not allow Sony to transfer its rights under the exclusive license without Nike's consent, Gardner and Bien did not have a legally cognizable interest in the suit and lacked standing to bring their action.<sup>38</sup> Gardner and Bien appealed this ruling, arguing that absent contractual provisions to the contrary, the 1976 Act does allow transfer of rights without the original licensor's consent.<sup>39</sup>

### B. Ninth Circuit Decision

The Ninth Circuit upheld much of the district court's decision and ruled that the 1976 Act did not completely abolish indivisibility nor allow for the transfer of exclusive licenses.<sup>40</sup> To reach its decision, the Ninth Circuit reviewed the 1909 Act and found that it distinguished between assignees and licensees based upon the doctrine of indivisibility and did not allow for the transfer of either exclusive or nonexclusive copyright licenses.<sup>41</sup> The Ninth Circuit emphasized that the doctrine of indivisibility protected alleged infringers from successive legal actions, but caused the problem of licensees lacking standing to sue in infringement actions.<sup>42</sup> With regard to transferability, the Ninth Circuit found that the doctrine also struck a balance between the competing interests of "monopolization of works or compositions" and the preservation of the rights of authors and composers that is needed to "stimulate creativity."<sup>43</sup> In reaching its decision, the Ninth Circuit followed its previous holding in *Harris v. Emus Records Corp.*, where the Ninth Circuit looked to the same underlying policy considerations as well as similar rules in patent law and the legisla-

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35. *Id.* at 776-77.

36. *Id.* at 777.

37. *Id.*

38. *Id.*

39. *Id.*

40. *Id.* at 781.

41. *Id.* at 777-78.

42. *Id.* at 778.

43. *Id.*

tive history of the 1909 Act to find that a copyright license was not transferable under the 1909 Act.<sup>44</sup>

The Ninth Circuit recognized that with regard to exclusive licenses, the 1976 Act had “eradicated much of the doctrine of indivisibility.”<sup>45</sup> According to the Ninth Circuit, § 101 of the 1976 Act includes exclusive licenses but not nonexclusive licenses in the definition of the transfer of copyright ownership, calling “into question the distinctions . . . previously [made] between . . . assignment[s] and . . . exclusive licenses under the doctrine [of indivisibility].”<sup>46</sup> In addition, § 201(d)(2) of the 1976 Act provides that “any of the exclusive rights . . . in a copyright, including any subdivision of any of the rights specified by section 106, may be transferred . . . and owned separately.”<sup>47</sup> The court said that this recognizes explicitly, for the first time, statutory authority for the divisibility of copyright.<sup>48</sup> According to the Ninth Circuit, the 1976 Act thus solved the problem of exclusive licensees not being able to sue for infringement of assigned rights in their own name, but left open the question of whether or not an exclusive licensee could re-sell or sublicense.<sup>49</sup>

The decision in *Gardner* rested on the appropriate interpretation of 17 USC § 201.<sup>50</sup> According to the court, when read without § 201(d)(2) but in conjunction with the § 101 definition of transfer of copyright ownership that includes exclusive licenses, § 201(d)(1) might be interpreted to mean that exclusive licensees such as Sony could transfer a fraction ownership without permission from the copyright owner.<sup>51</sup> However, the language of § 201(d)(2) is more specific than § 201(d)(1) and § 101, and gives owners of exclusive rights only the “protection and remedies” of the copyright owner under the 1976 Act, not the benefits of transferring or sublicensing the copyrights.<sup>52</sup> The Ninth Circuit therefore held that because Congress

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44. *Id.* In *Harris*, singer Emmylou Harris brought a copyright infringement action against the record company that purportedly acquired the license to her song through a bankruptcy sale. Harris sued because the record company was releasing her songs without paying her a royalty fee. The U.S. District Court for the Central District of California ruled that a copyright license is not transferable and does not become part of a bankruptcy estate because the licensee does not have full ownership rights in the property. 734 F.2d 1329, 1331-36 (9th Cir. 1984).

45. *Gardner*, 279 F.3d at 778.

46. *Id.*

47. *Id.*; 17 U.S.C. § 201(d)(2) (2001).

48. *Gardner*, 279 F.3d at 779 (citing 17 U.S.C.A. § 201 note (West 1996) (Notes of Comm. On Judiciary, H. Rep. No. 94-1476)).

49. *Id.* at 779.

50. *Id.*

51. *Id.*

52. *Id.* at 780.

did not explicitly address the issue, a copyright licensee does not have the right to transfer its rights under an exclusive license without consent from the owner.<sup>53</sup>

In coming to its decision, the Ninth Circuit addressed modern policy considerations and found them to mirror those stated in *Harris* under the 1909 Act.<sup>54</sup> According to the court, “placing the burden on the licensee” to obtain the licensor’s explicit consent for a transfer in a contract negotiation allowed the copyright owner to “monitor the use of the copyright.”<sup>55</sup> Without this protection for the copyright owner, use of the copyrighted material could be transferred to a sublicensee on the verge of bankruptcy or to a sublicensee who wished to use the copyrightable material in a manner inconsistent with the owner’s objectives.<sup>56</sup> The Ninth Circuit held that its interpretation of the 1976 Act reflected its purpose in striking a good balance between the need for free alienability and the necessity to maintain the owners and creators’ rights and control.<sup>57</sup>

According to the court, state law also did not govern the case because state contract law in this instance interfered with federal copyright law.<sup>58</sup>

### III. DISCUSSION

While the *Gardner* decision clarifies the status of exclusive licensees under the 1976 Act through its partial revitalization of the doctrine of indivisibility, the decision itself stands on shaky legal ground and does not further Congress’ policy goals. The major legal flaws in the case stem from the Ninth Circuit’s questionable statutory interpretation, disregard of prior decisions, and misguided analogies to patent law. Furthermore, the Ninth Circuit might have easily relied on state contract law to decide the case. Coupled with the negative effects of the decision in the entertainment industry, this suggests that either Congress should amend the 1976 Copyright Act or the U.S. Supreme Court should hear the case.

#### A. The Ninth Circuit’s Questionable Statutory Interpretation

The first major questionable point regarding the *Gardner* decision relates to the Ninth Circuit’s statutory interpretation in the decision. When courts look at statutes they examine several factors including the “text,

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53. *Id.*

54. *See id.* at 780.

55. *Id.* at 781.

56. *Id.*

57. *Id.*

58. *Id.*

historical evidence, and the text's evolution."<sup>59</sup> This leads the interpreter to a preliminary view of the statute, which she tests by applying multiple criteria such as "fidelity to the text, historical accuracy, and conformity to contemporary circumstances and values."<sup>60</sup> In this model, judges begin by looking for clear text, but even seemingly clear text can be trumped by the other considerations of historical evidence or the text's evolution.<sup>61</sup> The challenge the Ninth Circuit faced was that neither the text, the historical evidence, nor the text's evolution appears to offer absolutely conclusive evidence as to the ownership status of an exclusive licensee. However, considering all of these elements together, the Ninth Circuit should have decided to abolish the doctrine of indivisibility.

### 1. *Statutory Text*

The statutory interpretation in *Gardner* should begin with an analysis of the statutory text.<sup>62</sup> The first problem in *Gardner* is that the Copyright Act of 1976 is silent as to the specific rights of exclusive licensees.<sup>63</sup> After looking at the specific words regarding exclusive licensing, judges consider the statute as a whole.<sup>64</sup> The Ninth Circuit held that the more specific words "all of the protection and remedies" in § 201(d)(2) meant that exclusive licensees only possessed the right to bring infringement actions.<sup>65</sup> However, an alternative interpretation of this phrase might be that an exclusive licensee must possess the full rights of ownership because otherwise exercising "all of the protection and remedies accorded to the copyright owner" would be futile.<sup>66</sup> Protection implies the grant of some right

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59. William N. Eskridge, Jr. & Philip P. Frickey, *Statutory Interpretation As Practical Reasoning*, 42 STAN. L. REV. 321, 352 (1990) [hereinafter Eskridge].

60. *Id.*

61. *See id.* ("Each criterion is relevant, yet none necessarily trumps the others. Thus while an apparently clear text, for example, will create insuperable doubts for a contrary interpretation if the other evidence reinforces it, an apparently clear text may yield if other considerations cut against it.").

62. *See id.* at 354 (The practical reasoning model outlined by Eskridge and Frickey begins "with the prevailing Supreme Court assumption that the statutory text is the most authoritative interpretative criterion. The text is most often the starting point for interpretation, and textual arguments carry the greatest argumentative weight.").

63. Aaron Xavier Fellmeth, *Control Without Interest: State Law of Assignment, Federal Preemption, and the Intellectual Property License*, 6 VA. J.L. & TECH. 8, ¶ 52 (2001) [hereinafter Fellmeth].

64. *See Eskridge, supra* note 59, at 355 ("Textual analysis should further consider how the statutory provision at issue coheres with the general structure of the statute, since other provisions in the statute might shed light on the one being interpreted.").

65. *Gardner*, 279 F.3d at 779-81.

66. *See* 17 U.S.C. § 201(d)(2); Fellmeth, *supra* note 63, at ¶ 22.

one can protect.<sup>67</sup> Therefore, if the 1976 Act gives the exclusive licensee the full right to protect ownership rights, the Act also gives the licensee the actual full ownership rights.<sup>68</sup> This interpretation reads more consistently with § 201(d)(1)'s statement that full "ownership" of copyright can be transferred in whole or in part.

## 2. *Historical Considerations*

Historical considerations further support the abolishment of the doctrine of indivisibility. When examining historical considerations, courts look to authoritative historical evidence such as the legislative history of the statute.<sup>69</sup> Interpreters may then employ the technique of "imaginative reconstruction" when no specific legislative history addresses the issue.<sup>70</sup> There are two approaches to imaginative reconstruction: one that requires asking what the enacting legislature would have thought about the issue before the court if the legislature did not possess foresight into the future and another that tries to anticipate what the legislature would have done if it could anticipate events that transpired following enactment of the statute.<sup>71</sup> Legal scholars suggest that as time passes it becomes more important to consider what legislatures would have done if they possessed foresight into the future.<sup>72</sup>

In *Gardner*, the Ninth Circuit did not directly address the legislative history of the statute, except to state that it disagreed with Nimmer's interpretation of its history. According to Nimmer, the legislative history states that § 201(d)(2) of the 1976 Act provides "explicit statutory recognition of the principle of divisibility of copyright."<sup>73</sup> The legislature thus abolished indivisibility with regards to exclusive licenses.<sup>74</sup> The Ninth Circuit, by contrast, argues that because Congress did not "explicitly address the issue in the 1976 Act and [limited the] language of Section 201(d)(2) to 'protection and remedies,' . . . the law remains" the same under the 1976 Act.<sup>75</sup>

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67. See Fellmeth, *supra* note 63, at ¶ 22.

68. See *id.* ("... by Nike's own admission, even the protection and remedies of 501(b) were rights in a sense. This point seems more semantic than substantive. Is not every protection a right insofar as it is a right to protection?").

69. Eskridge, *supra* note 59, at 356.

70. *Id.* at 357 (citing RICHARD A. POSNER, *THE FEDERAL COURTS: CRISIS AND REFORM* 286-93 (1985) and Richard R. Posner, *Statutory Interpretation—In the Classroom and in the Courtroom*, 50 U. CHI. L. REV. 800, 817 (1983) for a more thorough discussion of Judge Posner's technique of "imaginative reconstruction").

71. Eskridge, *supra* note 59, at 357.

72. *Id.* at 357-58.

73. Nimmer, *supra* note 2, at § 10.02[A].

74. *Id.*

75. *Gardner*, 279 F.3d at 780.

The Ninth Circuit appears to give priority to its textual analysis over an analysis of the legislative history. However, legislative history can weigh against textual analysis, especially in light of varying analysis of the text.<sup>76</sup>

There are several alternatives to the Ninth Circuit's analysis that look specifically at Congress' intent where the legislative history does not specifically address the issue. First, if Congress expressed the unequivocal intent to favor divisibility of copyrights in the 1976 Act, it would be inconsistent with Congress' intent to maintain the doctrine of indivisibility in the sole instance of an exclusive licensee's right to transfer and sublicense.<sup>77</sup> Second, Congress would have stated that it intended § 501(b) rights to be the only protection and remedies conferred on an exclusive licensee if that were the case.<sup>78</sup> Congress could also have explicitly granted infringement if it wanted to limit the rights granted to an exclusive licensee.<sup>79</sup> Finally, Congress demonstrated that it intended to maintain the doctrine of indivisibility for nonexclusive licenses because it "expressly excluded nonexclusive licenses from 'transfer of copyright ownership.'"<sup>80</sup> Congress' different language regarding exclusive and nonexclusive license suggests that Congress intended to completely eliminate the doctrine of indivisibility with regards to exclusive licenses under the 1976 Act.<sup>81</sup>

None of these alternative interpretations of Congress' intent suppose that the legislature possessed foresight into the future. Even if the Ninth Circuit did not want to use any of these arguments, it might have relied on the second form of imaginative reconstruction whereby it could look at what the legislature would have done had the legislature been able to anticipate events following enactment of the statute. Inasmuch as twenty-four years have passed since the 1976 Act went into effect, it would not have been unreasonable for the Ninth Circuit to examine the negative effects of the statute, in this case on the entertainment industry, and base its

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76. See generally Eskridge, *supra* note 59, at 355-56 (discussing how "other factors will strongly cut against the apparent meaning of the text" in some instances and when this occurs "the interpreter might reevaluate her belief that the text is really all that clear and...might be willing to override plain meaning to subserve the other important values involved in statutory interpretation").

77. Peter H. Kang & Jia Ann Yang, *Case Note: Doctrine of Indivisibility Revived? Ninth Circuit Confirms Copyright Exclusive Licensee Has No Right To Transfer License Absent Owner's Consent: Gardner v. Nike, Inc.*, 18 *COMPUTER & HIGH TECH. L.J.* 365, 372-73 (2002) [hereinafter KANG].

78. Fellmeth, *supra* note 63, at ¶22.

79. *Id.*

80. Kang, *supra* note 77, at 373.

81. *Id.*

decision to some degree on the fact that Congress surely would not have intended such ill effects.

### 3. *Evolution of the Text and Surrounding Circumstances for the Statute*

After examination of the legislative history, the next line of inquiry in statutory interpretation is based upon an evolution of the text and/or surrounding circumstances for the statute.<sup>82</sup> In this line of inquiry, a court looks at "social and legal circumstances not anticipated when the statute was enacted."<sup>83</sup> However, this line of inquiry is not appropriate for *Gardner* because the revisions in the 1976 Act were themselves in reaction to changing circumstances. For the most part, these changes were technological and business developments in the entertainment industry.<sup>84</sup> The problems that arose stemmed from the assumption of contracting parties that an exclusive licensee could assign and sublicense his or her license.<sup>85</sup> The *Gardner* decision itself dismantled this assumption.<sup>86</sup> Had the Ninth Circuit ruled in a manner consistent with these contractors' interpretation of the 1976 Act, there would not be the problems originally overlooked by the legislature.

Current values, such as constitutional values, related statutory policies, and fairness, are also lumped together with evolutive considerations in statutory interpretation inquiries.<sup>87</sup> In *Gardner*, the Ninth Circuit turned to constitutional goals in its policy considerations.<sup>88</sup> The Ninth Circuit concluded that reviving the doctrine of indivisibility would strike the right balance between creating incentives for creators while also leaving intellectual property alienable.<sup>89</sup> This is misguided reasoning because the assumption in the entertainment industry for twenty-four years was that licenses were alienable.<sup>90</sup> The entertainment industry continued to thrive

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82. Eskridge, *supra* note 59, at 358-59.

83. *Id.* at 359.

84. *See generally* Nimmer, *supra* note 2, at § 10.01[A] (discussing how the 1909 Act did not anticipate that rights other than reproduction might predominate).

85. *See supra* text accompanying note 7.

86. *Gardner*, 279 F.3d at 781 (holding "that exclusive licenses are only assignable with the consent of the licensor").

87. Eskridge, *supra* note 59, at 359.

88. *See Gardner*, 279 F.3d at 781.

89. *Id.*

90. *See generally* Sobel, *supra* note 7, at 2 (discussing how the entertainment industry's entire distribution scheme, which assumed alienability, could be undermined by such a reading).

during these years and there is no evidence that abolishing the doctrine of indivisibility would create a disincentive for creators.

### B. The *Gardner* Court's Misinterpretation of Prior Decisions

The Ninth Circuit should not have decided *Gardner* in favor of Nike. Even if statutory interpretation was unclear, prior decisions were not. Although *Gardner* is a case of first impression regarding exclusive licensees, various courts have ruled indirectly on the issue. The most relevant case, *In re Patient Education Media, Inc.*, involved the grant of a worldwide, perpetual nonexclusive license to a debtor who eventually filed for bankruptcy.<sup>91</sup> When the debtor tried to assign the license to a third party in a selloff of its assets, the copyright owner filed suit.<sup>92</sup> The court indicated that while an exclusive licensee may transfer his rights, a nonexclusive licensee may not because he is not the owner.<sup>93</sup> The holding referred to a nonexclusive license. In ruling on nonexclusive licenses, the court established that an exclusive licensee was "entitled to all the rights and protection of the copyright owner . . . under 201(d)(2)" of the 1976 Act.<sup>94</sup> The *Gardner* court dismissed the *Patient Education Media* court's ruling on exclusive licenses as mere dicta,<sup>95</sup> but coupled with other decisions, the Ninth Circuit should, instead, have used this as support to prevent revival of the doctrine of indivisibility.<sup>96</sup>

Other cases offer even stronger precedent for ruling in favor of full ownership rights for exclusive licensees. In *Leicester v. Warner Bros.*,<sup>97</sup> an artist granted perpetual, irrevocable, exclusive rights to a developer to make reproductions for specified purposes.<sup>98</sup> The agreement also stipulated that the artist would not reproduce the work in another project.<sup>99</sup> When the developer granted a license to Warner Brothers movie studio to use the art in a movie, the artist sued for copyright infringement.<sup>100</sup> The court ruled that this license to the developer was exclusive and therefore

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91. Fellmeth, *supra* note 63, at ¶ 15 (citing *In re Patient Education Media, Inc.*, 210 B.R. 237 (Bankr. S.D.N.Y. 1997)).

92. *Id.* (citing *In re Patient Education Media, Inc.*, 210 B.R. at 239-240).

93. *Id.* (citing *In re Patient Education Media, Inc.*, 210 B.R. at 240).

94. *Id.*

95. *Id.* at ¶ 16.

96. *See generally id.* at ¶ 15-20 (discussing prior court decisions that suggested exclusive licenses were transferable).

97. 47 U.S.P.Q.2d 1501 (C.D. Cal. 1998), 1998 U.S. Dist. LEXIS 8366.

98. *Id.* at 7.

99. *Id.* at 8-9.

100. *Id.* at 7.

the developer could sublicense it without the artist's consent.<sup>101</sup> The *Gardner* court ignored this ruling and in doing so, "overturned precedent only two years old."<sup>102</sup> The *Gardner* court did not offer any explanation for this, although scholars suggest that the court might have wanted to distinguish the right to assign from the right to sublicense an exclusive license.<sup>103</sup> This does not seem particularly plausible however, given that the *Leicester* case involved a sublicense.<sup>104</sup>

Finally, in *Library Publications, Inc. v. Medical Economics Co.*,<sup>105</sup> the U.S. District Court for the Eastern District of Pennsylvania interpreted § 201(d) in much the same way as the court did in *Patient Education Media and Leicester*.<sup>106</sup> *Library Publications* involved an alleged breach of a trade book publisher and distributor's oral, nonexclusive license with another publisher to distribute a particular book worldwide.<sup>107</sup> The licensee publisher sued the licensor publisher when the licensee attempted to undersell the licensor by offering the book at a cheaper cost to a large retail outlet.<sup>108</sup> After the licensor refused to supply the licensee with any more books, a lawsuit ensued and the district court ruled in favor of the licensor.<sup>109</sup> The decision would appear to favor Nike in *Gardner*, however, the district court ruled in favor of the licensor only because an exclusive license cannot be granted orally.<sup>110</sup> Had the license agreement been in writing, the district court would have deemed it an exclusive license, freely transferable in whole or in part.<sup>111</sup> Hence, the Ninth Circuit ignored precedent in multiple cases when it upheld the indivisibility of exclusive licenses.

### C. The Ninth Circuit's Misguided Analysis of Patent Law

In addition to ignoring prior decisions, the Ninth Circuit in *Gardner* also drew upon weak analogies to patent law. The court cited *Harris*, which cited *In re CFLC, Inc.*<sup>112</sup> and *Unarco Industries, Inc. v. Kelley*

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101. *Id.* at 9-10.

102. Fellmeth, *supra* note 63, at ¶ 19.

103. *Id.*

104. *Id.*

105. 548 F. Supp. 1231 (E.D. Pa. 1982).

106. Fellmeth, *supra* note 63, at ¶ 20.

107. *Library Publ'n*, 548 F. Supp. at 1232.

108. *Id.* at 1232-33.

109. *Id.* at 1233-34.

110. FELLMETH *supra* note 63, at ¶ 20 (citing *Library Publ'n*, 548 F. Supp. 1231, at 1234).

111. Fellmeth, *supra* note 63, at ¶ 20; 17 U.S.C. § 204(a) (2001).

112. 89 F.3d 673 (9th Cir. 1996).

Co.<sup>113</sup> in its opinion.<sup>114</sup> In both these cases, the court's analogies are weak because the cases deal with nonexclusive licenses rather than exclusive licenses.<sup>115</sup> Thus the cases do not offer as much guidance as the Ninth Circuit intimated.<sup>116</sup>

Analogizing to patent cases that dealt with exclusive licenses would have led to the opposite conclusion.<sup>117</sup> Patent rights, like copyrights, are divisible.<sup>118</sup> However, in patent cases, courts distinguish between assignments and licenses based upon "the extent to which [patent] rights [are] transferred."<sup>119</sup> A grantee is considered to be an owner of a patent "if all substantial rights under the patent [are] granted."<sup>120</sup> The characterization or label of the transfer does not matter.<sup>121</sup> An exclusive licensee will be treated like the owner of a patent assignment with the right to sublicense without consent of the original patent owner, as long as all of the substantial rights are transferred to the licensee.<sup>122</sup> Thus, analogies to patent law suggest that the Ninth Circuit should have ruled in favor of the divisibility of exclusive licenses in copyright law.

#### D. Alternative Theories Under State Contract Law

Finally, even if the Ninth Circuit could not find for Gardner based upon federal copyright law, the court should have left the question of the assignability of exclusive licenses to state contract law. Federal law generally preempts state law when there is a conflict between state and federal law.<sup>123</sup> In *Gardner*, however, it is not clear that the two are in conflict. Federal copyright and patent law seek to reward patent and copyright owners only enough to ensure that they continue to create protected

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113. 465 F.2d 1303 (7th Cir. 1972).

114. *Gardner*, 279 F.3d at 780-81.

115. See Kang, *supra* note 77, at 374 (discussing the difficulty of equating "the policy considerations underlying nonexclusive licenses with policy considerations for exclusive licenses").

116. *Id.*

117. *Id.*

118. *Id.* (citing *Intellectual Prop. Dev., Inc. v. TCI Cablevision of Cal., Inc.*, 248 F.3d 1333, 1342 (9th Cir. 2001)).

119. *Id.* (citing *Intellectual Prop. Dev., Inc.*, 248 F.3d at 1344).

120. *Id.*

121. *Id.*

122. *Id.*

123. See *Gardner*, 279 F.3d at 781. "State law controls issues of contractual interpretation, including agreements that pertain to copyrighted material, unless state law interferes with federal copyright law or policy." (citing *S.O.S., Inc. v. Payday, Inc.*, 886 F.2d 1081, 1088 (9th Cir. 1989)).

works.<sup>124</sup> The free assignability of a license without a nonassignment clause does not necessarily have any bearing on whether a patentee or copyright owner receives adequate compensation for their creative endeavors.<sup>125</sup> For instance, a licensee may sublicense an exclusive right to another party because the licensee does not have the resources to adequately exploit the license himself.<sup>126</sup> In this case, the copyright owner may actually receive more royalties from allowing the licensee to sublicense at his discretion.<sup>127</sup> In this instance, the goals of federal law would not necessarily weigh against the goals of state law to encourage the free assignability of licenses.

Without preemption by federal copyright law, the case could have been decided under state contract law. Under state contract law, the default rule would shift so that the assumption would be that licensees could transfer their licenses as long as that was the original intent of the contract.<sup>128</sup> Since state law favors the free assignability of licenses in the absence of contractual language,<sup>129</sup> the burden would be on licensors to include nonassignment clauses if they feared licensees might assign the license to a party less able to market or produce the licensed work and make royalty payments.<sup>130</sup> Under state law, license assignments could be voided on public policy grounds if licensees assigned the licenses to parties who could not effectively exploit the licenses.<sup>131</sup> Since licensees would still be in contractual privity with licensors, licensees would remain liable for nonperformance or inadequate performance by assignees.<sup>132</sup> If the sublicensee did not perform to a level of reasonable expectations, the licensee would be liable to the owner for breach of contract.<sup>133</sup> Licensors might even prefer this arrangement because sublicensees would not be able to indemnify licensees and therefore owners could sue both licensees and sublicensees for breach of contract.<sup>134</sup> Licensors would also still be able to

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124. See Fellmeth, *supra* note 63, at ¶ 83; See generally MERGES, ET AL., *supra* note 1, at 12-18 (discussing the economic incentives of copyright law).

125. See generally Fellmeth, *supra* note 63, at ¶ 57-62 (discussing the advantages of allowing assignments of licenses without permission from original licensors).

126. See Fellmeth, *supra* note 63, at ¶ 62.

127. *Id.*

128. See generally Fellmeth, *supra* note 63, at ¶ 54 (discussing the operation of assignment of licenses under state contract law).

129. *Id.*

130. *Id.*

131. *Id.* at ¶ 68.

132. *Id.* at ¶ 60.

133. See *id.* at ¶ 62.

134. *Id.*

collect damages, but they would be for breach of contract rather than copyright infringement.<sup>135</sup>

The benefit of allowing state contract law to govern assignability of licenses is in the greater flexibility of this system. By allowing the assignability of licenses, licensees could adjust to market forces or even recruit outside assistance to help more fully exploit their rights under the license.<sup>136</sup> The only downside might be in harm to the owner's reputation from scandalous or improper use of the owner's license.<sup>137</sup> However, this problem could be avoided without the negative effects that will ensue in the entertainment industry due to the *Gardner* decision, if licensors would just include nonassignment clauses in future contracts.<sup>138</sup>

Leaving the question of assignability to state contract law would not leave licensors' rights unprotected. Common law will void an assignment of rights under three conditions. First, the assignment will be voided if it causes "substantial detriment to the obligor."<sup>139</sup> State common law would therefore protect the licensor in any instance where the assignment increased the risk to the licensor or prevented the licensor from obtaining a return on the exploitation of the license.<sup>140</sup> Second, no assignment can violate public policy.<sup>141</sup> And third, no licensee can assign rights that are so personal to an owner that they would discourage the creation of intellectual property.<sup>142</sup> Thus, under state common law, judges might have more discretion to not only look at the original intent of licensees and licensors, but also examine individual outcomes of assignments on a case-by-case basis.

#### IV. NEGATIVE PRACTICAL IMPLICATIONS IN THE ENTERTAINMENT INDUSTRY

Although *Gardner* clarifies the law with respect to the default rule regarding the assignability of exclusive licenses, for many years the assumption in the entertainment industry was that exclusive licenses could be as-

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135. See generally *id.* at ¶ 72 (discussing the differences between damages collected for copyright infringement and breach of contract claims).

136. See *id.* at ¶ 62.

137. *Id.* at ¶ 65.

138. See *id.* at ¶ 69.

139. *Id.* at ¶ 67.

140. *Id.*

141. *Id.* at ¶ 68.

142. *Id.* at ¶ 67-68.

signed.<sup>143</sup> The decision is therefore likely to cause much instability in the more immediate future.<sup>144</sup>

The *Gardner* decision has several basic practical implications for both the immediate and the more distant future. By changing the default rule with regard to proprietary rights for owners of exclusive licenses, *Gardner* leaves licensees with “the burden of negotiating clauses in their exclusive license agreements” that will allow these licensees to assign or sublicense their rights.<sup>145</sup> As a result, it is now imperative that record and production companies negotiate for transfer rights when they license “underlying works, such as spec scripts, books, plays and songs.”<sup>146</sup> In the event that a record or production company goes bankrupt, a trustee will want to sell, as one of its assets, TV programs, movies or recordings based on underlying licensed works.<sup>147</sup> After *Gardner*, the trustee must obtain permission from a licensor in order to do this if such terms are not negotiated into the original agreement.<sup>148</sup>

Unfortunately for many licensees, for many years after passage of the 1976 Act, the assumption in the entertainment industry was that complete divisibility had replaced the doctrine of indivisibility with regard to exclusive licenses.<sup>149</sup> Based upon this assumption, large numbers of movies have been made through exclusive license agreements that say nothing about assignability.<sup>150</sup> *Gardner* could now authorize “owners of copyrights to underlying works to challenge the distribution rights of every movie whose distribution rights were transferred” to a new distributor.<sup>151</sup> This would include transfers “by sale, as a result of bankruptcy, and [possibly even] merger.”<sup>152</sup> The decision also does not appear to make an ex-

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143. See *supra* text accompanying note 7.

144. See generally SOBEL, *supra* note 7. (discussing how following the *Gardner* decision, “owners to copyrights to underlying works [may] challenge the current distribution rights to every movie whose distribution rights were transferred to a new distributor”).

145. EXCLUSIVE COPYRIGHT, *supra* note 6, at ¶ 8.

146. *Id.*

147. *Id.*

148. See *id.*

149. See *supra* text accompanying note 7.

150. See HALBERSTADTER, *supra* note 4, at ¶ 14. (“But often, the exclusive right to producer a motion picture based on a copyrighted novel or to distribute an existing television series is memorialized in a “short form” agreement that does not specifically address the licensee’s right to transfer all or a portion of its rights.”).

151. SOBEL, *supra* note 7.

152. *Id.*

ception for copyrights to underlying works that were granted in perpetuity.<sup>153</sup>

The ramifications of *Gardner* could be tremendous because of historical shifts in the film industry over the past twenty-four years, following passage of the 1976 Act. In the 1980s, Hollywood's studios switched from making their own feature movies to becoming distributors of "filmed entertainment."<sup>154</sup> This meant that they no longer derived revenue just from big screen theater releases, but from distribution of several versions of the copyrighted work in multiple formats including the wide screen, VHS, cable television, and through music videos.<sup>155</sup> What was once just a theater movie, in the 1980s became a home video, television program, music video, a commercial, a hit video game, and a host of other popular ancillary products.<sup>156</sup> In order to better distribute this "filmed entertainment," in the 1980s and 1990s, many studios merged with television, cable, and broadcasting entities to form more lucrative distribution alliances.<sup>157</sup> *Gardner* could give tremendous power to copyright owners of underlying works, but the decision could also disrupt much of the studios distribution system with an onslaught of renegotiations or infringement litigation.

## V. POSSIBLE SOLUTIONS FOR AVOIDING THE NEGATIVE RAMIFICATIONS OF THE *GARDNER* DECISION IN THE ENTERTAINMENT INDUSTRY

There are a few ways to avoid the negative ramifications of *Gardner*, although each of them may be problematic. Immediately following the *Gardner* decision, the Motion Picture Association of America ("MPAA") filed an Amicus Brief in support of petition for rehearing and suggestion for rehearing en banc.<sup>158</sup> In its brief, the MPAA argued that the Ninth Circuit "misread sections of 201(d)(1) and (2) by overlooking the first sentence of clause (2) and its legislative history and by creating a restriction where none existed."<sup>159</sup> Despite the MPAA's efforts, the Ninth Circuit rejected its brief.

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153. *Id.*

154. STEPHEN PRICE, A NEW POT OF GOLD: HOLLYWOOD UNDER THE ELECTRONIC RAINBOW, 1980-1989, at xi-xiv (Charles Harpole ed., 2000).

155. *Id.*

156. *Id.* at 132-37.

157. *Id.* at xiii-xiv.

158. Brief of Amicus Curiae Motion Picture Association of America, Inc. in Support of Petition for Rehearing and Suggestion for Rehearing En Banc, *Gardner v. Nike*, 279 F.3d 774 (9th Cir. 2002) (No. 00-56404).

159. *Id.* at 5.

Congress could amend the 1976 Act to better clarify its meaning, or the *Gardner* decision could be appealed to the Supreme Court. To remedy the Act's weaknesses, Congress could amend the 1976 Act by adding the words "ownership rights" to § 201(d)(2) so that it would read: "The owner of any particular exclusive right is entitled to the extent of that right, to all of the ownership rights, protection, and remedies accorded to the copyright owner by this title." This would clarify that ownership rights, including transfer and sublicensing, were intended to be included in a transfer of an exclusive license along with protection and remedies. The amendment, however, may raise some Takings clause issues.<sup>160</sup> Amending the Copyright Act as such at this point may be seen by some licensors as taking property already defined as their own.

## VI. CONCLUSION

While the *Gardner* decision may serve policy considerations by clarifying the ownership status of exclusive licenses negotiated from this point forward, *Gardner's* most significant implications are for license agreements negotiated prior to the decision. The decision will have profound negative ramifications on the entertainment industry for the large number of license agreements negotiated prior to *Gardner*, but following implementation of the 1976 Act. These adverse affects could have been avoided. The decision itself was misguided in that the Ninth Circuit's statutory interpretation is questionable, the Ninth Circuit ignored prior decisions, the Ninth Circuit's analogies to patent law were weak, and the issues in the case might have been better left to state contract law. The im-

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160. U.S. CONST. amend. V; According to the Fifth Amendment of the U.S. Constitution: "Nor shall private property be taken for public use, without just compensation." Although the Takings Clause originally applied to real property, the Supreme Court has held that intangible property, such as a copyright, can have the same characteristics as real property and thus is protected under the Takings Clause. If *Gardner* establishes that exclusive licensees are not true owners of copyrights, then an amendment to the 1976 Act might be viewed as a "taking" from original copyright proprietors. As long as there is some conceivable public character to the taking it will be deemed a public use. Some form or compensatory payment or additional royalty fee might need to be incorporated into an amendment to satisfy this prong of the Takings Clause test. See generally Laurie Messerly, "Taking" Away Music Copyrights: Does Compulsory Licensing of Music on the Internet Violate the Fifth Amendment's Takings Clause?, CFIF.ORG, [http://www.cfif.org/5\\_8\\_2001?Free\\_line/current/free\\_line\\_copyright.html](http://www.cfif.org/5_8_2001?Free_line/current/free_line_copyright.html) (available as of Dec. 18, 2002) (describing questions that must be addressed by a court under the Takings Clause before the seizing of intellectual as opposed to real property); See also *Ruckelshaus v. Monsanto Co.*, 467 U.S. 986, 1000-1001 (1984) (laying out the test as to what would constitute a taking of intellectual property rights under the Fifth Amendment).

plications of *Gardner* could be rectified by the Supreme Court or an amendment to the 1976 Act.



## ADDITIONAL DEVELOPMENTS—BUSINESS LAW

### *UNITED STATES V. \$734,578.82*

*286 F.3d 641 (3d Cir. 2002)*

The Court of Appeals for the Third Circuit ruled on whether the government may forfeit online gambling proceeds from a U.S.-based financial intermediary under 18 U.S.C. §1955(d) when all the gambling activities took place lawfully in the United Kingdom.

Intercash Financial Services (IFS-NJ), a New Jersey corporation, received funds from bettors and deposited those funds into Fleet Bank accounts maintained for Intercash Financial Services, Ltd. (IFS-Canada)/Intercash Ltd. I.O.M (IOM), and American Sports Ltd. (ASL), a company operating in the United Kingdom under British government licenses. The bettors would then call ASL's international toll free number to place wagers. Therefore, the actual betting only took place in England. In December 1996, the U.S. government seized some of the Fleet Bank accounts maintained for IOM and ASL (collectively Claimants), and three years later, filed a civil *in rem* forfeiture action under § 1955(d) against those funds in the U.S. District Court for the District of New Jersey. The court granted summary judgment for the government.

Under § 1955(d), any property used in "illegal gambling" may be seized and forfeited to the United States. To satisfy the "illegal gambling" requirement, however, a gambling business needs to meet three conditions, pursuant to § 1955(b)(1): (1) it is conducted in violation of the law of the State (here New Jersey); (2) it involves five or more persons; and (3) it has been or remains in continuous operation for over 30 days or has a gross revenue of \$2000 in any single day.

Claimants appealed and the Third Circuit affirmed the district court judgment. The court found that the relevant New Jersey Statute N.J.S.A. 2C:37-2 broadly prohibits promotion of gambling, which includes any conduct that materially aids any form of gambling activity. Since IFS-NJ materially aided in the gambling enterprise in the United Kingdom, the court concluded that the government established probable cause that IFS-NJ was promoting gambling in violation of the New Jersey law. The court further found that IFS-NJ satisfied two other conditions of § 1955(b)(1), therefore it held that the government satisfied its burden of proof that IFS-NJ's activities constituted an illegal gambling business.

Furthermore, the court held that forfeiture can be ordered in the absence of any wrongdoing on Claimant's part. Therefore, although Claimants are doing legal business in the United Kingdom, it does not preclude the U.S. government from its forfeiture action aimed at business activity deemed illegal in the U.S. The court further rejected Claimants' several other arguments, including overreaching of the law, rule of lenity, and asserting jurisdiction in violation of bilateral treaty between the U.S. and the United Kingdom. The court held the position that its ruling here does not constitute an extraterritorial application of federal law to British citizens. In contrast, the court stated that the government is not required to tolerate activity that it defines as illegal merely because it affects someone who may live in a country where the activity is legal.



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**TELECOMMUNICATIONS**



## RECENT DEVELOPMENTS— TELECOMMUNICATIONS

### *NATIONAL CABLE & TELECOMMUNICATIONS ASSOCIATION INC. V. GULF POWER CO.*

*534 U.S. 327 (2002)*

The Supreme Court ruled that the Pole Attachments Act applies to cable television systems' utility pole attachments that provide commingled cable television and high-speed Internet access services, and to attachments used by wireless telecommunications providers.

In 1978, Congress enacted the Pole Attachments Act, which requires the Federal Communications Commission (FCC) to regulate the rates, terms, and conditions for pole attachments. The Act defines a "pole attachment" as "any attachment by a cable television system to a pole, duct, conduit, or right-of-way owned or controlled by a utility." The Telecommunications Act of 1996 expanded the definition to include "any attachment by a . . . provider of telecommunications service."

The FCC interpreted the Pole Attachments Act, as amended by the Telecommunications Act of 1996, to cover pole attachments used for both commingled services and wireless telecommunications services. Certain pole-owning utilities challenged both interpretations and the challenges were consolidated in the Eleventh Circuit, which struck down the FCC's interpretation. The Eleventh Circuit excluded attachments used for commingled services from the scope of the Act because neither of the only two specific rate formulas mentioned in the Act covers commingled services. One rate formula applies to cables used solely to provide cable service, and the other to telecommunications services. The court excluded attachments used solely for wireless communications because it interpreted the definition of pole attachment to be restricted to attachments used in part for wire communication.

The Supreme Court reversed, stating that both types qualify as "attachments" under the amended Act. As for attachments used for commingled services, the Court found that the phrase "any attachment by a cable system" used in the definition of "pole attachment" is dispositive, because the additional use of the attachments for high-speed Internet access does not mean that the cable ceases to be an attachment "by a cable television system." In doing so, the Court rejected the utility pole owner's argument that the Act should be interpreted to regulate the type of wire being attached rather than the identity of the party seeking attachment. Furthermore, the Court stated that even if the statute is ambiguous, the FCC's interpretation of the statute would stand as a reasonable interpretation under the deferential standard of review set forth in *Chevron U.S.A. Inc. v. Natural Resources Defense Council, Inc.* 467 U.S. 837 (1984).

As for attachments used for wireless telecommunications services, the Court noted that the amended Act requires the FCC to regulate "any attachment by a . . . provider of telecommunications service." Since a provider of wireless telecommunications service is a "provider of telecommunications service," its attachments literally fall under the Act. Therefore, the Court held that the FCC's decision to assert jurisdiction over these attachments is reasonable and entitled to the Court's deference.

***WORLDCom, INC. v. FEDERAL COMMUNICATIONS  
COMMISSION***

*288 F.3d 429 (D.C. Cir. 2002)*

The D.C. Circuit ruled on whether the FCC could create an exception to the reciprocal compensation requirement under the 1996 Telecommunications Act, 47 U.S.C. § 251(b)(5), for calls made to internet service providers (ISPs) located within the caller's local calling area.

WorldCom consists of competitive local exchange carriers (LECs) that deliver calls to ISPs, and thus stands to lose reciprocal compensation payments if § 252(b)(5) does not apply to local calls made to ISPs. In an earlier order, the FCC applied its "end-to-end" analysis and excluded ISP calls from the reach of § 251(b)(5) on the theory that they were not "local." On review, the D.C. Circuit held that the order failed to adequately explain why the traditional "end-to-end" jurisdictional analysis was relevant to deciding whether ISP calls fit the local call or the long-distance call model and vacated and remanded the order. On remand, the FCC again reached the conclusion that the compensation between two LECs involved in delivering internet-bound traffic to an ISP should be governed by the reciprocal compensation provision of § 251(b)(5), basing its decision on the language of § 251(g).

WorldCom challenged the remand order, alleging that the FCC erred in finding that section 251(g) authorized the Commission to exclude such calls from § 251(b)(5). The D.C. Circuit agreed and remanded the order, holding that § 251(g) provides only for continued enforcement of certain pre-Act regulatory interconnection restrictions stemming from the initial breakup of the Bell system (and subsequent regulations), but did not contemplate nor even apply to services entirely between competing LECs. The court noted that the Commission could not point to any pre-Act, federally created obligation for LECs to interconnect with each other for ISP-bound calls. Furthermore, the court noted, § 251(g) applies specifically to services provided to interexchange carriers (IXCs) and ISPs. LECs' services to other LECs, even if en route to an ISP, are not "to" either an IXC or to an ISP for the purposes of the statute. The court declined to rule on Worldcom's other attacks on various interim provisions adopted by the Commission, however, as it is unclear what legal basis those interim provisions will stand on in the absence of the § 251(g) justification. The court declined to vacate the order on the grounds that there is a significant likelihood that the Commission has the authority to create such provisions on separate legal grounds.

## ***FCC RULES CABLE ISPS NOT REQUIRED TO SHARE NETWORK***

On March 14, 2002 the Federal Communications Commission (“FCC”) made a Declaratory Ruling that cable modem service will be classified and regulated as an “information service.” The decision not to classify cable modem service as a “telecommunications service” means that cable modem service will not be subject to regulation under the Telecommunications Act of 1996. As a result of this ruling, cable companies will only have to share their networks when required by the government. Telephone companies, in contrast, are subject to regulation that forces sharing of local networks.

This decision is designed to promote widespread deployment of broadband services by encouraging greater investment and innovation in a competitive market through minimized regulation. The FCC also hopes to address the discrepancy in Broadband availability between urban and rural Americans. Ultimately, the FCC decision aims to promote better quality, lower prices, and more choices for consumers of Broadband services.

Under the Telecommunications Act of 1996, Regional Bell Operating Companies (RBOCs) right to offer long-distance telephone and data service is contingent on proof that they provide adequate access to their local networks to competing telephone companies. RBOCs argue this requirement discourages their expansion of broadband capability and may be further disadvantaged by the FCC’s latest ruling, as their broadband service lags far behind cable providers, who control approximately two-thirds of the broadband market.

Telephone companies and consumer groups have filed suit in federal court challenging the ruling. While cable broadband providers clearly support the FCC’s ruling, RBOCs argue that it will only maintain the cable industry’s control of the broadband market. Interestingly, the FCC’s elimination of the requirement that cable companies share their networks with competitors is similar to the requirement that the Tauzin-Dingell bill would do away with for RBOCs in the Digital Subscriber Line (“DSL”) market.

Amid much controversy, proponents of the decision claim that hearty competition between cable-modem, digital subscriber line, and satellite-delivered broadband Internet services justifies the FCC’s policy of regulatory restraint. Critics of the FCC’s decision voice concern about ever increasing media consolidation, arguing that the free environment making the Internet valuable in the first place will be denegated by an environment controlled by major monopolists. Commentators on both sides of the debate, however, agree that increased broadband deployment is perhaps the key element necessary to propel the economy into expansion.



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**ENTERTAINMENT LAW**



## WEBCASTING ROYALTY RATES

By Karen Fessler

The emergence of the Internet has been both a blessing and a curse for the recording industry. While this far-reaching medium offers record companies an unprecedented opportunity to reach more consumers around the globe, it also threatens the very control that the industry exercises over its sound recordings and may undercut traditional record sales.<sup>1</sup> The passage of two key pieces of legislation in the past decade—the Digital Performance in Sound Recordings Act of 1995 (DPSRA)<sup>2</sup> and the Digital Millennium Copyright Act of 1998 (DMCA)<sup>3</sup>—has significantly helped the recording industry to control the distribution of its sound recordings over the Internet.

The legislation has meanwhile created conflict between record companies and webcasters,<sup>4</sup> the Internet radio services that transmit copyrighted music over the Web. While the legislation grants record companies the exclusive right to the digital performance of their recordings, it also creates a compulsory licensing regime, which gives eligible webcasters the automatic right to transmit music in exchange for payments of royalties to record companies. This Note focuses on the process of determining webcasting royalties, which has become a source of discord.

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1. U.S. music sales declined 4 percent to \$13.7 billion in 2001 from \$14.3 billion in 2000, according to the Recording Industry Association of America, which represents U.S. record labels. *Recording Industry Announces 2001 Year-End Shipments*, at [http://www.riaa.com/News\\_Story.cfm?id=491](http://www.riaa.com/News_Story.cfm?id=491) (last visited Feb. 3, 2003). For the first six months of 2002, music sales declined 6.7 percent to \$5.53 billion from \$5.93 billion for the first six months of 2001. *RIAA Releases Mid-Year Snapshot of Music Industry*, at [http://www.riaa.com/News\\_Story.cfm?id=552](http://www.riaa.com/News_Story.cfm?id=552) (Aug. 26, 2002).

2. Digital Performance Right in Sound Recordings Act of 1995, Pub. L. No. 104-39, 109 Stat. 336 (1995) (codified as amended in scattered sections of 17 U.S.C.).

3. Digital Millennium Copyright Act of 1998, Pub. L. No. 105-304, 112 Stat. 2860 (1998) (codified as amended in scattered sections of 17 U.S.C.).

4. For the purposes of this Note, webcasting refers to noninteractive, nonsubscription streaming of audio on the Internet. Webcasts may consist of retransmissions of over-the-air broadcasts or of Internet-only services. Webcasters employ a technology known as “streaming,” in which packets of digitized transmissions are sent to individual recipients, who use software that reassembles the packets and plays them back immediately.

Record companies and webcasters unsuccessfully attempted to reach an industry-wide agreement on royalty rates under the statutory license.<sup>5</sup> After negotiations broke down, the Library of Congress (“LOC”)<sup>6</sup> convened a Copyright Arbitration Royalty Panel (“CARP”), which issued a royalty rate recommendation in February 2002.<sup>7</sup> However, the LOC ultimately rejected this recommendation and issued its own order in July 2002 establishing rates.<sup>8</sup> Both record companies and webcasters contested the rate determination.<sup>9</sup>

This Note addresses the shortcomings of the royalty rate determination process; in particular, it examines the workings of the CARP and the hypothetical marketplace standard that it and the LOC used to determine the royalty rates. This Note will proceed in two parts. Part I.A considers the public performance right as it emerged in the DPSRA and DMCA as an important context and background to the webcasting royalty dispute. Part I.B examines how CARP and LOC determine royalty rates. Part II analyzes the divergent interests of webcasters, record companies and the public, and discusses the failings of the CARP rate-setting process. Part II argues that the standard is unworkable and that the CARP distorts the very market that it seeks to replicate, resulting in royalty determinations that undermine the balance that copyright law strives to maintain between fostering innovation and providing fair compensation to copyright holders to

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5. See Bob Tedeschi, *Web Radio Awaits a Ruling on Royalties They Must Pay Recording Companies to Stream Music*, N.Y. TIMES, Feb. 18, 2002, at C5; see also Digital Performance Rights in Sound Recordings and Ephemeral Recordings, 66 Fed. Reg. 38,324 (July 23, 2001).

6. The Library of Congress oversees the U.S. Copyright Office, which administers Copyright Arbitration Royalty Panels. These panels meet for limited times to adjust rates and distribute royalties. 17 U.S.C. § 801(b) (2000).

7. In the Matter of Rate Setting for Digital Performance Right in Sound Recordings and Ephemeral Recordings, Report of the Copyright Arbitration Panel, available at [http://www.copyright.gov/carp/webcasting\\_rates.pdf](http://www.copyright.gov/carp/webcasting_rates.pdf) [hereinafter CARP Report].

8. Determination of Reasonable Rates and Terms for the Digital Performance of Sound Recordings and Ephemeral Recordings, Final Rule, 67 Fed. Reg. 45,240 (July 8, 2002) (codified at 37 C.F.R. pt. 261) [hereinafter LOC Report].

9. In December 2002, President Bush approved legislation allowing small webcasters to pay lower royalty rates than the ones set by the LOC. The legislation, known as the Small Webcaster Settlement Act (“SWSA”), authorizes the music industry’s principal royalty collector, SoundExchange, to negotiate binding royalty contracts with small webcasters. Pub. L. No. 107-321, 116 Stat. 2780 (2002) (to be codified at 17 U.S.C. §§ 112, 144). Pursuant to the SWSA, SoundExchange, and a coalition of webcasters negotiated a royalty agreement for small commercial webcasters that allows these webcasters to pay the negotiated fees instead of the fees determined by the LOC. 67 Fed. Reg. 78,510.

promote the development of the webcasting medium.<sup>10</sup> It emphasizes that the CARP discourages meaningful voluntary negotiations between parties and that the standard that CARP uses to set rates is inadequate.

## I. BACKGROUND

### A. Public Performance Rights in Sound Recordings

Recorded songs, whether on a compact disk or a cassette tape, typically consist of two separate copyrightable works: the “musical work,” the series of notes and lyrics that a composer creates, and the “sound recording,” the actual sound of a performance of those notes and lyrics that is fixed onto a CD or cassette.<sup>11</sup>

This distinction is important in the context of the copyright law: copyright owners hold a bundle of five exclusive rights specified in § 106 of the 1976 Copyright Act: the rights to reproduce, distribute, perform publicly, create derivatives, and display their work.<sup>12</sup> However, these rights are limited for holders of copyrights in sound recordings, typically record companies, who generally do not have the exclusive right to publicly perform their works.<sup>13</sup> Therefore, when a song is played on the radio, the composer of the song—the holder of the musical work copyright—receives a royalty payment from the radio station,<sup>14</sup> while the record company—the holder of the sound recording copyright—receives nothing.<sup>15</sup>

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10. In this balance, fair compensation to creators is secondary to the public benefit. *Twentieth Century Corp. v. Aiken*, 422 U.S. 151, 156 (1975) (stating that the law “reflects a balance of competing claims upon the public interest: Creative work is to be encouraged and rewarded, but private motivation must ultimately serve the cause of promoting broad public availability of literature, music, and the other arts”).

11. See 1 MELVILLE B. NIMMER & DAVID NIMMER, *NIMMER ON COPYRIGHT* § 2.10[A] (2002); see also R. Anthony Reese, *Copyright and Internet Music Transmissions: Existing Law, Major Controversies, Possible Solutions*, 55 U. MIAMI L. REV. 237, 240-41 (2001).

12. 17 U.S.C. § 106 (2000).

13. See *id.* at § 106(4) (“[I]n the case of literary, musical, dramatic, and choreographic works, pantomimes, and motion pictures and other audiovisual works, [the copyright owner has the exclusive right] to perform the copyrighted work publicly.”); see also NIMMER, *supra* note 11, at § 8.14[A] (2002) (“[T]his excludes from the performance right only pictorial, graphic and sculptural works, and sound recordings.”).

14. Payments to composers are collected and distributed by three principal agencies: American Society of Composers, Authors and Publishers (“ASCAP”), Broadcast Music Inc. (“BMI”), and SESAC, Inc. The societies consist of copyright owners who grant the societies the nonexclusive right to license public performances of their musical works. The societies, in turn, grant blanket licenses to such entities as radio, television stations,

Congress did not address this anomaly until the 1990s when the Internet began to emerge as a viable distribution medium and the digital transmission of songs became widespread. In the past decade, Congress has made two amendments to the 1976 Copyright Act—the DPSRA and DMCA—granting record companies a limited right over the public performance of their sound recordings, thus allowing them to collect royalties when their sound recordings are transmitted through digital media.<sup>16</sup> Both the DPSRA and DMCA were explicitly designed to stimulate the development of new Internet distribution methods and thereby facilitate the delivery of sound recordings to consumers.<sup>17</sup> Congress also sought to ensure that copyright owners would be able to receive fair compensation as new digital technologies emerged.<sup>18</sup> The amendments established a compulsory licensing regime for the transmission of digital sound recordings on the Internet. The compulsory license enables eligible webcasters to automatically obtain a license to transmit sound recordings, easing their burden of having to locate and negotiate individual license agreements with each record company that holds the sound recording copyright to each song transmitted.<sup>19</sup>

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nightclubs and restaurants, meaning these entities can perform any work in the societies' repertoire. *See* AL KOHN & BOB KOHN, KOHN ON MUSIC LICENSING 1307 (3d ed. 2002).

15. Radio broadcasters were able to exclude payments for sound recordings from the Copyright Act because the broadcasting industry has a powerful lobby on Capitol Hill through the National Association of Broadcasters. *See* MERGES ET. AL., INTELLECTUAL PROPERTY IN THE NEW TECHNOLOGICAL AGE 480 (2d ed. 2000); KOHN & KOHN, *supra* note 14, at 1296-97 (explaining that music publishers and songwriters also resisted a public performance right for sound recordings because they feared that broadcasters would have less money to pay for the performance of their songs if broadcasters were forced to pay royalties to record companies as well).

16. *See* 17 U.S.C. § 106(6) (2000).

17. *See* S. REP. NO. 104-128, at 14 (1995), *reprinted in* 1995 U.S.C.C.A.N. 356, 361 (“These new digital transmission technologies may permit consumers to enjoy performances of a broader range of higher-quality recordings than has ever before been possible . . . . Such systems could increase the selection of recordings available to consumers, and make it more convenient for consumers to acquire authorized phonorecords.”).

18. *See id.* at 10 (“The purpose of [the DPSRA] is to ensure that performing artists, record companies and others whose livelihood depends upon effective copyright protection for sound recordings, will be protected as new technologies affect the ways in which their creative works are used.”).

19. The other compulsory licenses under the 1976 Copyright Act cover cable and satellite transmissions of television programs under 17 U.S.C. §§ 111, 119, 122; phonorecords under § 115; coin-operated phonorecord players or jukeboxes under § 116; and noncommercial broadcasts under § 118.

### 1. *Digital Performance Right in Sound Recordings Act*

The DPSRA created a three-tiered system under which different kinds of Internet services receive varying exposure to the performance right:<sup>20</sup>

(1) "Exempt transmissions" consist of nonsubscription digital audio transmissions which, like analog radio broadcasts, are exempt from the digital performance right, meaning recording artists and producers do not have a right to control these transmissions and demand compensation;<sup>21</sup> (2) non-exempt transmissions subject to the compulsory license consist of noninteractive subscription digital transmissions;<sup>22</sup> (3) non-exempt transmissions that are not eligible for the compulsory license consist of on-demand interactive digital transmissions,<sup>23</sup> sometimes referred to as the "Celestial jukebox."<sup>24</sup> Sound recording copyright holders have full control over Celestial jukebox transmissions, meaning those wishing to digitally transmit music interactively must seek licenses from the copyright holders.<sup>25</sup>

The public performance right granted by the DPSRA is narrow and contains many exceptions.<sup>26</sup> For example, it only applies to sound recordings transmitted "by means of a digital audio transmission,"<sup>27</sup> which exempts analog AM and FM broadcasts, or other public performances that do not involve a transmission, such as playing CDs as background music

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20. See Jane C. Ginsburg, *Copyright Legislation for the "Digital Millennium,"* 23 COLUM.-VLA J.L. & ARTS 137, 167 (1999) ("The structure of the amendments addressed a spectrum of digital performances, from those resembling traditional radio broadcasts, to the 'celestial jukebox' model of music on demand.").

21. See 17 U.S.C. § 114(d)(1) (1994 & Supp. II 1996).

22. See *id.* § 114(d)(2).

23. See *id.* § 114(d)(3).

24. See PAUL GOLDSTEIN, *COPYRIGHT'S HIGHWAY: FROM GUTENBERG TO THE CELESTIAL JUKEBOX* 199 (1995) (describing future interactive technology as "a technology-packed satellite orbiting thousands of miles above Earth, awaiting subscriber's order—like a nickel in the old jukebox, and the punch of a button-to connect him to any number of selections from a vast storehouse via a home or office receiver . . .").

25. See Reese, *supra* note 11, at 346-47.

26. The DPSRA was narrowly crafted to address concerns about the impact that certain kinds of subscription and interactive audio services might have on record sales. The limitations are geared toward preventing subscription services from cutting too deeply into sales of pre-recorded music. S. REP. NO. 104-128, at 15 (1995), *reprinted in* 1995 U.S.C.C.A.N. 356, 362. The limitations are imposed in 17 U.S.C. § 114(d)-(j) (2000). For a description and analysis of the DPSRA, see David Wittenstein & M. Lorraine Ford, *The Webcasting Wars*, 2 J. INTERNET L. 1, 4 (1999).

27. See 17 U.S.C. § 106(6) (2000) (stating that the copyright owner has the exclusive right "in the case of sound recordings, to perform the copyrighted work publicly by means of a digital audio transmission").

in a restaurant.<sup>28</sup> The Act also covers only audio performances and does not cover the audio portion of audiovisual works such as movies.<sup>29</sup> Services not meeting the eligibility requirements must negotiate voluntary licenses with record companies, which are free to refuse to license their works.<sup>30</sup>

Webcasts, as noninteractive, nonsubscription transmissions, apparently fall outside of both the sound recording copyright holder's right of control and the obligation to obtain a compulsory or voluntarily negotiated license under the DPSRA framework.<sup>31</sup> The absence of webcasts from the express language of the act became a point of contention in the dialogue between the record industry and webcasters. Webcasters argued that as nonsubscription transmission services, they were similar to traditional radio broadcasters, and therefore were exempt from public performance obligations under the first category of transmissions specified in the DPSRA. The recording industry, on the other hand, argued that webcasters were subject to the public performance right, and that record companies could therefore control the right to the performances and receive compensation.<sup>32</sup> With this debate brewing, the recording industry began to lobby for further revision to the Copyright Act to account for webcast transmissions.<sup>33</sup>

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28. RALPH S. BROWN & ROBERT C. DENICOLA, COPYRIGHT: UNFAIR COMPETITION, AND RELATED TOPICS BEARING ON THE PROTECTION OF WORKS OF AUTHORSHIP 332-33 (8th ed. 2002) (1958); *cf.* 17 U.S.C. § 106(4) (2000) (“[I]n the case of . . . musical . . . works . . . [the copyright holder has the exclusive right] to perform the copyrighted work publicly . . .”).

29. BROWN & DENICOLA, *supra* note 28, at 332-33; 17 U.S.C. § 114(j)(5) (2000).

30. For background on how compulsory licensing functions, see J. THOMAS MCCARTHY, MCCARTHY'S DESK ENCYCLOPEDIA OF INTELLECTUAL PROPERTY 66-69 (1995). *See also* Robert Cassler, *Copyright Compulsory Licenses—Are They Coming or Going*, 37 J. COPYRIGHT SOC'Y 231 (1990) (describing various compulsory licenses, and the legal, philosophical, economic, and political factors contributing to the creation or elimination of these licenses).

31. For background on the DPSRA's omission of webcasts, see Ginsburg, *supra* note 20, at 167 (stating that the DPSRA's “expansion of the sound recording copyright turn[ed] out to have omitted a principal form of Internet exploitation of sound recordings: audio ‘streaming’ or ‘webcasting’ of recorded performances”).

32. *See* KOHN & KOHN *supra* note 14, at 1300-01; Kimberly L. Craft, *The Webcasting Music Revolution is Ready to Begin, as Soon as We Figure Out the Copyright Law: The Story of the Music Industry at War with Itself*, 24 HASTINGS COMM. & ENT. L.J. 1, 12-13 (2001) (describing how the recording industry “[felt] the rug pulled out from under it” after digital broadcasters successfully argued that they were not liable for royalties because they were not covered by the DPSRA).

33. *See* Craft, *supra* note 32, at 12-13.

## 2. *Digital Millennium Copyright Act*

Congress responded to the uncertainty with the passage of the Digital Millennium Copyright Act,<sup>34</sup> which established a compulsory license for eligible nonsubscription transmissions: noninteractive, nonsubscription digital audio transmissions, or webcasts.<sup>35</sup> The DMCA retains the three-tiered structure of the DPSRA, but limits the category of transmissions that are exempted. Whereas the previous law exempted all services that were neither subscription nor interactive, the DMCA subjects some services to mandatory licensing, even if they are nonsubscription. Broadcasters who simultaneously transmit their over-the-air signal on the Internet are also subject to the compulsory license.<sup>36</sup>

The DMCA subjects all digital transmissions, subscription or not, to the compulsory license. To be eligible for the statutory license under § 114 of the Copyright Act, a webcaster must meet several criteria that are designed to ensure that webcasts do not facilitate the displacement of record sales by making it easy for users to substitute listening to the Internet transmissions for record purchases.<sup>37</sup> Among these requirements, web-

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34. The DMCA was mainly intended to implement the World Intellectual Property Organization (WIPO) Copyright Treaty and WIPO Performances and Phonograms Treaty, which were both concluded on Dec. 20, 1996 in Geneva, Switzerland. KOHN & KOHN, *supra* note 14, at 1299.

35. The DMCA requires a compulsory license for entities that fall into one of three categories: (1) subscription digital audio transmissions; (2) eligible nonsubscription transmissions; and (3) pre-existing satellite digital audio radio transmissions. 17 U.S.C. § 114(d)(2) (2000). Webcasters fall under the second category. See David Nimmer, *Ignoring the Public, Part I: On the Absurd Complexity of the Digital Audio Transmission Right*, 7 U.C.L.A. ENT. L. REV. 189, 238 (2000) (“[A]n ‘Internet radio station’ that transmits music for its entertainment value qualifies [for a statutory license].”).

36. The RIAA and broadcasters have disagreed over whether the retransmission of broadcasters’ signals on the Internet is exempt from the digital performance right. However, the Copyright Office ruled that these transmissions are subject to the statutory license of § 114(d)(2). Public Performance of Sound Recordings: Definition of a Service, 65 Fed. Reg. 77,292, 77,293 (Dec. 11, 2000) (codified at 37 C.F.R. § 201.35). A federal district court upheld this determination in *Bonneville Int’l v. Peters*, 153 F. Supp. 2d 763 (E.D.P.A. 2001). As of this writing, the U.S. Copyright Office rejected an application by broadcasters for a stay of its ruling. See *In re Public Performance of Sound Recordings: Definition of a Service, Order* (Oct. 10, 2002) available at <http://www.copyright.gov/carp/stay-amfm.pdf>. For an analysis of the applicability of the public performance right to terrestrial broadcasters, see Raffi Zerounian, *Intellectual Property: Bonneville International v. Peters*, 17 BERKELEY TECH. L.J. 47 (2002).

37. See HOUSE JUDICIARY COMM., 105th CONG., SECTION-BY-SECTION ANALYSIS OF H.R. 2281 52 (Comm. Print 1998) (“Recording artists and record companies were particularly concerned that certain types of programming, without certain limitations, might harm recording artists and record companies . . . . In order to address some of these con-

casters must only offer noninteractive programming, or programming that is not on-demand or personalized.<sup>38</sup> Webcasters also are subject to a “sound recording performance complement,” which limits webcasters to playing no more than three selections from a given phonorecord in a three-hour period.<sup>39</sup> Moreover, webcasters must not publish an advance program schedule or make announcements of upcoming songs to be transmitted,<sup>40</sup> and must not make musical programming available in archival forms that can facilitate copying.<sup>41</sup> If webcasters do not meet these requirements, they fall outside of the scope of the compulsory license provision, and must obtain licenses from each of the copyright owners of the sound recordings that they want to transmit.<sup>42</sup> Failure to do so puts the webcasters at risk of infringement liability. Webcasters wishing to operate under the compulsory license must first notify the sound recording copyright owners by filing an “Initial Notice” with the Copyright Office.<sup>43</sup>

The DMCA specifies that webcasters may receive an automatic license to those copyrighted works either at a voluntarily negotiated rate<sup>44</sup> or at a rate determined by the Copyright Office through a CARP.<sup>45</sup> Such a rate retroactively to October 1998, the date of the Act’s passage, should be ap-

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cerns expressed by recording artists and record companies, the new statutory license is conditioned on certain programming limitations . . .”).

38. 17 U.S.C. § 114(d)(2)(A)(i) (2000).

39. *Id.* § 114(d)(2)(C)(i), (j)(13).

40. *Id.* § 114(d)(2)(C)(ii).

41. *Id.* § 114(d)(2)(C)(iii).

42. *See* KOHN & KOHN, *supra* note 14, at 1336.

43. Regulations governing the Initial Notice are codified at 37 C.F.R. § 201.35 (2000). The Copyright Office has published a suggested form of the Initial Notice at <http://www.loc.gov/copyright/licensing/notice.pdf> (last visited March 2, 2003).

44. Webcasters can negotiate either with individual copyright owners or with SoundExchange, a division of the RIAA.

45. 17 U.S.C. §§ 801-802 (2000). The CARP is an ad hoc panel of three arbitrators from the private sector, who meet to adjust royalty rates and terms of payment. CARPs are typically installed when opposing parties are unable to negotiate an agreement. The panel makes recommendations to the LOC on the appropriate rates, and on how and when royalty payments should be made. The LOC then has 90 days to adopt, reject or modify the recommendation, subject to judicial review. The CARP system was created by the 1993 Copyright Royalty Tribunal Reform Act, which abolished the previous rate-setting commission known as the Copyright Royalty Tribunal. *See* NIMMER, *supra* note 11, at § 7.27 (2002). All parties who plan to participate in the hearing must file a notice of their intention and must file written direct cases with the Copyright Office and the other parties. 37 C.F.R. § 251.43 (1997). At the hearings, parties can make opening statements, summarize their cases, raise objections to evidence, and conduct direct and cross-examinations. *See* D. Alan Rudlin & Douglas W. Kenyon, 4 BUS. & COM. LITIG. FED. CTS. § 65.16 (1998).

plied until December 31, 2000.<sup>46</sup> The procedure is then repeated every two years as the webcasting industry develops, though it can be extended by agreement between the parties.<sup>47</sup>

Under the DMCA, two main royalty rates are to be established for webcasters: one for the actual digital audio transmissions;<sup>48</sup> the other for so-called ephemeral recordings.<sup>49</sup> The statutory scheme for establishing the terms and rates for both the ephemeral and public performance licenses is the same.<sup>50</sup> Although not a licensing agency, the Recording Industry Association of America (“RIAA”), which represents U.S. record labels, was designated as the entity to negotiate, collect, and distribute royalties for all of its member record labels.<sup>51</sup> The RIAA, in turn, created a subsidiary known as SoundExchange to carry out those tasks.<sup>52</sup>

## B. CARP and LOC

Pursuant to the DMCA, the Copyright Office gave record companies, represented by the RIAA, and webcasters, the opportunity to negotiate royalty rates independently.<sup>53</sup> Although the parties negotiated a total of twenty-six private agreements, they were unable to reach an industry-wide agreement.<sup>54</sup> The Copyright Office, therefore, convened a CARP to re-

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46. 17 U.S.C. § 114(f)(2)(A)-(B) (2000).

47. *Id.* § 114(f)(2)(C).

48. *Id.* § 114.

49. *Id.* § 112. The “ephemeral license” allows a transmitting organization to make a copy of a sound recording for the purpose of transmitting it to the public. *Id.* While the language of § 112(e) suggests that webcasters can make only a single ephemeral recording, in actuality, they may be allowed to produce more to the extent that “the terms and conditions of the statutory license allow for more” reproductions to be made. *Id.* Webcasters subject to the statutory ephemeral license must meet several conditions, including that the recording is retained and used solely by the webcaster that made it and that the webcaster destroy it within six months unless preserved exclusively for purposes of archival preservation. *Id.*

50. *See* 17 U.S.C. §§ 112(e), 114 (f)(2)(B) (2000).

51. *See* CARP Report, *supra* note 7, at 4.

52. SoundExchange represents more than 320 record companies and their 2,400 labels. The agency does not compete with ASCAP, BMI and SESAC, which collect performance royalties for the musical work, the songwriters, composers and music publishers. SoundExchange does not collect royalties for interactive performances of sound recordings, digital downloads, or traditional radio and television. For further information on SoundExchange, see <http://www.soundexchange.com>.

53. 17 U.S.C. §§ 112(e)(4), 114(f)(2)(A)-(B) (2000). The purpose of the voluntary negotiation period is to create an industry-wide agreement concerning royalty terms and rates.

54. LOC Report, *supra* note 8, at 45,241. The Act subordinated the rates determined through arbitration to the licensing agreements voluntarily negotiated, meaning the arbitration binds only those parties who do not reach an agreement. *See* Nimmer, *supra* note

solve the issue and determine the appropriate rates,<sup>55</sup> subject to review by the Librarian of Congress.<sup>56</sup>

### *I. CARP Procedure*

Sections 112(e)(4) and 114(f)(2)(B) require that CARP determine the royalty rates for both the digital performance and ephemeral licenses based on a standard that reflects what would have been negotiated in the marketplace between a “willing buyer” and a “willing seller.”<sup>57</sup> In setting the rates, CARP must also take into account such factors as the effect of the use of sound recordings on the sale of phonorecords, and the relative contributions made by both industries in bringing these works to the public.<sup>58</sup>

CARP held six months of hearings during which the RIAA requested that CARP set a statutory rate at 0.4 cents per stream or 15 percent of each webcaster’s gross revenue for business to consumer webcasts.<sup>59</sup> It also requested a minimum fee of \$5,000 to apply to all webcasters. For the ephemeral license, the RIAA requested a rate of 10 percent of the webcaster’s performance royalty.<sup>60</sup> Webcasters, in contrast, requested that the rate be 0.014 cents per performance or 0.21 cents per hour.<sup>61</sup> Webcasters did not propose an additional fee for the ephemeral license, and requested a minimum fee of \$250 per year.<sup>62</sup>

CARP issued its report on February 20, 2002, recommending a two-tiered royalty rate of 0.14 cents per song, per listener, for Internet-only

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35, at 219 (“In this way, it is hoped that industry-wide agreement will emerge, thus obviating the need for arbitration panels.”).

55. 37 C.F.R. §§ 251.2, 251.64 (2002); 17 U.S.C. § 803(a)(1) (2000). The Office initially set a schedule for the CARP proceeding to determine rates for the first license period covering October 28, 1998 to December 31, 2000. However, this schedule proved unworkable. While the office met to determine a new schedule, it also commenced the six-month negotiation period for the second license period, covering January 1, 2001 to December 31, 2002. Ultimately, the Office consolidated these two proceedings into a single proceeding in which one CARP would set rates and terms for the two license periods for both the webcasting license and the ephemeral recording license. Parties to the CARP proceeding included the RIAA, the National Association of Broadcasters, and webcasters such as bet.com, listen.com, Live365.com and NetRadio Corp.

56. 17 U.S.C. §§ 801-802 (2000).

57. See 17 U.S.C. §§ 112(e)(4), 114 (f)(2)(B) (2000). This standard will be explored in greater detail *infra* in Part II.C.

58. *Id.*

59. LOC Report, *supra* note 8, at 45,241.

60. *Id.* at 45,242.

61. *Id.*

62. *Id.*

webcasts, and .07 cents per song, per listener for radio retransmissions on the Internet.<sup>63</sup> Therefore, for every 1,000 people who use their computers to listen to a song broadcast on the Internet, the webcaster would have to pay 70 cents per song, if it is a terrestrial radio station, or \$1.40, if it is an Internet-only webcaster. CARP based these rates largely on a royalty agreement reached in July 2000 between Yahoo! Inc. and the RIAA [hereinafter "RIAA-Yahoo! Agreement"], which CARP determined best represented the marketplace rate for webcasting.<sup>64</sup> In doing so, it disregarded twenty-five other agreements that were reached between the RIAA and other, smaller webcasters during the voluntary negotiation period.<sup>65</sup> CARP determined that these agreements should be ignored, in part, because the RIAA was in a superior bargaining position. Also, CARP felt the RIAA was able to extract super-competitive rates based upon its market power and sophistication in negotiation and the urgent need of some licensees to enter into agreements.<sup>66</sup>

## 2. *The Library of Congress's Review*

The Librarian of Congress is empowered by the Copyright Royalty Tribunal Reform Act of 1993<sup>67</sup> to review CARP's decisions.<sup>68</sup> The Act directs the Librarian to either accept CARP's decision or reject it, and substitute his own determination if the "Librarian finds that the determination is arbitrary or contrary to the applicable provisions of this title."<sup>69</sup> The Librarian's decision can then be appealed to the D.C. Circuit Court of Appeals.<sup>70</sup>

On June 20, 2002, the Librarian rejected CARP's proposed rates after determining that CARP misinterpreted some parts of the RIAA-Yahoo! Agreement.<sup>71</sup> The Librarian concluded that one of the most significant errors made by CARP was its assumption that the parties must have agreed that radio retransmissions, as opposed to Internet-only transmissions, have

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63. See CARP Report, *supra* note 7, at 77.

64. *Id.* at 65-67, 70.

65. *Id.* at 51-54.

66. *Id.*

67. Copyright Royalty Tribunal Reform Act of 1993, Pub. L. No. 103-198, 107 Stat. 2304 (1993) (codified in scattered sections of 17 U.S.C.).

68. 17 U.S.C. § 802(f) (2000).

69. 17 U.S.C. § 802(f) (2000).

70. *Id.* § 802(g). The Copyright Act's standard for judicial review of royalty rates established by the LOC is exceptionally deferential, requiring the court to uphold a royalty award if the Librarian has offered a facially plausible explanation for it in terms of the evidence. *RIAA v. Librarian of Congress*, 176 F.3d 528 (D.C. Cir. 1999).

71. LOC Report, *supra* note 8, at 45,252. While the LOC issued its decision on June 20, 2002, it did not publish its final determination until July 8, 2002.

a large promotional impact on sales of records, and that this impact explained the decision in the RIAA-Yahoo! Agreement to set a higher rate for Internet-only transmissions than radio retransmissions.<sup>72</sup> The Librarian concluded that this assumption was arbitrary and unsupported.<sup>73</sup>

The Librarian eliminated the two-tiered royalty structure, which had been based on the alleged faulty promotional value assumption, and set a rate of .07 cents per performance for both types of transmissions.<sup>74</sup> It also set the ephemeral license rate at 8.8 percent of the performance royalties to be paid<sup>75</sup> and set a minimum fee of \$500, which is designed in part to cover the administrative costs of administering the license.<sup>76</sup> To put these rates in perspective, webcasters who transmit fifteen songs to an audience that averages 25,000 listeners would have to pay record companies a fee of \$262.50. This figure has the potential of reaching into the millions of dollars over time as the transmissions or performances add up. This amount is in addition to the license fee that webcasters already must pay to the copyright owner of the musical work.

In setting these rates, the Librarian rejected proposals by both webcasters and broadcasters to provide them with an option to pay a rate based on a percentage of their revenues, rather than a per-performance rate.<sup>77</sup> The Librarian reasoned that the per-performance approach is more directly tied to the right of public performance being licensed, and that it would be difficult to identify the relevant revenue base against which to apply the percentage because webcasters' business models differed greatly.<sup>78</sup> Furthermore, because webcasters generate little revenue, copyright owners would receive little compensation from a rate based on a percentage of

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72. *Id.* at 45,251.

73. *Id.* at 45,252.

74. *Id.* at 45,243. The Librarian also set rates for noncommercial broadcasters, such as college radio stations, as defined in 17 U.S.C. § 118(g) for Internet-only transmissions. It set these rates for these services at 0.02 cents, reflecting a downward adjustment from the 0.05 cents proposed by the CARP. *Id.*

75. *Id.* The Librarian reasoned that it should reject the CARP's ephemeral license rate because CARP took into account some of the twenty-six voluntary agreements negotiated between the parties in determining this rate, after having decided earlier not to consider twenty-five of twenty-six in setting the main performance right rate. The Librarian concluded that "it was arbitrary for the Panel to use these same rejected licenses to set the Ephemeral License Fee." *Id.*

76. *Id.* at 45262.

77. *Id.* at 45249-50. The traditional licensors of blanket performance licenses in the music industry—ASCAP, BMI and SESAC—all offer licenses based on a percentage of revenue.

78. *Id.*

revenue.<sup>79</sup> The Librarian established September 1, 2002 as the effective date of the rates, and payments became due on October 20, 2002.<sup>80</sup> The rates were applicable for the time period beginning October 28, 1998 (the effective date of the DMCA), and ending Dec. 31, 2002.<sup>81</sup>

## II. DISCUSSION

Analysis of the manner in which the CARP and LOC determined webcasting royalty rates is critical because that rate-setting process will serve as a precedent for future royalty negotiations. Part A evaluates what is at stake for record companies and webcasters in the royalty rate dispute, and argues that webcasting is an important medium whose development should be encouraged, especially in light of the recent consolidation of the terrestrial radio broadcasting industry. Part B discusses the shortcomings of the CARP procedure and various proposals to reform it. One area of concern is the so-called “willing buyer/willing seller” standard on which CARP and LOC based their rate determination. Part C argues that the existence of CARP and the compulsory licensing regime distorts the very market that the CARP and LOC try to mirror in determining the rates, and suggests that the “willing buyer/willing seller” standard creates a one-size-fits-all approach to ratesetting that is in conflict with the varying business models of webcasters. In doing so, Part C evaluates whether the current procedure for determining the compulsory licensing rate that applies to webcasters complies with the principles and objectives of the copyright laws.<sup>82</sup>

### A. The Stakes are High for Record Labels, Webcasters, and the Public

The Librarian’s royalty determination has been criticized on all sides of the debate. Both webcasters and the RIAA have contended that CARP

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79. *Id.* at 45249. LOC stated that “the statute does not require the CARP to offer alternative fee structures . . . . Clearly, it cannot be arbitrary for the Panel to choose not to deviate from the longstanding practice of establishing only one rate schedule for a license.” *Id.* at 45250-51.

80. *Id.* at 45271. Payments were postponed while Congress worked to pass the Small Webcaster Settlement Act of 2002. *See supra* note 9 and accompanying text.

81. *Id.* at 45266. After December 31, 2002 future royalties must either be negotiated by the parties or set by the same CARP process.

82. *See* R. Anthony Reese, *Copyright and Internet Music Transmissions: Existing Law, Major Controversies, Possible Solutions*, 55 U. MIAMI L. REV. 237, 238 (2001) (“Copyright law in the digital era should attempt to facilitate the development of legitimate dissemination of music over the Internet because this promises to significantly increase public access to copyrighted music.”).

and LOC were misguided in basing their rate determination on a single agreement between the RIAA and Yahoo!.<sup>83</sup> Webcasters have decried the order, arguing that it will bankrupt them.<sup>84</sup> With little in the way of revenue,<sup>85</sup> webcasters fear that they will have to close their operations in lieu of paying the high royalty rates, putting an end to the promise of webcasting and closing a key outlet for many performing artists who receive little or no airtime on broadcast radio.<sup>86</sup> The threat of large royalty payments and the uncertainty over copyright liability has already left its mark on the webcasting industry: the number of radio stations transmitting signals online has declined 31 percent to 3,940 as of September 2002, as compared to a high of 5,710 in 2001.<sup>87</sup>

The shrinking webcasting industry has potentially serious public interest implications. Webcasting has the ability to provide listeners with much greater music variety than over-the-air broadcasts, which are limited by a finite amount of radio spectrum.<sup>88</sup> Diversity in programming is more im-

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83. See LOC Report, *supra* note 8, at 45,245, 45,251-53.

84. See Christopher Stern, *Curtain Call for Webcasts? Some Decry Order to Pay Royalties to Musicians*, WASHINGTON POST, June 21, 2002, at E01; see also Stacy Cowley, *Will Music Ever Play?*, PCWORLD.COM, at <http://cssvc.pcworld.com/serve.com/computing/cis/article/0,aid,102516,00.asp> (last visited March 2, 2003); Joe D'Angela, *Will Lower Royalty Rates Save Online Radio?*, MTV.COM, at <http://www.mtv.com/news/articles/1455363/20020621/index.jhtml> (June 21, 2002). Please note that the recently passed Small Webcaster Settlement Act has tempered the concern of many small webcasters. See *supra* note 9 and accompanying text.

85. Webcasters contend that while audience sizes are growing, they are still too small to attract significant advertising. See, e.g., Bob Tedeschi, *Web Radio Awaits a Ruling on Royalties They Must Pay Recording Companies to Stream Music*, N.Y. TIMES, Feb. 18, 2002, at C5.

86. See *Copyright Royalties: Where is the Right Spot on the Dial for Webcasting?: Hearing Before the Senate Comm. on the Judiciary*, 107th Cong. (2002) (testimony by Jonathan Potter of the Digital Media Association), available at <http://www.digmedia.org/webcasting/JPTestimony.pdf>. To be sure, courts have historically upheld rates established through the arbitration process, even when users have argued that the rates would cause them to go out of business. See, e.g., *Nat'l Cable Television Ass'n v. CRT*, 724 F.2d 176 (D.C. Cir. 1983) (holding that rates set at fair market value were proper even though cable operators contended that the rates were prohibitively high and would cause them to terminate transmission of the distant signals at issue).

87. See Press Release, BRS Media's Web-Radio Reports a Steep Decline in the Number of Stations Webcasting, brs media inc. (Sept. 12, 2002), available at <http://www.brsmedia.fm/press020912.html>.

88. See Press Release, Copyright Royalties: Where is the Right Spot on the Dial for Webcasting?, Future of Music Coalition (May 15, 2002), available at <http://www.futureofmusic.org/news/senatejudiciarywebcasting.cfm> ("[I]ndividuals can create and launch a webcasting station with just a handful of affordable resources; access to band-

portant than ever, given the rapid consolidation that has swept the radio broadcasting industry since the passage of the Telecommunications Act of 1996.<sup>89</sup> To the extent that format innovation and programming diversity benefits the public, high royalty rates may undermine that goal by forcing webcasters to divert available funds away from internal investment, or even leading some broadcasters to end their operations altogether. Moreover, a weakening of the webcasting medium could have economic consequences for record companies. A recent study shows that consumers who use streaming media bought more than 1.5 times the number of CDs in the past year than the average American,<sup>90</sup> indicating that the Internet provides promotional value to record sales.

While record companies acknowledge the benefits of webcasting,<sup>91</sup> they contend that the rates set by the Librarian are too low and do not reflect the fair market value of their music, resulting in record companies effectively subsidizing webcasters.<sup>92</sup> The RIAA argues that paying for

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width, some computers, software and a little bit of know-how. They don't need signal towers, or satellite dishes, or even an office to start webcasting.”).

89. There are varying reports on the effect of the Telecommunications Act on radio diversity. One study concludes that the industry is now dominated by ten companies that control two-thirds of both listeners and revenue nationwide, and that in almost every local market, four or fewer firms control at least seventy percent of the market share. See Press Release, Commercial Radio Station Ownership Consolidation Shown to Harm Artist and the Public, Says FMC Study, Future of Music Coalition (Nov. 18, 2002), available at <http://www.futureofmusic.org/news/Pradiostudy.cfm>. A Federal Communications Commission study indicates that between 1996 and 2001, the average measure of diversity for the study's nationwide sample increased by 0.74 percent. The study also found a decrease of 2.4 percent in the diversity of songs within the same format across local markets, but an increase of 11.48 percent in the diversity of songs within the same format within each local market. See George Williams, et. al., *Radio Market Structure and Music Diversity*, at [http://hraunfoss.fcc.gov/edocs\\_public/attachmatch/DOC-226838A18.doc](http://hraunfoss.fcc.gov/edocs_public/attachmatch/DOC-226838A18.doc) (last visited March 2, 2003).

90. See Christopher Saunders, *Study: 20 % of U.S. Feels Web is 'Essential'*, INTERNETNEWS.COM, at <http://www.internetnews.com/IAR/article.php/1457991> (Sept. 6, 2002).

91. *Copyright Royalties: Where is the Right Spot on the Dial for Webcasting?: Hearing Before the Senate Comm. on the Judiciary*, 107th Cong. (2002) (testimony of Hilary Rosen, Chairman and CEO of the RIAA) (“[Webcasting] has energized music lovers and fans . . . . If webcasters don't succeed artists and record companies stand to lose an important new revenue stream.”), available at [http://judiciary.senate.gov/testimony.cfm?id=258&wit\\_id=518](http://judiciary.senate.gov/testimony.cfm?id=258&wit_id=518).

92. *Id.* (“No one would suggest that webcasters' hardware vendors, bandwidth providers or employees be forced by Congress to give webcasters rebates, below market prices or agree to accept a percentage of a webcaster's revenue to help preserve the webcast industry, even though the webcasters typically spend more on those components of

music is simply another cost of doing business, much like buying bandwidth, and that if webcasters' business models cannot support these fees, they should not be operating.<sup>93</sup> Record companies expect and demand an economic return on their investments, and argue that receiving fair compensation for the transmission of their sound recordings online is especially critical given the 4 percent decline in music sales to \$13.7 billion in 2001, which has resulted in part from diminished consumer spending reflecting a weakened economy.<sup>94</sup> Moreover, they contend that webcasts do not promote record sales, but instead cost the music industry in lost CD sales and increased piracy of their copyrighted songs.<sup>95</sup>

Therefore, the stakes are high for both webcasters and record companies, in the determination of an appropriate royalty rate. Part B contends that the CARP and LOC rate-setting process does not adequately address either side's interests.

## B. Shortcomings of the CARP Process

### 1. *Costs and Lack of Predictability*

The structure and operation of the CARP system has been the source of much frustration among participating parties. Many of these parties have called for reform, arguing that it is inefficient and often produces unfair results.<sup>96</sup> One of the biggest flaws cited by participants is its expense, which can be prohibitive for small webcasters: participants bear not only their own legal fees, but also the cost of the proceeding itself, especially the expensive evidentiary hearing.<sup>97</sup> The hearing generates various expenses such as attorney fees, expert witness fees, arbitrator fees, and

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their business than they currently earn in revenues. There is no reason artists and record labels should be treated any differently and forced to subsidize webcasters.”)

93. *Id.*

94. *See supra* note 1.

95. The major labels have historically relied on the high margins generated by the sale of physical music products and they have been reluctant to make their products available through digital distribution until they have protected their works. *See* Matthew Fagin et al., *Beyond Napster: Using Antitrust Law to Advance and Enhance Online Music Distribution*, 8 B.U. J. SCI. & TECH. 451, 490-91 (2002).

96. *See Copyright Arbitration Royalty Panel (CARP) Structure and Process: Hearing Before the Subcomm on Courts, the Internet and Intell. Prop.*, 107th Cong. (2002) [hereinafter CARP Structure and Process Hearing], available at <http://www.house.gov/judiciary/80194.pdf>.

97. 17 U.S.C. §§ 114(f)(2)(A), 802(c) (2000). For criticism on the expense of the proceeding, see *CARP Structure and Process Hearing*, *supra* note 96, at 21 (written statement of Robert A. Garrett).

Copyright Office fees.<sup>98</sup> Many potential participants in CARP were forced to withdraw from the process because of the requirement that they pay a share of the arbitrators' fees,<sup>99</sup> which exceeded \$1.2 million.<sup>100</sup> Some critics of the process have argued that because small webcasters could not afford those fees, the process to set a rate mostly included representatives of relatively large companies whose interests are not necessarily aligned with those of the small independent webcasters.<sup>101</sup>

Moreover, webcasters who were not a party in the CARP proceeding were unable to submit comments to the LOC as part of that body's review of the CARP determination, on the theory that they did not have standing.<sup>102</sup> This decision makes the CARP procedure problematic; since CARP proceedings are adversarial in nature, it is essential that all interested parties be represented so the panel would have a complete evidentiary record on which to base its decision.

Many critics have also found fault with the discovery process used for CARP proceedings, which do not follow the discovery rules of the Federal Rules of Civil Procedure.<sup>103</sup> Parties are not allowed to take depositions, or submit requests for admission and interrogatories.<sup>104</sup> Critics argue that this "deprives the parties of the opportunity, prior to trial cross-examination, to test the assertions made by their opponents."<sup>105</sup>

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98. *Id.* at 15. During the webcasting CARP proceeding, 75 witnesses offered testimony over a period of about 40 days, generating 15,000 pages of transcript and thousands of pages of exhibits. *See House Panel Considers Ways to Improve System for Compulsory Copyright Royalties*, 64 PAT., TRADEMARK & COPYRIGHT J. 171. In past CARP proceedings, arbitrator costs alone far exceeded the amount of royalties at issue. For example, the costs of arbitrators in the 1992-1994 Digital Audio Recording Technology proceeding amounted to more than \$12,000, more than one thousand times the royalty award that resulted from the proceeding. *Id.* at 12. Arbitrators typically receive \$200 to \$400 an hour in compensation for their work. *Id.* at 35.

99. 17 U.S.C. § 802(c) (2000) ("In ratemaking proceedings, the parties to the proceedings shall bear the entire cost thereof in such manner and proportion as the arbitration panels shall direct.").

100. *See* Paige Albinak, *Carp is Thrown Back*, BROADCASTING & CABLE, May 27, 2002, at 14.

101. *See Library of Congress Decision Setting Performance Royalty Rates for Use of Music on the Internet Condemned by United Group of Webcasters*, at <http://www.voiceofwebcasters.com/Webcasterscongressionalletter.pdf> (July 3, 2002).

102. 37 C.F.R. § 251.55(a) (2002).

103. *See, e.g.*, CARP Structure and Process Hearing, *supra* note 96, at 25 (statement of R. Bruce Rich).

104. *Id.*

105. *Id.*

In addition to cost concerns and a meager discovery process, critics also contend that the ad hoc nature of the CARP proceedings threatens the stability and predictability of rulings by preventing the development of institutional expertise that can be applied to subsequent hearings.<sup>106</sup> With a new panel convened for every proceeding, consistency is difficult to achieve because each arbitrator lacks the perspective and familiarity with the issues that could otherwise have been acquired through repeated exposure to similar rate proceedings.<sup>107</sup> The difficulty of finding arbitrators who have expertise with the relevant issues and law<sup>108</sup> has contributed to the LOC's decision to overturn a majority of prior CARP recommendations.<sup>109</sup>

## 2. *Proposals for Reform*

Calls for CARP reform are not new.<sup>110</sup> Most recently, in June 2002, the House of Representatives' Committee on the Judiciary convened a hearing before the Subcommittee on Courts, the Internet and Intellectual Property, to discuss CARP.<sup>111</sup> Various proposals emerged from the hearing. Some of the proposals addressed internal changes to the structure of CARP itself and its procedures. Among these was one to eliminate or restrict CARP evidentiary hearings, and instead to have CARPs make their determinations on the basis of written submissions as a way to reduce the cost of the proceeding.<sup>112</sup> Another suggestion was to replace the ad hoc panels with a permanent group of administrative law judges who would have their own staff, with expertise in the applicable law and technology

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106. *Id.* at 35 (prepared statement of Marybeth Peters, Register of Copyrights) ("The decisions they make are for the purpose of deciding that one case and not for establishing lasting precedent."); *id.* at 51 (prepared statement of Rep. Rick Boucher (D-Va)) ("Starting with a new arbitrator panel each time will lead to inconsistent judgments and a constant process of reinventing the wheel.").

107. *Id.* at 139 (letter from the Motion Picture Association of America).

108. *Id.* at 35 (prepared statement of Marybeth Peters) ("We have found it very difficult to find arbitrators that have any familiarity with copyright law, let alone the complex statutory licenses . . . . [This puts] a considerable burden upon the Register [of Copyrights] and the Librarian to correct errors and oversights made by CARPs . . . .").

109. *Id.* at 31 ("Of the 10 CARP reports which the Librarian has reviewed, only three have been accepted.").

110. For example, in 1998, Howard Coble, chairman of the House Subcommittee on Courts, the Internet and Intellectual Property, introduced a bill called the "Copyright Compulsory License Improvement Act," to establish a Copyright Royalty Adjudication Board consisting of one full-time chief administrative judge and two to four part-time judges with expertise in the businesses of the affected industries. H.R. 3210, 105th Cong. (1998).

111. *See* CARP Structure and Process Hearing, *supra* note 96.

112. *Id.* at 15, 21 (testimony and written statement of Robert A. Garrett).

and in conducting adjudicatory proceedings.<sup>113</sup> This would help ensure continuity with past proceedings and consistency in the decisionmaking.

Other proposals focused on turning outside of the CARP framework. Among these were suggestions to transfer the functions of CARP to a federal district court on the theory that rate determinations require such skills as knowledge of macroeconomics, antitrust, the ability to assimilate data and analyze complex statistics and to make judgments such as the credibility of witnesses, which are skills better suited to judges.<sup>114</sup> Determining royalty rates in a court is not without precedent. The so-called ASCAP and BMI “rate court” in the Federal District Court for the Southern District of New York, for example, makes rate determinations when parties are not able to reach agreement with ASCAP and BMI.<sup>115</sup> Additionally, 17 U.S.C. § 513 allows individual proprietors of certain businesses to resolve rate disputes with performing rights societies before a district court in the federal circuit in which they operate.<sup>116</sup> Short of this, some critics have recommended that appeals of the CARP’s decisions bypass the LOC, and be made directly to the D.C. Circuit Court of Appeals.<sup>117</sup> Rather than encouraging compromise and industry-wide negotiation, the current system generates additional disagreement and conflict by providing as many as three adversarial forums to which frustrated parties may turn—the CARP, LOC, and Court of Appeals.

While these proposals deserve attention, a more fundamental problem may be overlooked: voluntary negotiations and settlements in royalty disputes are preferable to government intervention because they give the parties more control, and the very existence of CARP discourages such negotiations.

### C. The Willing Buyer/Willing Seller Standard

In the absence of a voluntary royalty rate agreement between the parties, the Copyright Act requires that the CARP and LOC determine rates based on the rate that would have been negotiated in a hypothetical mar-

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113. See, e.g., *id.* at 36 (testimony of Marybeth Peters).

114. *Id.* at 23, 28 (testimony and written statement of R. Bruce Rich) (“particularized copyright expertise, even if it did repose in the CARP panels, which it doesn’t, is not as important as other skill sets”).

115. For background on ASCAP and the rate court, see Simon H. Rifkind, *Music Copyrights and Antitrust: A Turbulent Courtship*, 4 CARDOZO ARTS & ENT. L.J. 1, 10 (1985).

116. 17 U.S.C. § 513 (2000).

117. See CARP Structure and Process Hearing, *supra* note 96, at 28 (testimony of Michael J. Remington).

ketplace.<sup>118</sup> The CARP concluded that this determination was best based on a review of actual marketplace agreements, even though the statute does not require that it take these agreements into account.<sup>119</sup>

This standard, however, proved unworkable in the webcasting CARP proceeding, in part because it implied that there was a functioning market that could be relied upon to set a fair price for all participants, when no such market existed. Moreover, the standard created a one-size-fits-all approach to setting rates, effectively exposing all webcasters, from large diversified companies such as Yahoo! to smaller start-ups such as college and hobbyist webcasters, to the same rate structure. This became especially problematic because the rate was structured on a per performance basis, instead of a percentage of revenue basis, which would be more fair to webcasters of varying sizes and revenue bases because their payments would be more proportional to the revenue generated from their webcasts.<sup>120</sup> Moreover, CARP and LOC effectively set industry-wide rates based on the single RIAA-Yahoo! Agreement; Yahoo!, a multi-billion dollar company whose webcasts have consisted largely of radio retransmis-

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118. The rates and terms must represent what:

(4) . . . would have been negotiated in the marketplace between a willing buyer and a willing seller. In determining such rates and terms, the [CARP] shall base its decision on economic, competitive and programming information presented by the parties, including—

(A) whether use of the service may substitute for or may promote the sales of phonorecords or otherwise may interfere with or may enhance the sound recording copyright owner's other streams of revenue from its sound recordings; and

(B) the relative roles of the copyright owner and the transmitting entity in the copyrighted work and the service made available to the public with respect to relative creative contribution, technological contribution, capital investment, cost, and risk.

In establishing such rates and terms, the [CARP] may consider the rates and terms [for comparable types of digital audio transmission services and comparable circumstances] under voluntary license agreements

. . . .

17 U.S.C. § 112(e)(4) (2000).

119. CARP Report, *supra* note 7, at 43; *see also* 17 U.S.C. §§ 112(e)(4), 114(f)(2)(B) (2000).

120. This point has been made moot for some webcasters. Some small webcasters now have the ability to pay royalties based on a percentage of their revenue or expenses under the agreement reached in December 2002 between small webcasters and SoundExchange. *See supra* note 9 and accompanying text. Small webcasters who are eligible and decide to accept the terms of the agreement will be subject to the rates and terms of the agreement instead of the per performance rates established by the LOC. Notification of Agreement Under the Small Webcaster Settlement Act of 2002, 67 Fed. Reg. 78,510 (Dec. 24, 2002).

sions, can hardly be said to represent the interests of all small, Internet-only webcasters.<sup>121</sup>

### 1. *CARP Discourages Meaningful Negotiations*

The willing buyer/willing seller standard fails because the existence of CARP may significantly influence the behavior of the parties during the voluntary negotiation period, which thereby affects the hypothetical market that CARP seeks to replicate. The availability of CARP to step in and set rates provides a fallback for the parties, creating a disincentive for meaningful negotiations, and inhibiting the development of marketplace solutions or even an approximation of a true market that CARP can later use to set a royalty.<sup>122</sup> Given that the CARP's goal is to set rates reflecting the market, its very existence undermines its ability to carry out that objective.

Parties subject to a compulsory licensing regime face conflicting influences. These influences include on the one hand, pressure not to enter negotiations, and on the other hand, pressure on the parties who do enter negotiations to demand unreasonable terms.

The parties may be dissuaded from entering voluntary negotiations in the first place if they believe they can limit their transaction costs by foregoing the negotiations and securing favorable rates through the CARP process. This becomes problematic, however, when the CARP process itself creates its own significant transaction costs, which the parties can avoid by simply not taking part in the CARP process.<sup>123</sup> That only twenty-six webcasters voluntarily struck agreements with the RIAA during the six-month negotiation period highlights the fact that the existence of CARP was a disincentive for meaningful negotiations.<sup>124</sup> In fact, the LOC concluded that most webcasters chose not to enter into voluntary negotia-

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121. Internet-only transmissions, as opposed to terrestrial radio retransmissions, account for only 10 percent of Yahoo!'s webcasting business. *See* LOC Report, *supra* note 8, at 45,252. In fact, David Mandelbrot, who was Yahoo!'s representative in its negotiations with the RIAA, has stated that in negotiating an agreement with the RIAA, "the radio retransmission fee was a much more significant factor to us . . . . [T]he Internet-only rate was not of great concern to us at that time . . . . [O]ur interest was in doing what was best for our business and our business model." CARP Structure and Process Hearing, *supra* note 96, at 133-34 (prepared statement of David Mandelbrot).

122. *See* LOC Report, *supra* note 8, at 45,245. ("For the most part, webcasters chose not to enter into negotiations for voluntary agreements, knowing that they could continue to operate and wait for the CARP to establish a rate.")

123. *See* Albiniak, *supra* note 100.

124. *See* CARP Report, *supra* note 7, at 51-54.

tions knowing they could wait for CARP to establish rates that they hoped would be low, which impeded serious negotiations in the marketplace.<sup>125</sup>

If parties do choose to negotiate, they may believe that it is to their advantage to negotiate firmly, and demand unreasonable terms, in the hopes that at least one opposing party will cave, allowing it to secure agreements on those terms. If a party is able to reach even just one agreement containing terms in its favor, it knows that that agreement may serve as a guide or benchmark for CARP's subsequent efforts to construct a hypothetical market on which to base the royalty rate applicable to all remaining licensees. This creates the potential for that party to gain an industry-wide rate that to some degree reflects that one favorable agreement.

The CARP itself recognized that those parties entering negotiations may have had objectives other than trying to reach reasonable agreements with reasonable rates. The CARP report describes how the RIAA tried to negotiate deals with webcasters that would set a high benchmark to serve as precedent in the event that CARP was later convened.<sup>126</sup> The RIAA determined a "sweet spot" and then closed only those deals that conformed to it.<sup>127</sup> As a result, CARP disregarded most of these voluntarily negotiated agreements because "they establish[ed], at best, the high end of the rate range that some services (with special circumstances) might pay."<sup>128</sup> Instead, the CARP relied on the RIAA-Yahoo! Agreement as a starting point for determining rates because it concluded that that agreement was of a different character: Yahoo!, of all the parties that reached agreements, was "the only one with resources, sophistication and market power comparable to that of RIAA," meaning its agreement was the only one to "reflect a truly arms-length bargaining process on a level playing field ...."<sup>129</sup>

However, CARP's conclusion that the RIAA-Yahoo! Agreement did not fall prey to the same influences that had tainted the twenty-five other agreements is unconvincing. Since the RIAA-Yahoo! Agreement was also negotiated in the shadow of CARP, it is likely that it, too, is not truly reflective of the kinds of negotiations that would have occurred in an open

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125. LOC Report, *supra* note 8, at 45,245.

126. CARP Report, *supra* note 7, at 48-51.

127. *Id.*

128. *Id.* at 51. The CARP found other reasons to disregard most of the agreements including that many of them were with webcasters who were not likely to endure in the market, while others were with webcasters who required an immediate license and could not wait for the CARP, which gave them less bargaining power. *Id.*

129. *Id.* at 60-61.

market, but instead reflects the influence the parties believed their agreement would later have on the CARP.<sup>130</sup>

In sum, when one considers both of these conflicting influences on the behavior of the parties to the negotiations, it becomes clear that reliance on the willing buyer/willing seller standard is not ideal. The standard permits CARP to turn to marketplace agreements in fabricating its hypothetical willing buyer and seller, when these agreements themselves are the product of influences that would not exist absent the CARP, therefore not reflecting agreements that would have been reached in a normal, free-flowing marketplace.

## 2. *Changing the Rate-Setting Process*

The rate-setting process must be structured in a way that will give parties greater incentive to negotiate voluntarily and in good faith, and to turn to a CARP only as a last resort. Encouraging parties to negotiate a rate, instead of allowing one to be set by law, has many advantages. These include allowing parties to settle on rates that best accommodate their own particular business models and circumstances, which helps them better control their individual destinies, rather than forcing them to pay a rate determined in part by the arguments of their competitors before an arbitration panel.

Providing strong incentives for meaningful negotiations may perhaps be accomplished by forcing those parties, who fail to agree to reasonable royalty offers made during the voluntary negotiation period, to bear a larger share of the costs for the subsequent CARP hearing.<sup>131</sup> Parties may have an incentive to make concessions in their rate negotiations if they know that they can limit their costs for the subsequent CARP hearing that

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130. In fact, Yahoo! agreed to an artificially high royalty rate in an effort to avoid a percentage-of-revenue rate that would have been beneficial to smaller, low-revenue webcasters, according to Mark Cuban, founder of Broadcast.com, a webcaster that was acquired by Yahoo! in 1999. While Cuban was no longer with the company at the time of the negotiations, he wrote in an e-mail that the "Yahoo! deal I worked on, if it resembles the deal the CARP ruling was built on, was designed so that there would be less competition, and so that small webcasters who needed to live off of a 'percentage-of-revenue' to survive, couldn't." Paul Maloney & Kurt Hanson, *Cuaban Says Yahoo!'s RIAA Deal was Designed to Stifle Competition*, available at <http://www.kurthanson.com/archive/news/062402/index.asp> (last visited Feb. 22, 2003).

131. This solution closely mirrors Rule 68 of the Federal Rules of Civil Procedure, which provides in part that where a party defending a claim makes an offer of settlement that is rejected by an adverse party, and where the judgment finally obtained by the adverse party is not more favorable than the settlement offer, then the adverse party must pay the costs incurred by the offering party after the making of the offer. FED. R. CIV. P. 68.

would result if their offer is rejected, assuming their offer ultimately turns out to be more favorable to the other party than CARP's rate determination. This may provide a strong incentive for parties to both make and accept good faith royalty offers.

### 3. *Uniform Standard and the Element of Fairness*

The validity of the willing buyer/willing seller standard is brought into question by the fact that the Copyright Act establishes different rate-setting standards for each of the compulsory licenses. These other standards require that CARP balance the interests of the participants and make the element of "fairness" more explicit in the analysis. For example, the standard under § 801(b), which applies to digital music distribution services other than webcasters<sup>132</sup> and to public performances of nondramatic works by coin-operated phonorecord players,<sup>133</sup> calls for a royalty rate that will, among other things, "afford the copyright owner a fair return for his creative work and the copyright user a fair income under existing economic conditions,"<sup>134</sup> and be minimally disruptive of the industries involved.<sup>135</sup>

Congress should consider adjusting the webcasting standard to harmonize it with these comparable standards.<sup>136</sup> The standard applied to webcasters should more explicitly take into account the idea of fairness and the effect of its rates on the viability of the services. This would be an acknowledgement of the fact that compulsory licenses are a kind of subsidy used to make possible and spur the development of nascent industries.<sup>137</sup> This might also further the copyright law's objectives of taking into account the public interest, and weighing the public benefit of accessing works of art over protection to the creator.<sup>138</sup>

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132. 17 U.S.C. § 114(f)(1)(B) (2000).

133. *Id.* § 116.

134. *Id.* § 801(b)(1)(B) (2000).

135. *Id.* § 801(b)(1)(D) (2000).

136. For similar criticisms about the standard, see CARP Structure and Process Hearing, *supra* note 96, at 50-1 (prepared statement of Rep. Rick Boucher (D-Va)); *Copyright Royalties: Where is the Right Spot on the Dial for Webcasting?: Hearing Before the Senate Comm. on the Judiciary*, 107th Cong. 16 (2002) (testimony by Jonathan Potter of the Digital Media Association), available at <http://www.digmedia.org/webcasting/JPTestimony.pdf>.

137. See MCCARTHY, *supra* note 30, at 66-69.

138. The U.S. Supreme Court has instructed that "the Copyright Act must be construed in light of" its basic purpose of "promoting broad public availability of literature, music, and the other arts." *Twentieth Century Music Corp. v. Aiken*, 422 U.S. 151, 156 (1975).

### III. CONCLUSION

The marked discord created by the royalty rate process and determination of the CARP and LOC serves to underscore the fact that the current compulsory licensing regime applicable to webcasters is in need of an overhaul. The CARP process generates too many costs and inefficiencies for the participants. Moreover, the willing buyer/willing seller standard implies that there is always a functioning market that can be relied upon to set a fair price for all participants, but this standard proved unworkable in the webcasting context. The very existence of a CARP, which influences the conduct of the parties in the negotiations, undermines the efficacy of the standard by discouraging parties from entering into meaningful negotiations, at the same time that it gives an incentive, to the parties that negotiate, to demand unreasonable terms. As a result, the standard should be modified, and stronger incentives should be provided to induce the parties to negotiate, and to view the CARP procedure only as a last resort.



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

**FOREIGN AND INTERNATIONAL LAW**



## THE COUNCIL OF EUROPE'S CONVENTION ON CYBERCRIME

By *Amalie M. Weber*

Cybercrime legislation is plagued by a lack of geographically based jurisdictional boundaries.<sup>1</sup> As Professor James Boyle noted, "If the king's writ reaches only as far as the king's sword, then much of the content on the Internet might be presumed to be free from the regulation of any particular sovereign."<sup>2</sup> This observation is particularly apt in the criminal enforcement context. It is impossible to regulate criminal behavior without a means to ensure enforcement of sanctions. The Council of Europe's Convention on Cybercrime (the "Convention" or "treaty") seeks to extend the ambit of the king's sword through cooperation.

This paper evaluates the potential efficacy of the Convention's treatment of the jurisdictional conflicts underlying cybercrime regulation. First, the paper will illustrate the international jurisdiction problems that prompted the search for a solution requiring an international instrument. It will then present a brief history of how the Council of Europe positioned itself to undertake the jurisdictional challenge these situations presented. The paper also summarizes the major portions of the treaty, and evaluates the treaty's potential impact on United States domestic law. Finally, it will critically appraise the general shortcomings of the Convention and suggest possible alternatives. This paper concludes that the Convention, while flawed, is the best available solution to the jurisdictional dilemma of cybercrime.

### I. THE HISTORY OF THE TREATY

The Council of Europe's Convention on Cybercrime was created to address the jurisdictional issues posed by the evolution of the Internet. Its solution was to harmonize cybercrime laws and assure the existence of procedural mechanisms to assist in the successful prosecution of cyber

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1. See generally David R. Johnson & David G. Post, *Law and Borders—The Rise of Law in Cyberspace*, 48 STAN. L. REV. 1367 (1996) (arguing that cyberspace cannot be governed by laws that rely on traditional territorial borders).

2. James Boyle, *Foucault in Cyberspace: Surveillance, Sovereignty, and Hard-wired Censors*, 66 U. CIN. L. REV. 177, 179 (1997). See *id.* at 178 (identifying three main difficulties states have encountered in attempting to regulate cyberspace).

criminals.<sup>3</sup> This section provides a description of the core problems encountered in the attempted prosecutions of international cyber criminals as well as a history of the development of the treaty, to better explain the evolution of the Convention and some of its criticisms.

### A. The Problem of Cybercrime Jurisdiction

The jurisdictional problem of cybercrime manifests itself in three ways: lack of criminal statutes; lack of procedural powers; and lack of enforceable mutual assistance provisions with foreign states. Because international cooperation on cybercrime has traditionally been the exception rather than the rule, these requirements are frequently an insurmountable barrier to the successful prosecution of cyber criminals. The following examples illustrate how these problems thwart criminal prosecutions.

#### 1. *Lack of Criminal Statutes*

Many states have yet to enact statutes criminalizing computer misuse offenses.<sup>4</sup> In May of 2000, the "I love you" virus infected forty-five million computers around the world.<sup>5</sup> The virus, along with copycat viruses that emerged in its aftermath, is estimated to have cost between 6.7 and 10 billion dollars in lost productivity.<sup>6</sup> However the main suspect, Onel DeGuzman, remains unpunished despite having been identified and tracked to the Philippines, because the Philippines lacked an appropriate computer crime statute at the time of the attack.<sup>7</sup>

#### 2. *Lack of Procedural Powers*

States often lack the resources and procedural tools necessary to conduct computer crime investigations. In October of 2002, a coordinated de-

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3. See *Explanatory Report to the Convention on Cybercrime* ¶ 6, available at <http://conventions.coe.int/Treaty/en/Reports/Html/185.htm> (last visited Aug. 29, 2002) [hereinafter *Explanatory Report to the Convention on Cybercrime*].

4. *Cyber Crime. . . and Punishment? Archaic Laws Threaten Global Information*, McConnell International, available at <http://www.mcconnellinternational.com/services/CyberCrime.htm> (Dec. 2000).

5. Jovi Tanada Yam, *Cybercrime Treaty Under Way*, BUSINESSWORLD, May 3, 2001, pg 9, available at LEXIS, News Group File.

6. *Id.* Patricia L. Bellia, *Chasing Bits Across Borders*, 2001 U. CHI. LEGAL F. 35, 36 n. 6 (2001) (citing *Love Bug, Damage Costs Rise to \$6.7 Billion*, COMPUTER ECONOMICS EFLASH, May 9, 2000; Rob Kaiser, 'Love Bug' Has Cousins; They Bite Too: Cyberattack Considered Most Disruptive Ever, CHI. TRIB. May 6, 2000, at 1).

7. *Internet Virus Named after Philippine President*, DEUTSCHE PRESSE-AGENTUR, Sept. 1, 2000, available at LEXIS, News Group File.

nial of service<sup>8</sup> attack occurred on central Internet root servers<sup>9</sup> around the world.<sup>10</sup> The incident puzzled law enforcement officials for weeks, raising fears that it was the work of an organized criminal group intending to disrupt vital communications networks.<sup>11</sup> In response to increasing numbers of such attacks, Europol<sup>12</sup> formed the High Tech Crime Centre to coordinate cross-border cybercrime investigations in Europe, and to bolster the response to these types of crimes.<sup>13</sup> Despite this Centre, experts feel that if such an attack were to target a European communications network, police would have a "very difficult time tracking down the culprits."<sup>14</sup> The High Tech Crime Centre continues to be under-manned and under-resourced.<sup>15</sup>

### 3. *Lack of enforceable mutual assistance provisions*

Even when both the host and victim states have adequate criminal statutes and investigative powers, prosecution is frustrated by a lack of enforceable cooperation. For example, during the spring of 2000, American banks and credit card businesses were serially attacked by international hackers who broke into secured files, extracted credit card numbers and merchant identification numbers, and then used this information to extort money from their victims in exchange for security "consulting services."<sup>16</sup> The extortion scheme caused enormous damages, and the targeted companies were unable to keep the hackers out of their systems.<sup>17</sup>

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8. "Denial of service" attacks overwhelm networks with streams of high quantities of data until the networks fail. David McGuire & Brian Krebs, *Large Scale Attack Cripples Internet Backbone*, WASH POST, Oct. 23, 2002, at E05 available at LEXIS, News Group File.

9. Computers act as the backbone of the Internet. Seven of the thirteen servers that make up this backbone failed completely during the attack. Two others failed intermittently during the hour long attack. *Id.*

10. *Id.*

11. *Police Admit They Can't Keep Up with Cyber Criminals*, REUTERS (London), Nov. 1, 2002, at <http://www.siliconvalley.com/mld/siliconvalley/news/editorial/4421571.htm> [hereinafter *Police Admit*].

12. Europol is the European Police Office established by the Europol Convention to "improve the effectiveness of the competent authorities in the Member States and cooperation between them. Europol Convention: European Police Office at <http://europa.eu.int/scadplus/leg/en/lvb/114005b.htm> (last visited Jan. 26, 2003).

13. *Police Admit*, *supra* note 11.

14. *Id.* (quoting Rolf Hegel, head of Europol's serious crime department, from an interview conducted shortly after the incident).

15. *Id.*

16. Monte Morin, *U.S. Indicts Russian Citizen in Hacking Case*, L.A. TIMES, June 21, 2000, at Part 2 page 2, available at LEXIS, News Group File.

17. *Id.*

However, when the FBI finally identified two suspects in Russia, Russian authorities refused to assist in the investigation.<sup>18</sup> Although the United States has approximately 40 mutual legal assistance treaties (“MLATs”) to aid law enforcement in capturing data in foreign countries,<sup>19</sup> the Russian MLAT does not specify computer crimes as one of the crimes in which assistance is rendered.<sup>20</sup> Finally, in November 2000, without the support of Russian authorities, the FBI conducted a sting operation in which the two suspected Russian hackers were lured into the United States with false job offers.<sup>21</sup> During the staged interview, the FBI monitored the suspects’ communications with their servers in Russia, obtained their passwords and login identification, and used this information to access and download files for use as evidence of their prior hacking and extortion activities against U.S. companies.<sup>22</sup> A major international debate continues over whether the United States had the authority to conduct a search of a private, protected server located outside the boundaries of the United States (a remote extraterritorial search) in order to obtain evidence required to indict these suspects.<sup>23</sup>

While the Philippines has now passed legislation criminalizing computer misuse<sup>24</sup> and Europol continues to support the High Tech Crime Centre,<sup>25</sup> such piecemeal efforts have only served to gradually relocate computer crime to states where enforcement efforts are less coordinated. A more comprehensive approach is needed.<sup>26</sup>

## B. Development of the Treaty

The Council of Europe’s Convention on Cybercrime was developed in response to a growing concern about the adequacy of legislation criminal-

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18. Robert Lemos, *Lawyers slam FBI ‘hack’*, ZD NET NEWS, May 1, 2001, available at 2001 WL 4732801.

19. ORIN S. KERR, U. S. DEPT. OF JUSTICE, SEARCHING AND SEIZING COMPUTERS AND OBTAINING ELECTRONIC EVIDENCE IN CRIMINAL INVESTIGATIONS 33 2001 [hereinafter DOJ SEARCH AND SEIZURE MANUAL].

20. Lemos, *supra* note 18.

21. *Id.*

22. *Id.*

23. See Nathan Thornburgh, *2 Russian Hackers Nabbed in FBI Sting*, MOSCOW TIMES, Apr 28, 2001, available at LEXIS, News Group File.

24. DEUTSCHE PRESSE-AGENTUR, *supra* note 7.

25. See *Police admit*, *supra* note 11.

26. See Communique from Secretary General Janet Reno, to the Meeting of the Justice and Interior Ministers of The Eight (December 9-10, 1997) available at <http://www.usdoj.gov/criminal/cybercrime/communique.htm>; see also Michael A. Sussmann, *The Critical Challenges from International High-Tech and Computer Related Crime at the Millennium*, 9 DUKE J. COMP. & INT’L L. 451, 488 (1999).

izing certain activities occurring over computer networks.<sup>27</sup> In 1989, the Council of Europe published a set of recommendations addressing the need for new substantive laws criminalizing disruptive conduct committed through computer networks.<sup>28</sup> This was followed by a second study, published in 1995, addressing the inadequacy of computer-related, criminal procedural laws.<sup>29</sup> Building on these reports, the Council of Europe established a Committee of Experts on Crime in Cyberspace (PC-CY) in 1997 to draft a binding convention facilitating international cooperation in the investigation and prosecution of computer crimes.<sup>30</sup> The result is the Council of Europe's Convention on Cybercrime.<sup>31</sup>

The Convention on Cybercrime is a multilateral agreement geared at facilitating international cooperation in the prosecution of cyber criminals.<sup>32</sup> It is the first international treaty on crimes committed via the Internet and other computer networks, and is the product of four years of work.<sup>33</sup> In Budapest, on November 23, 2001,<sup>34</sup> the Council of Europe opened the treaty for signature by member states<sup>35</sup> and by nonmember states, including the United States, that participated in its development.<sup>36</sup>

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27. Frequently Asked Questions and Answers About the Council of Europe Convention on Cybercrime (Final Draft, released June 29, 2001), A2, at <http://www.cybercrime.gov/newCOEFAQ's.html> (last updated July 10, 2001).

28. See Recommendation No. R. (89) 9 Of the Committee of Ministers to Member States on Computer-related Crime, available at <http://www.cm.coe.int/ta/rec/1989/89r9.htm> (Sept. 13, 1989).

29. See Recommendation No. R. (95) 13 of the Committee of Ministers to Member States Concerning Problems of Criminal Procedure Law Connected with Information Technology, available at <http://www.coe.int/ta/rec/1995/95r13.htm> (Sept. 11, 1995).

30. Frequently Asked Questions, *supra* note 27 at A2.

31. See Convention on Cybercrime, Nov. 23, 2001, Europ. T.S. No. 185, available at <http://conventions.coe.int/Treaty/en/cadreprincipal.htm> [hereinafter Convention on Cybercrime]

32. Department of Justice web site, at <http://www.usdoj.gov/criminal/cybercrime/intl.html> (last visited November 18, 2002).

33. See *id.* (the Convention was signed in September of 2001); Frequently Asked Questions, *supra* note 27, at A2 (work on the Convention commenced in 1997).

34. Council of Europe Web site, at <http://conventions.coe.int/treaty/en/cadreprincipal.htm> (last visited November 18, 2002).

35. Member states include: Albania, Andorra, Armenia, Austria, Azerbaijan, Belgium, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Georgia, Germany, Greece, Hungary, Iceland, Ireland, Italy, Latvia, Liechtenstein, Lithuania, Luxembourg, Malta, Moldova, Netherlands, Norway, Poland, Portugal, Romania, Russia, San Marino, Slovakia, Slovenia, Spain, Sweden, Switzerland, the former Yugoslav Republic, Turkey, Ukraine, and the United Kingdom. *Id.*

36. *Id.* (The non-member states are the United States, Canada, South Africa and Japan).

The treaty will enter into force upon ratification by five States, at least three of which must be member States of the Council of Europe.<sup>37</sup> As of December 2002, the treaty had thirty-three signatories and had been ratified by Albania and Croatia.<sup>38</sup> In order for the treaty to take effect in the United States, the Senate must ratify it.<sup>39</sup>

The structure of the treaty reflects an awareness of the jurisdictional dilemma. The Convention on Cybercrime's main objective, set out in the preamble, is to pursue a common criminal policy to protect society from cybercrime.<sup>40</sup> The Council's approach recognizes that accomplishment of this goal is predicated upon finding solutions to the lack of criminal statutes, the lack of procedural powers, and the lack of enforceable mutual assistance provisions that result from the jurisdictional gap in cybercrime regulation.<sup>41</sup> The Council's solution requires parties to adopt appropriate legislation against cybercrime, to ensure that their law enforcement officials have the requisite authority and procedural tools to effectively investigate and prosecute cybercrime offenses, and to provide international cooperation to other parties engaged in such efforts.<sup>42</sup>

## II. STRUCTURE OF THE CONVENTION ON CYBERCRIME

The treaty consists of four chapters. Chapter I defines terms used by the treaty. Chapter II establishes a common canon of computer-based and computer-related crimes, requires a common set of procedural powers, and loosely establishes a set of rules by which parties can assert jurisdiction. Chapter III sets up a framework for cooperation in the use of those powers. Chapter IV includes miscellaneous provisions common to most Coun-

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37. *Id.*

38. *Id.*

39. See U.S. CONST. art. II, § 2 cl. 2. See also CONGRESSIONAL RESEARCH SERVICE OF THE LIBRARY OF CONGRESS, TREATIES AND OTHER INTERNATIONAL AGREEMENTS: THE ROLE OF THE UNITED STATES SENATE, S. PRT. 106-71, at 1, 19 (2001) [hereinafter TREATIES] (advising and consenting to a treaty requires a two thirds majority of the Senators present).

40. Convention on Cybercrime, *supra* note 31, at Preamble.

Criminals are increasingly located in places other than where their acts produce their effects. However, domestic laws are generally confined to a specific territory. Thus solutions to the problems posed must be addressed by international law, necessitating the adoption of adequate international legal instruments. The present Convention aims to meet this challenge.

*Explanatory Report to the Convention on Cybercrime, supra* note 3, ¶ 6.

41. See Convention on Cybercrime, *supra* note 31, Preamble.

42. *Explanatory Report to the Convention on Cybercrime, supra* note 3, ¶ 16.

cil of Europe treaties.<sup>43</sup> This section will focus on the substantive provisions located in Chapters II and III of the treaty.<sup>44</sup>

### A. Offenses

The Convention on Cybercrime calls for the criminalization of nine offenses in four categories. The first category targets “[o]ffenses against the confidentiality, integrity and availability of computer data and systems.”<sup>45</sup> These include: illegal access, illegal interception, data interference, system interference, and misuse of devices.<sup>46</sup> The second category, “[c]omputer-related offenses”, includes provisions calling for the criminalization of computer-related forgery and computer-related fraud.<sup>47</sup> “Content-related offences” requires criminalizing offences related to child pornography.<sup>48</sup> This third category is ostensibly supplemented by a new protocol adopted November 7, 2002 making any dissemination of racist or xenophobic material through computer systems a criminal offense.<sup>49</sup> However, the new protocol is a separate legal instrument from the treaty, and parties agreeing to the treaty are not obliged adopt it.<sup>50</sup> The fourth category, “[o]ffenses related to infringements of copyright and related rights,” criminalizes copyright violations.<sup>51</sup> This section of the Convention also includes ancillary provisions that require the establishment of laws against attempt and aiding or abetting in the aforementioned crimes, as well as the establishment of a standard for corporate liability.<sup>52</sup>

### B. Procedural Powers and Jurisdiction

The Convention on Cybercrime addresses procedural legal issues. It requires states to establish a minimum set of procedural tools at the national level whereby the appropriate law enforcement authorities within a state have authority to conduct certain types of investigations specific to computer crime offenses. Such procedural powers include: expedited pres-

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43. *Id.* at ¶ 303.

44. Chapter I is self-explanatory and the content of Chapter IV is an artifact of the Convention being drafted by the Council of Europe. *See id.*

45. Convention on Cybercrime, *supra* note 31, ch. II § 1 tit. 1, arts. 2-6.

46. *Id.*

47. *Id.* at ch. II § 1 tit. 2, arts. 7-8.

48. *Id.* at ch. II § 1 tit. 3, art. 9.

49. Press Release, Council of Europe, The Council of Europe fights against racism and xenophobia on the Internet (Nov. 11, 2002), at [http://press.coe.int/cp/2002/554a\(2002\).htm](http://press.coe.int/cp/2002/554a(2002).htm).

50. Frequently Asked Questions *supra* note 27, at C3.

51. Convention on Cybercrime, *supra* note 31, ch. II § 1 tit. 4 art. 19.

52. *Id.* at ch. II § 1 tit. 5 arts. 20-21.

preservation of stored data,<sup>53</sup> expedited preservation and partial disclosure of traffic data,<sup>54</sup> production orders,<sup>55</sup> search and seizure of computer data,<sup>56</sup> real-time collection of traffic data<sup>57</sup> and interception of content data.<sup>58</sup>

The treaty also includes a provision granting a participating state jurisdiction over offenses committed within that state's territory.<sup>59</sup> This allows a state to assert jurisdiction in a computer crime involving a computer system within its territory, even if the perpetrator committed the offense from a remote location outside of the state.<sup>60</sup> Further, the Convention grants a state jurisdiction over a citizen of that state who commits a covered offense outside of the state's boundaries, so long as the offense is also punishable by criminal law in the jurisdiction where it was committed, or if the offense occurred outside of the territorial jurisdiction of any state.<sup>61</sup>

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53. *Id.* at ch. II § 2 tit. 2 art. 16 (requiring that competent authorities are able to protect stored data from modification, deterioration, or deletion in a timely fashion pending approval of further investigation); see also *Explanatory Report to the Convention on Cybercrime*, *supra* note 3, ¶¶ 158-64.

54. *Convention on Cybercrime*, *supra* note 31, ch. II § 2 tit. 2 art. 17 (ensuring that where one or more service providers are involved in the relaying of an electronic communication, expeditious preservation of traffic data can be achieved); see also *Explanatory Report to the Convention on Cybercrime*, *supra* note 3, ¶¶ 165-69.

55. *Convention on Cybercrime*, *supra* note 31, ch. II § 2 tit. 3 art. 18 (providing an appropriate legal basis for the release of stored computer data or traffic data from third parties to competent authorities); see also *Explanatory Report to the Convention on Cybercrime*, *supra* note 3, ¶¶ 170-83.

56. *Convention on Cybercrime*, *supra* note 31, ch. II § 2 tit. 4 art. 19 (assuring that computer data is considered a tangible object which can be secured on behalf of a criminal investigation); see also *Explanatory Report to the Convention on Cybercrime*, *supra* note 3, ¶¶ 184-204.

57. *Convention on Cybercrime*, *supra* note 31, ch. II § 2 tit. 5 art. 20 (obliging Parties to ensure that their competent authorities have the power to compel a service provider to collect and record traffic data to the extent that such collection is within their existing technical capabilities); see also *Explanatory Report to the Convention on Cybercrime*, *supra* note 3, ¶¶ 216-27.

58. *Convention on Cybercrime*, *supra* note 31, ch. II § 2 tit. 5 art. 21 (obliging Parties to ensure that their competent authorities have the power to compel a service provider to collect and record content data to the extent that such collection is within their existing technical capabilities); see also *Explanatory Report to the Convention on Cybercrime*, *supra* note 3, ¶¶ 228-31.

59. *Convention on Cybercrime*, *supra* note 31, ch. II § 3 art. 22 (including when an offense is committed upon a ship flying the flag of that party or an aircraft registered under the laws of that party).

60. *Explanatory Report to the Convention on Cybercrime*, *supra* note 3, ¶ 233.

61. *Id.*

Although the Convention tacitly permits some cross-border access to stored computer data without the need to request mutual assistance,<sup>62</sup> such investigations are only allowed when access to the data is publicly available (open source) or when the state conducting the search has obtained “the lawful and voluntary consent of the person who has the lawful authority to disclose the data.”<sup>63</sup> The drafters of the Convention on Cybercrime explicitly deny that the treaty permits remote extraterritorial searches.<sup>64</sup> They concluded, “it was not yet possible to prepare a comprehensive, legally binding regime regulating the area.”<sup>65</sup> The failure to reach an agreement on remote extraterritorial searches was attributed to the Committee’s lack of experience with such situations and the notion that the permissibility of unilateral assertions of power would turn on “the precise circumstances of the individual case, thereby making it difficult to formulate general rules.”<sup>66</sup>

### C. International Cooperation, Extradition and Mutual Assistance

The Convention on Cybercrime provides three general principles of international cooperation.<sup>67</sup> First, international cooperation will be provided among states “to the widest extent possible.”<sup>68</sup> Second, the obligation to cooperate extends not only to the crimes established in the treaty, but also to the collection of electronic evidence whenever it relates to a criminal offense.<sup>69</sup> Third, the provisions for international cooperation do not supercede preexisting provisions of international agreements on these issues.<sup>70</sup> These general principles are reiterated by the mutual assistance provisions.<sup>71</sup> The extradition provisions also defer to preexisting treaties or alternative extradition arrangements between party states.<sup>72</sup>

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62. See Convention on Cybercrime, *supra* note 31, ch. III § 2 tit. 2, art. 32.

63. *Id.*

64. See *Explanatory Report to the Convention on Cybercrime*, *supra* note 3, ¶¶ 293-94.

65. *Id.* at ¶ 293.

66. *Id.*

67. Convention on Cybercrime, *supra* note 31, at ch. III § 2 tit. 1, art. 23.

68. *Id.*; see also *Explanatory Report to the Convention on Cybercrime*, *supra* note 3, ¶ 242.

69. Convention on Cybercrime, *supra* note 31, ch. III § 2 tit. 1, art. 23; see also *Explanatory Report to the Convention on Cybercrime*, *supra* note 3, ¶ 243.

70. Convention on Cybercrime, *supra* note 31, ch. III § 2 tit. 1, art. 23; see also *Explanatory Report to the Convention on Cybercrime*, *supra* note 3, ¶ 244.

71. Convention on Cybercrime, *supra* note 31, ch. III § 2 tit. 1, art. 25; see also *Explanatory Report to the Convention on Cybercrime*, *supra* note 3, ¶ 253.

72. Convention on Cybercrime, *supra* note 31, ch. III § 2 tit. 1, art. 24; see also *Explanatory Report to the Convention on Cybercrime*, *supra* note 3, ¶ 246.

Concerted international investigations of computer-related offenses and electronic evidence are made possible by the specific mutual assistance provisions of the treaty.<sup>73</sup> Thus, they mirror the procedural powers that states are required to have at the national level. These specific mutual assistance provisions include expedited preservation of stored computer data,<sup>74</sup> expedited disclosure of preserved traffic data,<sup>75</sup> accessing stored computer data,<sup>76</sup> real time collection of traffic data,<sup>77</sup> and interception of content data.<sup>78</sup>

The treaty explicitly rejects dual criminality as a prerequisite for mutual assistance regarding the expedited preservation of stored computer data.<sup>79</sup> Dual criminality, in which two countries have overlapping statutes prohibiting the same criminal behavior, is an innovation widely lauded for its introduction of flexibility into the relatively cumbersome development of extradition treaties.<sup>80</sup> However, the treaty does contain an elective reservation allowing it to tolerate a dual criminality requirement.<sup>81</sup> The drafters of the treaty defend the rejection of the dual criminality requirement by arguing that expedited preservation is necessary to deal with the extenuated circumstances of computer-related crime.<sup>82</sup> There is an acute need for rapid responses and minimal bureaucracy because electronic evidence is so easily tampered with or destroyed.<sup>83</sup> Furthermore, there is ample opportunity to cure a breach of procedural standards after the data has been secured but before it has been turned over to requesting authorities.<sup>84</sup>

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73. *Explanatory Report to the Convention on Cybercrime*, *supra* note 3, ¶ 281.

74. *Convention on Cybercrime*, *supra* note 31, ch. III § 2 tit. 2, art. 29.

75. *Id.* at ch. III § 2 tit. 2, art. 30.

76. *Id.* at ch. III § 2 tit. 2, art. 31.

77. *Id.* at ch. III § 2 tit. 2, art. 33.

78. *Id.* at ch. III § 2 tit. 2, art. 34.

79. *See, e.g., id.* at ch. III § 2 tit. 1 art. 29 ¶ 3 (“For the purposes of responding to [an expedited preservation of stored computer data] request, dual criminality shall not be required as a condition to providing such preservation.”).

80. *See TREATIES*, *supra* note 39, at 279.

81. *See, e.g., Convention on Cybercrime*, *supra* note 31, ch. III § 2 tit. 1 art. 29 ¶ 4. A party that requires dual criminality as a condition for responding to a request for mutual assistance for the search . . . seizure . . . or disclosures of stored data, may, in respect of offenses other than those established in accordance with Articles 2 through 11 of this Convention, reserve the right to refuse the request for preservation under this article in cases where it has reasons to believe that at the time of disclosure the condition of dual criminality cannot be fulfilled. *Id.*

82. *See Explanatory Report to the Convention on Cybercrime*, *supra* note 3, ¶ 285.

83. *Id.*

84. *See id.*

### III. THE NEGLIGIBLE IMPACT OF THE TREATY ON UNITED STATES DOMESTIC LAW

The U.S. Department of Justice does not anticipate that implementing legislation will be required for the United States to become a party to the Convention on Cybercrime.<sup>85</sup> There are several reasons for this supposition: (1) because the United States participated in its drafting, the treaty largely tracks existing U.S. law, (2) the treaty generally permits states to reserve provisions where existing cybercrime laws conflict between states, and (3) the treaty defers to pre-existing international agreements.<sup>86</sup>

#### A. The Convention Generally Tracks Current United States Law

The United States Departments of Justice, State, and Commerce, in close consultation with other U.S. government agencies, played a big role in the negotiations of both the plenary sessions and drafting of the treaty.<sup>87</sup> As a result, the central provisions of the Convention are consistent with the existing framework of U.S. law and procedures.<sup>88</sup> An exhaustive mapping of current U.S. law against the provisions of the Convention is beyond the scope of this paper, however, Table 1 summarizes the correlation between U.S. federal laws and the substantive offense provisions of the treaty. The table introduces general types of unlawful conduct to facilitate comparison between the Convention on Cybercrime and comparable U.S. federal statutes. As the table demonstrates, nearly every substantive offense created by the Convention on Cybercrime is already criminalized in some fashion under U.S. federal law. Article 11 of the treaty is not included in the table. This Article (Attempt and Aiding or Abetting) criminalizes intentional conduct aimed at aiding, abetting or attempting the offenses criminalized under Articles 2 through 10.<sup>89</sup>

Table 1<sup>90</sup>

Types of Unlawful Conduct	Convention on Cybercrime Treaty Provisions	Examples of Potentially Applicable Federal Laws
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85. Frequently Asked Questions, *supra* note 27, at A7.

86. *Id.*

87. *Id.* at A3.

88. *See id.* at A7.

89. Articles 2-11 of the CoE's Convention on Cybercrime introduce the substantive criminal offenses mandated by the treaty. Convention on Cybercrime, *supra* note 31, ch. II, § 1, tit. 5, art. 11.

90. The table represents an adaptation of a table taken from the President's Working Group on Unlawful Conduct on the Internet. *The Electronic Frontier: The Challenge of Unlawful Conduct on the Internet*, at 18-19, available at <http://www.cybercrime.gov/unlawful.pdf> (Mar. 2000).

Computer Misuse	Art. 2 Illegal access Art. 3 Illegal interception Art. 4 Data interference Art. 5 System interference Art. 6 Misuse of devices	18 U.S.C. § 1030 (computer fraud and abuse act)
Internet Fraud	Art. 7 Computer-related forgery Art. 8 Computer-related fraud	15 U.S.C. §§ 45, 52 (unfair or deceptive acts or practices; false advertisements) 15 U.S.C. § 11644 (credit card fraud) 18 U.S.C. §§ 1028, 1029, 1030 (fraud connected with identification documents and information; fraud connected with access devices; fraud connected with computers) 18 U.S.C. §§ 1341 et seq. (mail, wire, and bank fraud) 18 U.S.C. § 1345 (injunctions against fraud) 18 U.S.C. §§ 1956, 1957 (money laundering)
Online Child Pornography, Child Luring, and Related Activities	Art. 9 Offenses related to child pornography	18 U.S.C. § 2251 et seq. (sexual exploitation and other child abuse) 18 U.S.C. § 2421 et seq. (transportation for illegal sexual activity)
Software Piracy and Intellectual Property Theft	Art. 10 Offenses related to infringements of copyright and related rights	17 U.S.C. § 506 (criminal copyright infringement) 17 U.S.C. § 1201 et seq. (copyright protection and management systems) 18 U.S.C. § 545 (smuggling goods into the United States) 18 U.S.C. §§ 1341, 1343 (frauds and swindles) 18 U.S.C. § 1831 et seq. (protection of trade secrets) 18 U.S.C. §§ 2318-20 (trafficking in counterfeit labels for phone records, copies of computer programs or related documentation/packaging, and copies of motion pictures other audio visual works)

Even where the treaty diverges from U.S. law, American ratification of the treaty would not require new legislation. The Department of Justice maintains that the language of the Convention is purposefully vague to enable easy compliance with its terms.<sup>91</sup> However, where the treaty does materially depart from existing U.S. legislation criminalizing cybercrime offenses, enactment of the treaty will not automatically change federal criminal legislation. Treaties that specify international crimes or create criminal sanctions for particular activities still require implementing legis-

91. Frequently Asked Questions, *supra* note 27, at B1. "By their nature, multilateral conventions must take into account many different legal systems, and the test of such conventions is often more general than would be a domestic statute. The level of specificity in this convention is consistent with other multilateral law enforcement conventions." *Id.*

lation.<sup>92</sup> Since the extent of congressional obligation to enact legislation in compliance with a treaty is unresolved, it remains Congress's prerogative to implement legislation.<sup>93</sup>

Unlike the criminalized offenses, the provisions establishing procedural laws to provide law enforcement officials with the authority and tools necessary to comply with requests for international cooperation are less clearly traceable to existing U.S. law. Table 2 matches the provisions of the Convention with analogous procedural tools provided by U.S. statutes. Generally, U.S. law enforcement officials investigating computer crimes rely on the statutory privacy laws codified at 18 U.S.C. §§ 2510-21, 2701-2711, 3121-3127.<sup>94</sup> These statutes protect individuals against government surveillance (severely limiting the circumstances under which government agents may engage in surveillance activity) and also regulate how government agents may obtain search warrants and subpoenas to compel disclosure of electronic evidence from third parties.<sup>95</sup> Moreover, the Fourth Amendment constrains the ability of U.S. law enforcement officials to engage in some investigative activity.<sup>96</sup>

Table 2

Type of Procedural Power Granted to Law Enforcement	Convention on Cybercrime Treaty Provisions	Examples of Potentially Applicable Federal Laws and Rules of Criminal Procedure
Restrictions on police powers	Art 15. Conditions and safeguards	Fourth Amendment 1966 United Nations International Covenant

92. TREATIES, *supra* note 39, at 73 (citing AMERICAN LAW INSTITUTE, RESTATEMENT (THIRD) OF THE FOREIGN RELATIONS LAW OF THE UNITED STATES § 111, comment I; LOUIS HENKIN, FOREIGN AFFAIRS AND THE UNITED STATES CONSTITUTION 203 (2d ed. 1996); quoting *The Over the Top*, 5 F. 2d. 838, 845 (D. Conn. 1925); "It is not the function of treaties to enact the fiscal or criminal law of a nation. For this purpose no treaty is self-executing . . . no part of the criminal law of this country has ever been enacted by treaty.").

93. See TREATIES, *supra* note 39, at 167 (citing LOUIS HENKIN, FOREIGN AFFAIRS AND THE UNITED STATES CONSTITUTION 205 (2d ed. 1996). However, failure to implement an internationally perfected treaty would constitute a violation of obligations assumed by the United States under international law. See Monroe Leigh, Legal Adviser, U.S. Department of State. Digest of U.S. Practice in International Law 1976, 221 (memorandum of Apr. 12, 1976).

94. DOJ SEARCH AND SEIZURE MANUAL *supra* note 19, at xi.

95. *Id.* at xiii.

96. Orin S. Kerr, Lifting the "Fog" of Internet Surveillance: How a Suppression Remedy Would Change Computer Crime Law 4-5 (November 2, 2002) (unpublished manuscript, on file with author) (arguing that due to the lack of a suppression remedy, only the Fourth Amendment genuinely acts as a protection of citizens against unauthorized investigations by the government).

		<p>on Human and Political Rights</p> <p>18 U.S.C. §§ 3121-3127 Pen Register and Trap and Trace Statute (limiting the ability of government agents and individuals to intercept communications)</p> <p>18 U.S.C. § 2510 Electronic Communications Privacy Act (limiting the ability of government agents and individuals to intercept electronic communications)</p>
Expedited preservation of electronic data	<p>Art 16. Expedited preservation of stored computer data</p> <p>Art 17. Expedited preservation and partial disclosure of traffic data</p>	18 U.S.C. § 2703(f) (permitting order for preservation of evidence)
Production of electronic evidence stored by a third party	Art 18. Production order	18 U.S.C. § 2703(d) (granting power to compel disclosure of electronic evidence stored by a third party)
Search and seizure of computers and stored computer data	Art 19. Search and Seizure of stored computer data	FED. R. CIV. P. 41(b) (authorizing agents to obtain a warrant to seize electronic evidence)
Real time collection of Internet traffic data and interception of content data.	<p>Art 20. Real-time collection of traffic data</p> <p>Art 21. Interception of content data</p>	<p>18 U.S.C. § 2518 (interception authorized by Title III order)</p> <p>18 U.S.C. § 2511(2)(c-d) (authorizing interception by consent of party to communication)</p> <p>18 U.S.C. § 2511(2)(a)(i) provider exception (authorizing mass communication providers to routinely track user activity as part of their normal course of business)</p>

The treaty's procedural requirements to aid law enforcement have been criticized for inadequately protecting civil liberties.<sup>97</sup> Critics have bemoaned the general lack of safeguards for human rights resulting from the treaty's excessive focus on procedural powers.<sup>98</sup> Specifically, they argue that the privacy interests of individuals are undermined by the treaty's allowance of real-time interception of traffic and content data, and that the treaty does not sufficiently balance the ostensible requirement for provid-

97. See ACLU, at [http://www.privacyinternational.org/issues/cybercrime/coe/ngo\\_letter\\_601.htm](http://www.privacyinternational.org/issues/cybercrime/coe/ngo_letter_601.htm) (Jun. 7, 2001); GILC, at [http://www.gilc.or/speech/coe\\_hate\\_speech\\_letter.html](http://www.gilc.or/speech/coe_hate_speech_letter.html) (Feb. 6, 2002); Center for Democracy & Technology, at <http://www.cdt.org/international/cybercrime/010206cdt.shtml> (Feb. 6, 2001); Americans for Computer Privacy, available at <http://www.cdt.org/international/cybercrime/001207acp.shtml> (Dec. 7, 2000); NetCoalition.com, available at <http://www.cdt.org/international/cybercrime/010100netcoalition.shtml> (Jan. 2001); Internet Alliance, available at <http://www.cdt.org/international/cybercrime/001000ia.shtml> (last visited Jan. 27, 2003)

98. See ACLU, *supra* note 97.

ing keys to encrypted materials with the rights against self-incrimination.<sup>99</sup> However, many of these problems were addressed during the drafting of the Convention.<sup>100</sup>

The current draft of the treaty contains measures to protect civil liberties. For example, Article 15 of the treaty explicitly references the 1950 Council of Europe Convention for the Protection of Human Rights and Fundamental Freedoms and the 1966 United Nations International Covenant on Civil and Political Rights to incorporate the principle of proportionality with respect to punishments of various crimes harmonized by the Convention. Furthermore, the Convention arguably requires only third parties, such as systems administrators with control over requested information, to provide keys or translations of encrypted materials.<sup>101</sup> Finally, neither the Expedited Preservation of Stored Computer Data article (Article 29) nor the Real-time Collection of Computer Data article (Article 33) require states to enable, by statute or otherwise, searches or seizures that are beyond their current capabilities.<sup>102</sup>

## B. Reservations Mitigate the Effect of Controversial Provisions

Other differences between U.S. law and the treaty may be less problematic because the treaty allows states to selectively elect reservations from certain provisions. For example, Article 9 of the Convention criminalizes producing, trafficking in, procuring, and possessing child pornography and defines child pornography as “material that visually depicts (a) a minor engaged in sexually explicit conduct; (b) a person appearing to be a minor engaged in sexually explicit conduct; (c) realistic images representing a minor engaged in sexually explicit conduct.”<sup>103</sup> Current U.S. law does not go this far. However, to resolve these types of inconsistencies, parties to the Convention are permitted to take reservations on a limited number of specified articles, or parts thereof.<sup>104</sup> For example, with respect to Article 9 on child pornography, the Convention permits parties to elect

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99. *Id.*

100. See, e.g., *Explanatory Report to the Convention on Cybercrime*, *supra* note 3; Frequently Asked Questions, *supra* note 27, at D1.

101. *Explanatory Report to the Convention on Cybercrime*, *supra* note 3, ¶¶ 200-02.

102. “The drafters of the present Convention discussed whether the Convention should impose an obligation for service providers to routinely collect and retain traffic data for a certain fixed period of time, but did not include any such obligation due to lack of consensus.” *Explanatory Report to the Convention on Cybercrime*, *supra* note 3, ¶ 135; See also *Convention on Cybercrime*, *supra* note 31, ch. II § 2 tit. 1 arts. 14 ¶ 3, 20 ¶ 1b.

103. *Convention on Cybercrime*, *supra* note 31, ch. II § 1 tit. 3 art. 9.

104. Frequently Asked Questions, *supra* note 27, at A7, B1.

a reservation to the requirements of “procuring” and “possessing.”<sup>105</sup> A state can also reserve part of the definition of child pornography as it relates to images containing “a person appearing to be a minor” and “realistic images.”<sup>106</sup>

The Jurisdiction article (Article 23) is another instance where the United States will likely elect a reservation from a treaty provision.<sup>107</sup> The United States does generally assert jurisdiction over crimes committed by American citizens abroad and thus would take a partial reservation to this article.<sup>108</sup>

Reservations occur throughout the treaty.<sup>109</sup> “These reservation possibilities aim at enabling the largest number of States to become Parties to the Convention, while permitting such States to maintain certain approaches and concepts consistent with their domestic law.”<sup>110</sup> The apparent flexibility of the reservations is misleading, however. While the Convention on Cybercrime has nine specified reservation clauses, it prohibits any other reservation.<sup>111</sup> The available reservations highlight the areas of disagreement between the parties to the Convention on Cybercrime and emphasize (by their absence) areas of consensus.<sup>112</sup> However, the clause

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105. Convention on Cybercrime, *supra* note 31, ch. II § 2 tit. 3, art. 9 ¶ 4.

106. *Id.*

107. Frequently Asked Questions, *supra* note 27, at A7.

108. *Id.*

109. By a written notification addressed to the Secretary General of the Council of Europe, any State may, at the time of signature or when depositing its instrument of ratification, acceptance, approval or accession, declare that it avails itself of the reservation(s) provided for in Article 4, paragraph 2, Article 6, paragraph 3, Article 9, paragraph 4, Article 10, paragraph 3, Article 11, paragraph 3, Article 14, paragraph 3, Article 22, paragraph 2, Article 29, paragraph 4, and Article 41, paragraph 1. No other reservation may be made.

Convention on Cybercrime, *supra* note 31, ch. IV art 42. For a description of each reservation see footnote 112 *infra*.

110. *Explanatory Report to the Convention on Cybercrime*, *supra* note 3, ¶ 320.

111. Convention on Cybercrime, *supra* note 31, ch. IV art. 42. See *supra* note 109.

112. Parties may elect the following reservations: Article 4, paragraph 2 (limiting the crime of data interference to situations where the conduct resulted in serious harm), Article 6, paragraph 3 (negating the requirement of criminalizing the production, sale, procurement, import or distribution of devices designed primarily to enable misuse of computers systems), Article 9, paragraph 4 (negating the requirement for criminalizing procurement or possession of child pornography) (limiting the definition of child pornography so as not to include images with persons merely appearing to be minors or nonphotographic images that are too realistic), Article 10, paragraph 3 (reserving the right not to criminalize copyright infringements so long as alternative remedies remain available), Article 11, paragraph 3 (reserving the right not to criminalize attempt of the crimes out-

prohibiting additional reservations in Article 42 is problematic for U.S. ratification because the Senate Foreign Relations Committee has taken the position that executive branch negotiators should not agree to such provisions, and that, in any event, such a clause will not be construed to constrain the Senate's right to attach any reservations deemed necessary to its advice and consent.<sup>113</sup>

Potential reservations further complicate an analysis of the likely efficacy of the Convention in the United States, since the Senate will not necessarily be aware of what reservations other parties have stipulated to in their acceptance.<sup>114</sup> Given the wide range of permutations on possible reservations, merely knowing that another country is a party to the Convention will not necessarily facilitate investigations. In the context of an ongoing, extraterritorial investigation, United States authorities will still need to determine the specific reservations made by the assisting party in order to determine the level of assistance obtainable under the treaty. Thus, the strengths and weaknesses of the Convention will be ultimately determined in practice.

### C. Deference to Pre-existing Mutual Assistance Agreements

The scope of the treaty is further limited by deferring to pre-existing mutual legal assistance treaties (MLATs) and other multilateral agreements already in effect.<sup>115</sup> Parties "that have bilateral MLATs in force between them, or other multilateral agreements governing mutual assistance in criminal cases . . . shall continue to apply their terms, supplemented by

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lined in the treaty, Article 14, paragraph 3 (reserving the right to apply the measures in Article 20 [real-time collection of traffic data] only to offenses specified in the reservation, provided that the range of such offenses is not more limited than the range of offenses to which it applies the interception measures referred to in Article 21 [interception of content data]), Article 22, paragraph 2 (reserving the right not to assert jurisdiction on board ships flying the party's flag, or aircrafts registered under the party, or upon nationals of that party), Article 29, paragraph 4 (permitting a party who requires dual criminality for providing assistance in search and seizure operations, and who has reason to believe at the time of the request that this burden shall not be met, to refrain from complying with an expedited preservation of stored computer data request so long as it does not pertain to offenses established under Art. 2-11 where, arguably dual criminality has already been established), and Article 41, paragraph 1 (reserving the right of federal states to not enact federal legislation to be in compliance with the treaty, but rather permit reliance on "its fundamental principles governing the relationship between its central government and constituent States") ETS 185—Convention on Cybercrime, *supra* note 31.

113. TREATIES, *supra* note 39, at 16.

114. *Id.*

115. Convention on Cybercrime, *supra* note 31, ch. II § 1 tit. 3, arts. 25, 27; *Explanatory Report to the Convention on Cybercrime*, *supra* note 3, ¶¶ 255, 257, 262, 263

the computer- or computer-related crime-specific mechanisms . . . unless they agree to apply any or all of the provisions of this Article in lieu thereof.”<sup>116</sup>

While this deference seems to obviate the need for the Convention, it is nonetheless reassuring. MLATs represent a more recent type of treaty especially designed for the gathering of evidence in criminal cases.<sup>117</sup> MLATs typically provide “the means for tracking, freezing and confiscating crime-tainted assets found beyond the borders of the country in which the crime occurred.”<sup>118</sup> They also typically include “escape clauses,” which allow parties to deny assistance if the request does not conform to the treaty, relates to a political or military offense, or if rendering assistance would impinge upon the security or essential public interests of the state of which the request is made.<sup>119</sup>

#### IV. REEXAMINING THE VALUE OF THE CONVENTION ON CYBERCRIME

The ambiguity of each party’s commitment to mutual assistance in cybercrime investigations and the subordination of the treaty to pre-existing mutual assistance agreements cloud the benefits of ratifying the Convention. However, there are two more pressing reasons for questioning the value of the Convention on Cybercrime. First, because the nature of cybercrime is rapidly changing, the cumbersome amendment process of treaties would risk a premature fixation of the law. Second, the treaty fails to resolve the extraterritorial jurisdictional issue, the core issue prompting development of the treaty.

##### A. The Convention and its Amendment Process Introduces Stagnation

Cybercrime legislation is in a nascent state and hence highly susceptible to alteration.<sup>120</sup> Widespread adoption of the Convention could stunt the

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116. *Explanatory Report to the Convention on Cybercrime*, *supra* note 3, ¶ 263

117. TREATIES, *supra* note 39, at 282. The traditional procedure for obtaining such evidence is presentation of letters rogatory, a written request from the court of the investigating country to the court of country in which the investigation is to take place. U.S. officials have found this method of requesting evidence and legal assistance to be less satisfactory than the new MLATs because the agreements were not compulsory and frequently produced evidence which was inadmissible in the courts of the prosecuting country. *Id.*

118. *Id.*

119. *Id.* at 282-83.

120. See generally Orin S. Kerr, The Troubling Trigger of Cybercrime 8-22 (Aug. 15, 2002) (unpublished manuscript, on file with author).

development of cybercrime legislation. While the Convention essentially exports U.S. law, current U.S. law on cybercrime is far from ideal.<sup>121</sup> Cybercrime legislation in the United States is complicated by its residual ties to property law precedent and telephony-based statutory law.<sup>122</sup> Alternative paradigms may be more suitable to the domain of cyber space.<sup>123</sup>

Treaties are more difficult to amend than domestic legislation.<sup>124</sup> In theory, treaties to which the United States is a signatory require the participation of the Senate before modification or amendment.<sup>125</sup> The process is so onerous that it has been equated to the formation of an entirely new agreement.<sup>126</sup> The recent addition of the protocol on racist and xenophobic speech to the treaty demonstrates the intention of the Council of Europe to mitigate this issue by using protocols, which function as distinct multilateral agreements, separate from the treaty itself. But this solution does not address the concern that the provisions of the treaty itself may be in some significant way a sub-optimal solution to the reduction of cybercrime.

Of course, the United States has never felt corralled by treaties. The United States maintains that treaties may be superceded by an act of Congress,<sup>127</sup> even at the risk of incurring the ire of the international community and violating international law as established under the Vienna Convention.<sup>128</sup> It is unclear to what extent the development of U.S. cybercrime law would be hampered by ratification of the Convention.

## B. Convention Does Not Resolve the Jurisdictional Issue

The Convention on Cybercrime does not resolve the extraterritorial jurisdictional issue because it ultimately fails to articulate a common set of crimes. The Convention is further hampered by the lack of universal participation.

The Convention lacks substance because the reservations act as loopholes for parties whose laws do not harmonize with existing U.S. law. Thus, the Convention represents only an illusory attempt to harmonize cy-

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121. *Id.* at 24-52.

122. *Id.*

123. *Id.* at 60-71; *see also* Kerr, *supra* note 96.

124. *See* TREATIES, *supra* note 39, at 173.

125. *See id.*

126. *Id.*

127. *Id.* at 174 (citing *Chae Chan Ping v. United States*, 130 U.S. 581 (1889) (supporting the proposition that the outcome of the cases, though in violation of international law, did not present an issue of constitutional significance); *Edey v. Robertson*, 112 U.S. 580 (1884)).

128. Although the US has not yet ratified the Vienna Convention, it is still widely considered the primary source of international law. TREATIES, *supra* note 39, at 20-21.

bercrime laws between its prospective members. The reservations permit parties to preserve their existing laws and undermine harmonization. As a result of these reservations, it is unclear which parties, if any, will need to adjust their current domestic law to be in compliance with the treaty.<sup>129</sup>

Furthermore, the Convention does not establish a foundation of consensus, arguably because of overreaching by the drafters. By trying to incorporate all the crimes that all the parties wanted instead of criminalizing only activities on which there was a consensus, the Convention fails to articulate a common ground for cybercrime legislation. Under the treaty, any common ground of cybercrime legislation will remain unknown until all parties have acceded and all reservations have been stipulated.

Finally, the treaty fails if participation is not universal.<sup>130</sup> It will take years to ratify the treaty,<sup>131</sup> and once ratified, the cooperation mechanisms will only work if there is universal accession.<sup>132</sup> In the absence of worldwide participation in the Convention, cyber criminals could simply relocate to a jurisdiction outside of the Convention's reach, or avert detection by routing their online activities through a state outside of the Convention.<sup>133</sup> Other states, including the UNITED STATES, will still need to take unilateral action against individuals in countries that fail to join, ratify, implement or enforce the treaty.<sup>134</sup> In the mean time, the Convention inadequately addresses cross-border computer disruption crimes.<sup>135</sup>

## V. AN ALTERNATIVE: A MODEL CYBERCRIME LAW

The Senate must either ratify the Convention on Cybercrime with the provided reservations, or reject it in its entirety. However, there are alternatives to the convention. One such solution is the establishment of a model cybercrime code.

The global community may be better served by a solution entailing a model cybercrime code than by the widespread adoption of a treaty codi-

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129. See Frequently Asked Questions, *supra* note 27, at A7 (arguing that the United States will not need to implement new legislation in order to comply with the treaty once ratified, however, not specifying which countries would need to implement new legislation yet making broad pronouncements about the value of the treaty to United States law enforcement).

130. Jack L. Goldsmith, *The Internet and the Legitimacy of Remote Cross-Border Searches*, 2001 U. CHI LEGAL F. 103, 107 (2001).

131. *Id.*

132. *Id.*

133. *See id.*

134. *Id.*

135. *Id.* See generally Bellia, *supra* note 6.

fyng the current law of the hegemony. A model cybercrime code is advantageous because it could be changed more easily as technology develops. Furthermore, states could better maintain consistency between their own legislative schemes and the model code. Finally, the process of developing such a model code might yield superior solutions to the jurisdictional problems permeating cybercrime legislation.

Nonetheless, establishment of a model cybercrime code is unlikely to be the panacea hoped for. Worldwide harmonization of cybercrime legislation would probably take even longer to achieve under a model code. Furthermore, although a model code might uniformly criminalize a canon of offenses, it must also have a mechanism for insuring cooperation between states that implement its provisions. Most successful model codes are derived by identifying social norms and selectively elevating some to become tenants of the code.<sup>136</sup> Thus, a successful model code is likely to replicate much of the content of the Convention.

Despite its flaws, the Convention on Cybercrime is a starting point, and the ultimate value of the Convention may in attracting members over time. Even without universal membership, the Convention is still relevant as a tool to force harmonization with parties outside the Convention. If the current parties to the Convention generally concur on a paradigm of cybercrime legislation, then that hegemonic paradigm will be described by the Convention. The true process of harmonization will begin when the Convention admits new members to the treaty on the condition that they change their laws align with this hegemonic paradigm. Unilateral assertions of power by Convention member states against nonmember states might encourage universal entry into the Convention, thereby eventually bringing about worldwide harmonization of cybercrime laws and alleviating the problem of the no-man's-land in cyber law.<sup>137</sup>

## VI. CONCLUSION

The Convention on Cybercrime is best understood as a potential tool for establishing a hegemony in Internet regulation and exporting that hegemonic regulatory scheme to the rest of the world, rather than as an

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136. "... Karl Llewellyn, the scholar who directed the creation of America's most successful code, *The Uniform Commercial Code*, explicitly identified the best business practices and wrote them into the code." ROBERT COOTER & THOMAS ULEN, *LAW & ECONOMICS* 422 (3RD ED. 2000).

137. Goldsmith, at least, has concluded that such recourses are necessary and even desirable inasmuch as they can be used as a tool to generate greater and more rapid incorporation of States into the Treaty, using assertion of power as a bully club of sorts. Goldsmith, *supra* note 130, at 117.

effort to harmonize the cybercrime laws of current members of the Convention. Irrespective of the ethics of such exportation, there are few realistic alternatives. As criminal activity becomes increasingly un-remediable by technological fixes and traditional mechanisms of international cooperation, countries will resort to unilateral assertions of power to conduct remote searches or otherwise assert jurisdiction to solve the problem of cybercrime. If digitally advanced countries, such as the United States, fail to come to terms in the context of a treaty or similar instrument, then the jurisdictional problem of cybercrime legislation will continue to threaten state sovereignty.

## SURVEY OF DEVELOPMENTS IN EUROPEAN DATABASE PROTECTION

By Rebecca Lubens

The inventor of the hyperlink, Tim Berners-Lee, has specifically declined to grant permission to link to his website. Permission is unnecessary, he says, in an expression of his firm belief in the free-linking ethos of the Internet.<sup>1</sup> Indeed, the World Wide Web is premised on a basis of linking as a channel for free distribution of information. Our Internet culture was founded on this notion of free accessibility.<sup>2</sup> Nevertheless, as Internet pioneers and netizens have been forced to accommodate the arrival of traditional business and corporate interests in the online environment, intellectual property notions of entitlements and exclusion have begun to threaten the practice of linking.

Online distribution of information without prior permission from site owners may infringe the intellectual property rights of third parties, if a site's content meets the threshold for protection, and a court considers linking to infringe that content. Although copyright and unfair competition claims against deep linking practices have been largely unsuccessful in the United States, the 1996 European Community Directive on the Legal Protection of Databases ("the Directive")<sup>3</sup> has been successfully deployed in Germany and Denmark to make deep linking illegal. In those countries, deep linking has been held unlawful when commercial interests are involved by granting *sui generis*<sup>4</sup> protection to the creator of a database for qualitative or quantitative investment in the obtaining, verification, or presentation of its contents. If linking is construed as extraction and/or reutilization of a whole or substantial part of the contents of the database—acts from which the database creator is protected by the *sui generis* right—the elements of an infringement claim have been met. While web activists fear that the free access principles of the Internet may be threatened by this legal development and Internet users have predicted that targeted

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1. See Tim Berners-Lee, *Axioms of Web Architecture, Links and Laws—Myths*, at <http://www.w3.org/DesignIssues/LinkMyths.html> (last visited Feb. 17, 2003).

2. *Id.*

3. Directive 96/9/EC of the European Parliament and of the Council of 11 March 1996 on the Legal Protection of Databases, 1996 O.J. (L 78) 20 [hereinafter E.C. Directive].

4. "Of its own kind or class; *i.e.*, the *only one* of its own kind; peculiar." BLACK'S LAW DICTIONARY 1286 (5th ed. 1979).

search engines<sup>5</sup> will relocate outside the European Union (E.U.) to avoid the Directive's reach, legal commentators suggest that a misappropriation analysis might be more appropriate for assessing injury to site owners than the copyright-like protection on which the current interpretation is based.<sup>6</sup> Commentators in both Europe and the U.S. have raised policy concerns about the increasingly common interpretation of the Directive that grants copyright-like protection to a collection of links on a web page. Meanwhile key notions of the Directive, which grants *sui generis* protection for "sweat-of-the-brow" investment<sup>7</sup> in compiling information for databases and organizing that information, have yet to be fully clarified by the case law of Member States or the European Court of Justice.

Part I of this Note will introduce the key legal issues that frame database right claims brought against linkers and explore the legal rules and Internet custom that have developed to govern reference to online content. Part II outlines the key provisions of the Directive, focusing on the *sui generis* protection of "substantial investment" in "the obtaining, verification or presentation of the contents" of a database.<sup>8</sup> Part III summarizes cases where database creators have made successful claims against deep linkers for the "extraction and/or reutilization"<sup>9</sup> of parts of their databases. Finally, this Note raises some of the policy concerns implicated by application of the Directive's *sui generis* right to the case of deep linking.

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5. Search engines locate open content by scouring the Web for sites or pages that have been linked to or submitted as links by someone (such as the Webmaster or page author). See, e.g., Gary Price, *Web Search Engine FAQs: Questions, Answers and Issues*, 9 SEARCHER 9 (2001), available at <http://www.infoday.com/searcher/oct01/price.html>.

6. See, e.g., Lisa M. Bowman, *Linking Threats under the Radar?*, CNETNews.com, at <http://news.com.com/2100-1023-941556.html> (last visited Sept. 9, 2002); Posting of Christoph Kohlhepp, to Newsclub.de Discussion Forum, at <http://www.newsclub.de/prozess>, (Aug. 14, 2002) (copy on file with author); J.B. Ko & A. Roarty, *Link Liability: The Argument for Inline Links and Frames as Infringements of the Copyright Display Right*, 68 FORDHAM L. REV. 1011, 1012 (1999).

7. This grants copyright-like protection to databases that are not creative but are based on a certain level of effort or investment. See, e.g., Submission from the European Community and Its Member States: The Legal Protection of Databases 1 (Nov. 22, 2002), at [http://europa.eu.int/comm/internal\\_market/en/intprop/news/wipo-protection-db\\_en.pdf](http://europa.eu.int/comm/internal_market/en/intprop/news/wipo-protection-db_en.pdf).

8. E.C. Directive, *supra* note 3, at ch. III, art. 7(1).

9. *Id.*

## I. DEEP LINKING

### A. Terminology

A “hyperlink” directs web browsers to another document (an external link) or to another part of the same document (an internal link).<sup>10</sup> This instruction takes the form of HTML code that incorporates the domain name of the linked site while appearing on screen as a word or image.<sup>11</sup> The document retrieved by the browser is displayed on the user’s screen in its original form without any reference to the linking site. Since hyperlinks are nothing more than a shortcut to avoid the hassle of typing in the address of another document on the web, links can be established without the knowledge of the owner of the linked site.<sup>12</sup> The use of hyperlinks does not make any extra copies of the work other than the one created in the user’s computer memory, which is required in order to view the linked web page.

An external link that transfers an Internet user from the web page of a linking site to the homepage<sup>13</sup> of another linked site is referred to as a “surface link.” A “deep link,” by contrast, connects the user to an interior page of the site (i.e. any page other than the homepage), circumventing any information posted on the homepage.<sup>14</sup>

### B. The Legality of Linking

Under U.S. and European case law, and as a matter of Internet custom, there is an implied license to hyperlink to a site’s homepage.<sup>15</sup> Participat-

10. “Hypertext” is short for Hypertext Reference Link. Hypertext is a system that enables information of various kinds (text, sound, and still or moving images) published on the World Wide Web to be linked to each other in a structured way.

11. Hyperlinks are often highlighted as colored and/or underlined text for visibility. The link tells web page visitors that a link between documents is available. Often when the cursor moves over a hyperlink, it adopts a different form, such as a hand.

12. See, e.g., Ignacio Javier Garrote, *Linking, Framing and Copyright: A Comparative Law Approach 5*, at [http://papers.ssrn.com/paper.taf?abstract\\_id=280596](http://papers.ssrn.com/paper.taf?abstract_id=280596) (last visited Dec. 2, 2002) (“[HREF links] can be considered the electronic equivalent of citations in the printed book world.”)

13. The homepage is the page appearing when using the domain name in its simplest form, i.e. without any additions to the top level domain.

14. A subpage or an interior page has a specific URL, composed of the homepage’s URL and additions to it.

15. Mark Sableman, *Link Law Revisited: Internet Linking Law at Five Years*, 16 BERKELEY TECH. L.J. 1273, 1331 (2001); see Garrote, *supra* note 12. A possible exception to this general rule arises when the linker links to a site containing infringing content. The link provider may be found liable for indirect infringement since he is providing the

ing in the Internet forum by posting content on a site implicitly authorizes others to refer to and copy that material.<sup>16</sup> Thus, express permission is not needed by a site owner to establish a link to the homepage of another site.<sup>17</sup>

The issue is more complicated when deep links are made to one of a site's interior pages.<sup>18</sup> Given the potentially conflicting interests of the linking and linked site, some commentators argue against conferring an automatic license.<sup>19</sup> Those favoring explicit permission requirements for deep linking argue that the owner of a site implicitly grants a license to browse the site, but only in the way that the creator of the site intended and designed it.<sup>20</sup> In particular, deep links bypass restrictive clauses and homepage advertising, leading to potential site misuse or a loss of profit for the operator of the linked site.<sup>21</sup> However, site owners often design

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user with easy access to the site. See Stacey L. Dogan, *Infringement Once Removed: The Perils of Hyperlinking to Infringing Content*, 87 IOWA L. REV. 829, 836 (2002).

16. The Düsseldorf Court of Appeals confirmed this analysis in a case involving framing where the plaintiff was seeking relief for an alleged act of unfair competition, stating that "those who post web pages on the Internet must realize that there may be references [to their pages] and it can be assumed that they have authorized them. Access to these pages from the outside, namely by means of links, allows for a rapid and effective dissemination." Baumarkt.de, Oberlandesgericht (Court of Appeal) Düsseldorf, June 29, 1999, at [http://www.netlaw.de/urteile/olgd\\_2.html](http://www.netlaw.de/urteile/olgd_2.html); see also *Algemeen Dagblad a.o. v. Eureka*, President District Court of Rotterdam, Aug. 22, 2000, translated at <http://www.ivir.nl/rechtspraak/kranten.com-english.html>.

Hyperlinks are the functional core of the world wide web . . . Although titles of news reports can be protected by copyright, the reproduction of those titles on the internet for the benefit of hyperlinks referring to those reports is the most appropriate and common way to fill the hyperlink to the report concerned. By placing the reports and articles concerned with these titles on the Internet the Newspapers granted implicit permission to use these titles to hyperlink.

*Id.*

17. Alain Strowel & Nicolas Ide, *Liability with Regard to Hyperlinks*, 24 COLUM.-VLA J.L. & ARTS 403, 412-13 (2001).

18. See Garrote, *supra* note 12 ("In this case there is not a juris tantum presumption allowing the deep link, because the economic exploitation of the work is affected . . . . However, commentators point out that deep links could be authorised under the tacit license doctrine when the web page does not contain any banner, and courts in some civil law countries have authorised deep links under certain circumstances.")

19. See generally Dr. Andreas Wiebe, L.L.M., *Copyright Lecture*, Universitaet Hannover, at <http://www.iri.uni-hannover.de/materialien/copyright-lectures/partD.html>. (last visited Nov. 25, 2002).

20. *Id.*

21. See Allison Roarty, Notes, *Link Liability: The Argument for Inline Links and Frames as Infringements of the Copyright Display Right*, 68 FORDHAM L. REV., 1011, 1012 (1999).

their sites to prevent deep linking to internal content, a practice supporting the assumption that site owners have given an implied license when such restrictive measures are not taken.<sup>22</sup> Furthermore, an implied license to link need only be granted if the site owner has an underlying right to control linking in the first place, a premise that is widely contested.<sup>23</sup> Finally, many site designers insist that the technical distinction between a deep and surface link is artificial and therefore that the analysis for deep linking to a site's interior pages should be consistent with arguments of an implied license for linking to a homepage.<sup>24</sup>

Although the few claims against deep linking brought in U.S. courts have been rejected,<sup>25</sup> these arguments have shown more promise in Europe.<sup>26</sup> The highest court in Hamburg, Germany decided that a company does not have to allow direct competitors to link to its site.<sup>27</sup> Just as a company can resist unwanted advertisements, the court reasoned, the

22. See Maureen A. O'Rourke, *Fencing Cyberspace: Drawing Borders in a Virtual World*, 82 MINN. L. REV. 609, 660 (1998); Stefan Bechtold, *Der Schutz des Anbieters von Information. Urheberrecht und Gewerblicher Rechtsschutz im Internet*, ZEITSCHRIFT FÜR URHEBER- UND MEDIENRECHT 432 (1997).

23. See generally Berners-Lee, *supra* note 1.

24. See, e.g., Michelle Delio, *Deep Link Foes Get Another Win*, WIRED NEWS (July 8, 2002), at <http://www.wired.com/news/print/0,1294,53697,00.html> (last visited Sept. 2, 2002) (quoting a web designer as saying that "No link is technically or physically 'deeper' or 'lower' than any other; all items with their own distinct linkable locations are completely equal . . . This idea of deep linking is a totally new and artificial construct.").

25. In *Ticketmaster Corp. v. Tickets.Com, Inc.*, the court rejected copyright infringement and unfair competition arguments by the plaintiff, holding deep linking acceptable so long as surfers can discern the source of the linked page. The Court analogized hyperlinks to traditional indexing techniques as benign and helpful. 2 Fed.Appx. 741, 2001 WL 51509 (9th Cir. 2001). The court in *Kelly v. Arriba Soft Corp.* held that the fact that search engine links allowed users to bypass plaintiff's front page, making it less likely that users would see all of plaintiff's advertisements and promotional messages, is not sufficient evidence of harm or adverse impact. 77 F. Supp. 2d 1116 (C.D. Cal. 1999), *rev'd on other grounds*, 280 F.3d 934 (9th Cir. 2002). For further discussion of this case, see *infra* Part II(B)(2)(a).

However, eBay was able to prevent deep linking to its site on another theory. A court held that when web publishers permit entry to their site for limited purposes, one who violates those conditions may be prosecuted in tort for computer trespass. *Ebay, Inc. v. Bidder's Edge, Inc.*, 100 F. Supp. 2d 1058, 1069 (N.D. Cal. 2000) (issuing preliminary injunction on trespass grounds against the Bidder's Edge practice of recursively crawling the eBay site with robots and compiling a database of the eBay sites, which it then used on its own site).

26. See Sableman, *supra* note 15, at 1342-43.

27. *Gericht: Fremde Links auf eigene Seiten kann man verbieten*, HEISE ONLINE NEWS, (Jan. 23, 2002), at <http://www.heise.de/bin/nt.print/newsticker/data/psz-23.01.01-000/?id=5de69163&todo=print>.

plaintiff can resist unwanted attention from deep linkers.<sup>28</sup> An even more recent case by the lower court in Hamburg held that the operator of a site could unilaterally forbid another from linking to it for any reason at all.<sup>29</sup> Despite the increasingly common situation in which a linked site owner claims the right to authorize and control links, many commentators continue to maintain that most linking to content willingly placed on the Internet is fair and lawful.<sup>30</sup> The *sui generis* protection provided by the Directive, however, is more comprehensive than the existing U.S. copyright law on which much of this commentary is based, thus it is possible—or even inevitable, as some would hold—that European deep linking case law will diverge from its U.S. counterpart.<sup>31</sup> In addition to the threat to free access to information, which will be explored in more detail below, recent case law raises the concern that inconsistent interpretations of the Directive by Member States' national courts enable the Directive's *sui generis* right to hold suspect the practice of linking.<sup>32</sup>

## II. THE DATABASE DIRECTIVE

Harmonizing inconsistent law within the E.U.<sup>33</sup> and responding to the U.S. Supreme Court's decision in *Feist Publications, Inc. v. Rural Tel. Serv. Co.*,<sup>34</sup> the Directive provided copyright protection for the structure

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28. *Id.*

29. *Id.*

30. *See, e.g.,* Sableman, *supra* note 15, at 1274.

31. *See, e.g.,* Mark D. Evans, *Protection of Data on the Internet*, 1 I.P.Q. 50, 73 (2002) ("There will also, no doubt, be further cases where parties attempt to use the European Database Directive to protect web sites from linking, framing and re-use of content.").

32. *Id.*

33. While the common law jurisdictions of the United Kingdom and Ireland had a very low requirement for originality and the five Nordic states (Sweden, Norway, Denmark, Iceland and Finland) had applied a "catalogue rule" similar to this "sweat of the brow" doctrine since the 1960s, courts in other countries applied a more rigorous test of originality. In the Netherlands, for example, a database could only qualify for copyright protection if it was original in the sense that it possessed a character of its own in which the personal selections and ideas of the author were expressed, but pseudo copyright protection could be invoked to protect the copyright owner from copying of the full collection of data. Courts in France and Germany tended to be less rigorous in their application of the originality requirement, but the standard was higher than "sweat of the brow." *See generally* E. J. Dommering & P.B. Hugenholtz, *PROTECTING WORKS OF FACT* 93-96 (1991).

34. 499 U.S. 340, 347 (1991). The U.S. Supreme Court specifically rejected the "sweat of the brow" doctrine. The Court raised the standard for database protection at the constitutional level, holding that copyright in databases extends not to the pre-existing materials or data themselves, but to the author's judgment in selecting and arranging the

and organization of databases and *sui generis* “sweat of the brow” protection to substantial investments for a term of fifteen years from the date of a database’s creation or each “substantial new investment thereafter.”<sup>35</sup>

Each Member State has implemented the specific provisions of the Directive dealing with copyright protection within its existing copyright law.<sup>36</sup> To receive *copyright* protection, the collection must be sufficiently original.<sup>37</sup> The owner of a protected database has exclusive authorization rights to copy, distribute to the public, and make derivatives of the protected work.<sup>38</sup> A lawful user of the database may perform any of these acts if necessary to access the contents of the database.<sup>39</sup>

Under the Directive’s mandate, separate laws have been implemented in each jurisdiction to provide *sui generis* protection to the investments in creating a database.<sup>40</sup> This *sui generis* right protects the “sweat of the brow,” or the substantial skill, money and energy invested in the selection and arrangement of the contents of the database by the producer.<sup>41</sup> The

disparate materials or data and organizing them into a unified work. The Court emphasized that “the *sine qua non* of copyright is originality.” *Id.* This landmark decision caused “ripples of alarm” in Europe. See Neeta Thakur, *Database Protection in the European Union and the United States: The European Database Directive as an Optimum Global Model?*, 1 I.P.Q. 100, 110 (2001); *Panel I: Database Protection*, 11 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 275 (2001) (in which Hugh Hansen, Professor of Law at Fordham University, recalls Jean Francois Verstryngne, head of copyright in the European Community, responding to the Feist decision as follows: “Uh-oh, we’ve got to change our directive.”)

35. E.C. Directive, *supra* note 3, at ch. III, art. 10.

36. *Id.*

37. To be “original,” the database must, by reason of the selection or arrangement of its contents, constitute the author’s own intellectual creation. See E.C. Directive, *supra* note 3, at ch. II, art. 3.

38. More specifically: (a) temporary or permanent reproduction by any means and in any form, in whole or in part; (b) translation, adaptation, arrangement or any other alteration; (c) any form of distribution to the public of the database or copies thereof (subject to first sale exhaustion); and (d) any reproduction, distribution, communication, display or performance to the public of a translation, adaptation, arrangement, or other alteration. See E.C. Directive, *supra* note 3, at ch. III, art. 5.

39. Member states have implemented this provision in varying forms and it is not clear to what extent database owners may contract around it. See LUCIE M.C.R. GUIBAULT, *COPYRIGHT LIMITATIONS AND CONTRACTS: AN ANALYSIS OF THE CONTRACTUAL OVERRIDABILITY OF LIMITATIONS ON COPYRIGHT* (2002).

40. J.H. Reichman & Pamela Samuelson, *Intellectual Property Rights in Data?*, 50 VAND L. REV. 51, 78 (1997).

41. See E.C. Directive, *supra* note 3, at ch. III, art. 7(1) (“Member States shall provide for a right for the maker of a database which shows that there has been qualitatively and/or quantitatively a substantial investment in either the obtaining, verification or presentation of the contents to prevent extraction and/or re-utilization of the whole or of a

Directive also allows perpetual renewal of the *sui generis* protection following each “subsequent new investment” in the database.<sup>42</sup> Protected databases must constitute individually accessible data arranged in a “systematic or methodical” way and be “individually accessible by electronic or other means.”<sup>43</sup> Courts have read the definition of “database” so broadly that most compilations qualify as a database; thus, most of the case law has focused on defining the “substantial investment” necessary for a protected database.<sup>44</sup>

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substantial part evaluated qualitatively and/or quantitatively, of the contents of that database.”). Notice that this goes beyond the protection offered by U.S. copyright law, which only protects the original selection, arrangement, and compilation of data but not factual contents. *See* Feist, *supra* note 34.

42. *See* E.C. Directive, *supra* note 3, at ch. III, art. 10 (3).

43. *See id.* at ch. I, art. 1(2).

44. Assuming the “substantial investment” requirement is met, various courts have held that not only are factual data (such as information about the times and places of horse races and telephone directories) and information in the public domain (such as laws and regulations) contained in the databases protected, but the Directive’s notion of database also covers works of authorship (such as an anthology, encyclopedia, CD-ROM-based multimedia collections, sets of World Wide Web sites or paper and electronic card catalogues). *See* British Horseracing Bd. (BHB) v. William Hill Organization Ltd., High Court of Justice, Feb. 9, 2001 (horse racing); France Telecom SA v. MA Editions, Tribunal de commerce de Paris, June 18, 1999 (telephone directories); Vermandev v. Bojkovski, President District Court, The Hague, Mar. 20, 1998 (CD-ROM), *translated at* <http://www.ivir.nl/rechtspraak/vermande-en.html>; *see also* Michael J. Bastian, *Protection of “Non-Creative” Databases: Harmonization of United States, Foreign and International Law*, 22 B.C. INT’L & COMP. L. REV. 425 (1999).

Furthermore, although the independent and individually accessible requirement excludes “a recording or an audiovisual, cinematographic, literary or musical work,” it is not necessary under the Directive for the elements to have been “physically stored in an organized manner.” *See* E.C. Directive, *supra* note 3, at pmb., recital 17, 12. While one German court says that an organized appearance is sufficient, many commentators and courts interpret this clarification to qualify “a collection of unorganized data fixed on a hard disk or other digital medium” when “combined with database management software enabling retrieval of the data.” C.-Netz, Kammergericht (Court of Appeal) Berlin, June 9, 2000, *available at* <http://www.jurpc.de/rechtspr/20000216.htm>; *see also* P. Bernt Hugenholtz, *The New Database Right: Early Case Law from Europe* (paper presented at Ninth Annual Conference on International IP Law & Policy, Fordham University School of Law, New York, Apr. 19-20, 2001), *at* <http://www.ivir.nl/publications/hugenholtz/fordham2001.html> (last modified Dec. 1, 2002). [hereinafter *The New Database Right*]. Additionally, some of the newest case law suggests that the requirement of systematic and methodical arrangement does not imply quick and efficient access to the data. *Wegener et al v. Hunter Select*, Gerechtshof (Court of Appeal), Leeuwarden, Nov. 27, 2002, *available at* [http://www.rechtspraak.nl/uitspraak/frameset.asp?ui\\_id=41627](http://www.rechtspraak.nl/uitspraak/frameset.asp?ui_id=41627).

The substantial investment must be made in the “obtaining, verification or presentation of the contents” of the database.<sup>45</sup> The relevant inquiry may be based on either a quantitative evaluation of the amount of labor involved in collecting and compiling the data or on qualitative investment inferred by examining the database itself.<sup>46</sup> European courts have held that low, even mundane, levels of investment satisfy the “substantial” requirement.<sup>47</sup> In a typical example, one German court found a collection of 251 alphabetically ordered web links on parenting topics to have required substantial enough investment to be protected on the basis of the work that went into “compiling, researching and up-dating the list.”<sup>48</sup> In Germany, online classified ads,<sup>49</sup> job postings,<sup>50</sup> real estate listings,<sup>51</sup> telephone directories,<sup>52</sup> and lists of hyperlinks<sup>53</sup> have all been held substantial enough investments to be protected as databases. The database owner may even

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45. E.C. Directive, *supra* note 3, at ch. III, art. 7(1). One European commentator, P. Bernt Hugenholz, defined these terms further. “The ‘obtaining’ obviously refers to the collection of data, works or other materials comprising the database. ‘Verification’ relates to the checking, correcting and updating of data already existing in the database. ‘Presentation’ involves the retrieval and communication of the compiled data, such as the digitalization of analogue files, the creation of a thesaurus or the design of a user interface.” *The New Database Right*, *supra* note 44, at 3.

46. The language of the Directive distinguishes between quantitative and qualitative in the substantial investment requirement, but not all countries have implemented this distinction in their national law. Germany, the Netherlands and Belgium are among the countries that utilize this language. Denmark and the United Kingdom do not.

47. Referring to the English rule of thumb “what is worth copying is worth protecting,” one German court held that in order to achieve the aims of the Directive, a low standard of substantiality should be applied and that “small” databases should be protected as well. Amtsgericht (Lower Court), Rostock, Feb. 20, 2001, *available at* MULTIMEDIA UND RECHT, 9/2001, p. 631-632.

48. *The New Database Right*, *supra* note 44, at 14 (discussing the case of *Kidnet/Babynet*, decided by the Landgericht (District Court) Köln, Aug. 25, 1999).

49. *Berlin Online*, Landgericht (District Court) Berlin, Oct. 8, 1998, *available at* <http://www.online-recht.de/vorent.html?LGBerlin981008+auswahl=1>.

50. *Stepstone*, Landgericht (District Court) Köln, Feb. 28, 2001, *available at* <http://www.jurpc.de/rechtspr/20010138.htm>.

51. *Sueddeutsche Zeitung*, Landgericht (District Court) Köln, Dec. 2, 1998, *available at* <http://www.jurpc.de/rechtspr/20000006.htm>.

52. *Tele-Info CD*, Bundesgerichtshof (Federal Supreme Court), May 6, 1999, *available at* <http://www.jurpc.de/rechtspr/19990124.htm>.

53. *Kidnet/Babynet*, Landgericht (District Court) Köln, Aug. 25, 1999; Amtsgericht (Lower Court) Rostock, Feb. 20, 2001, *available at* [http://www.netlaw.de/urteile/lgk\\_14.htm](http://www.netlaw.de/urteile/lgk_14.htm).

protect database works created by third parties where the owner's investment was purely financial.<sup>54</sup>

After meeting the threshold requirements for substantial investment in a protectable database, the database owner may invoke her *sui generis* rights to prevent "extraction" or "reutilization" of the database as a whole or "of a substantial part."<sup>55</sup> Unquestionably, the appropriation of an entire database would constitute infringement of the *sui generis* right. Repeated or systematic extraction or reutilization of "qualitatively or quantitatively insubstantial parts of the database" are also deemed an infringing usage of essential parts of the database, provided that these acts can be characterized as inconsistent with "normal exploitation of the database" or if they "unreasonably prejudice the legitimate interests of the maker of the database."<sup>56</sup>

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54. In *C.-Netz*, *supra* note 44, even though development and technical operation was carried out by a data processing company, plaintiff qualified as an owner because of substantial fees paid to the commissioned party. Kammergericht (Court of Appeal) Berlin, June 9, 2000, available at <http://www.jurpc.de/rechtspr/20000216.htm>.

55. E.C. Directive, *supra* note 3, at ch. III, art. 7(1) ("Member States shall provide for a right for the maker of a database . . . to prevent extraction and/or re-utilization of the whole or of a substantial part, evaluated qualitatively and/or quantitatively, of the contents of the database.").

56. E.C. Directive, *supra* note 3, at ch. III, art. 7(5). Balanced against protection of the commercial interests of database creators is the public interest in the free exchange of information. See *Thakur*, *supra* note 34, at 118. Besides holding that insubstantial extractions and reutilization of publicly-available databases are not infringing uses, the Directive protects public lending by not classifying it as extraction or re-utilization. E.C. Directive, *supra* note 3, at ch. III, art. 7(2)(b) ("Public lending is not an act of extraction or re-utilization."); *id.* at ch. III, art. 8(1) ("The maker of a database which is made available to the public in whatever manner may not prevent a lawful user of the database from extracting and/or re-utilizing insubstantial parts of its contents . . ."). The Directive further enacted a first sale doctrine that extinguishes the database creator's right to control resale following the first sale of the database. *Id.*, at ch. III, art. 7(2)(b). It also permits Member States to enact exceptions consistent with "fair use" principles. *Id.* at ch. III, art. 9 (gives Member States the option to provide lawful users of publicly available databases the right to privately reproduce non-electronic databases; the right to use for non-commercial teaching/scientific uses; and the right to use for governmental security, administrative or judicial purposes). The Directive further contemplates the public interest in free competition by mandating a triennial review of the *sui generis* regime to determine whether anti-competitive effects require the establishment of a compulsory licensing scheme. *Id.* at ch. III, art. 16(3).

### III. THE DATABASE DIRECTIVE AS A HOOK TO HOLD “DEEP LINKING” UNLAWFUL

Linking to a site without the permission of its author has not only been an essential, assumed part of the Internet's use, but it even bestows benefits on the linked site.<sup>57</sup> The frequency of visits to a site serves as an indicator of the site's prestige and, in the case of advertising-based models, determines the rate that advertisers pay site owners.<sup>58</sup> Nevertheless, there is a lack of consensus in both the U.S and Europe on whether deep linking can constitute copyright infringement, because it is uncertain whether site owners have any rights to regulate references to content on their sites and, if so, whether deep linking violates any of these rights.<sup>59</sup> By contrast, the *sui generis* database right has recently been applied to constrain unwanted deep linking in Europe.<sup>60</sup> Because *sui generis* protection may be granted under the Directive for both the collection of web pages in a site as well as for collections of corresponding links, the *sui generis* protection implicates the operation of search engines, which have been targeted in the most recent litigation.<sup>61</sup> Although storing a whole web page or abstract in a search engine's database constitutes copyright infringement under most European copyright law, European courts are now beginning to consider whether Uniform Resource Locators (URLs), titles, and catch words are protectable under the *sui generis* database right and, if so, whether the scouring of bots constitutes unlawful extraction under the Directive.<sup>62</sup>

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57. Frequency of visits to a site serves as an indicator of the site's prestige and, in the case of advertising-based models, determines the rate that advertisers pay site owners. Dogan, *supra* note 15, at 840-41.

58. *Id.*; see, e.g., Nettracker, at <http://www.sane.com/products/NetTracker/web.html>. (last accessed Mar. 3, 2003).

59. See generally Sableman, *supra* note 15, at 1331.

60. See, e.g., Newsbooster.com, District Court (Byret) Copenhagen, July 16, 2002, available at <http://www.newsbooster.com/?pg=judge&lan=eng>; Stepstone, District Court (Landgericht) Cologne, Feb. 28, 2001, available at <http://www.jurpc.de/rechtspr/20010138.htm>; Mainpost, District Court (Landgericht) Berlin, Jan. 30, 2001, available at <http://www.jurpc.de/rechtspr/20010185.htm>.

61. See, e.g., Wiebe, *supra* note 19.

62. *Id.* “Bots” is short for “robot” or a “computer program that performs a function such as forwarding e-mail, responding to newsgroup messages, or searching for information.” See, e.g., *High Tech Dictionary*, at <http://www.computeruser.com/resources/dictionary/>. (last accessed March 3, 2003).

### A. Before the Directive

In an early case before the Directive, *Shetland Times v. Jonathan Wills and Zetnews*,<sup>63</sup> involved the Shetland News site posting links to the full-text of articles on the Shetland Times' site. The Times claimed that the News' hypertext links using its headlines constituted infringement and would mislead users into thinking that the articles were part of the News. The News responded by emphasizing the public interest in comprehensive news reporting and the free access principle of the Internet.<sup>64</sup> Nonetheless, the judge granted an interim interdict, preliminarily enjoining the News' linking practices. The court's decision did not turn on the legality of linking, but on the narrower question of whether the Times' headlines were copyrightable expressions and whether the Times' site could be considered a "cable program" under a unique Scottish law. However, relying heavily on the harm of potential advertising loss to the Times, the court noted in its decision that the News' links to some of the Times' stories permitted readers to get access to the Times' while "bypassing the [Times'] front page and accordingly missing any advertising material which may appear on it."<sup>65</sup> While this early case raised many important questions about the status of deep linking, the case settled and, thus, was

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63. *Shetland Times Ltd. V. Wills*, 1997 Sess. Cas. 316, 1996 WL 1093516 (Ct. Sess. Scot. 1997). For a commentary on the case see K. Campbell, *Copyright on the Internet: The View from Shetland*, E.I.P.R., 19(5), 255-56, at 255 (1997).

64. See, e.g., *Internet Publisher Doesn't Want the Hits*, SHETLAND NEWS, Oct. 16, 1996, at <http://www.factnet.org/shetland2.html> ("The principle of the Internet is free access. We have no turnstile where we vet or charge readers. Nor do you. What we have done, are doing and will continue to do is direct our readers to your web site on those occasions when your six editorial staff manage to come up with a story which our single member of staff has either missed or not got around to writing."); Courtney Macavinta, *Scottish Link Suit Settled*, CNET NEWS, Nov. 11, 1997, at <http://news.cnet.com/news/0,10000,0-1005-200-3233939,00.html>; Jaqueline Paige, *Scottish Court Orders Online Newspaper to Remove Links to Competitor's Web Site*, BNA PATENT, TRADEMARK & COPYRIGHT LAW DAILY, Nov. 4, 1996, at <http://eon.law.harvard.edu/property00/metatags/link2.html>.

65. The court stated:

The balance of convenience clearly, in my view, favoured the grant of interim interdict . . . . It was fundamental to the setting up by the pursuers of their web site that access to their material should be gained only by accessing their web directly. While there has been no loss to date, there is a clear prospect of loss of potential advertising revenue in the foreseeable future.

*Shetland Times*, *supra* note 63, at 671.

not decided on the merits, so few definitive answers were ultimately provided.<sup>66</sup>

## B. Early Case Law Under the Directive

Early cases under the Directive seemed to reject any suggestion by the *Shetland* court that unauthorized linking might be prevented. The database right was repeatedly rejected as a theory to constrain deep linking because such claims failed to meet the “substantial investment” requirement to qualify for protection.<sup>67</sup> Thus, a case brought by a group of Dutch newspapers<sup>68</sup> against *Kranten.com*, a site providing deep links to newspaper articles posted online, failed because the court held that the alphabetized list of headlines on the newspapers’ sites did not satisfy the Directive’s requirement of a substantial investment.<sup>69</sup> Moreover the plaintiff’s investment was made primarily in gathering the reports and articles to fill the off-line newspapers and the titles were invented thereby as headlines.<sup>70</sup> This line of reasoning typifies the spin-off doctrine<sup>71</sup> used by Dutch courts

66. Notably, the parties ultimately settled in favor of free access, although they effectively negotiated a license for use of the links. The parties came to a settlement under which the *Shetland News* was allowed to link to *Shetland Times* under the following conditions: (1) the link had to be acknowledged by the legend “A *Shetland Times* Story” placed underneath the headline used as pointer; (2) the *Shetland Times* logo had to be featured on a button adjacent to the pointer; (3) the legend and the button had to be hypertext links to the title page of the *Shetland Times*’ site. See Macavinta, *supra* note 64.

67. See *The Database Right File*, available at <http://www.ivir.nl/files/database/index.html>.

68. *Algemeen Dagblad*, *NRC Handelsblad*, *Trouw*, *de Volkskrant*, *Het Parool* and *Rotterdams Dagblad*.

69. *Algemeen Dagblad*, *supra* note 16. Although *Kranten.com* conceded that a collection of newspaper article headlines could be considered a database as such, the court held that a list of headlines that had been published in the printed newspaper did not represent a substantial investment. Serge J.H. Gijrath & Bart Jan E. Gorissen, *Applying the Database Act to On Line Information Services: A Trial and Error Exercise*, COPYRIGHT WORLD 25, at 25, 26-27 (2000/2001).

70. *Id.* The newspapers also lacked the required quantitative investment because the seven employees involved in maintaining the site were considered negligible in comparison to the total number of persons involved in the production of printed newspapers. *Id.*

71. Some Dutch courts denied protection to databases under this doctrine on the basis that there was not a substantial investment, as required by the Directive, because this information had to be created anyway in conjunction with the non-database activities of the business. In the *Algemeen Dagblad* case, for instance, the headlines were found to be a “spin-off” of newspaper publishing. See generally Stephen M. Maurer, *Across Two Worlds: Database Protection in the US and Europe*, at 29-31 (paper prepared for Industry Canada’s Conference on Intellectual Property and Innovation in the Knowledge-Based Economy, May 23-24, 2001) (on file with author), available at <http://strategis.ic.gc.ca/pics/ipf/maurer.pdf>

to rebuff Directive claims. Insisting that harm caused to the newspaper was insufficient to constitute a violation even if the newspapers were eligible for *sui generis* protection, the court rejected the plaintiff's argument that deep links cost publishers advertising revenue.<sup>72</sup> Without damages, the court reasoned, the fact that the defendant profited from the plaintiffs' investments in their newspapers "cannot be considered to be wrong."<sup>73</sup> The court also relied on arguments relating to Internet practices, specifically that deep linking is "customary and generally acknowledged on the Internet" and that the publishers could have prevented the deep links by technical means but chose not to do so.<sup>74</sup>

By contrast, echoes of the *Shetland* opinion have found their way into German, Dutch and Danish case law during the last two years, opening the door to successful claims against deep linking using the database right. In *Stepstone v. Ofir*,<sup>75</sup> a Norwegian recruitment company (Stepstone) sued in German court to enjoin a Danish competitor (Ofir) from deep linking to employment ads on its site.<sup>76</sup> The court held that Stepstone's ads were indeed protected as a database and granted an injunction against Ofir's linking. In contrast to *Kranten.com*, the court found that there had been a substantial investment in compiling the information for the database and posting it online.<sup>77</sup> The court's analysis was fairly nonrigorous in finding harm to the plaintiff: notwithstanding an absence of demonstrated injury or deployment of technological solutions, the court held that the potential loss of income for the linked to site violated Article 87b of the German copy-

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72. "With regards to the advertising income it is likely that the existence of *kranten.com* at the same time has also a promotional effect drawing more visitors to the sites of the Newspapers . . . . As far as the Newspaper lack income because (most) advertisements have not been on the most frequented pages such a consequence follows from their own choice. Damage resulting from it cannot be attributed to Eureka."

73. *Algemeen Dagblad*, *supra* note 16, § 4.4.

74. *Id.* at § 3.3.

75. *Stepstone*, *supra* note 50.

76. Jean Eaglesham, *Recruiter Bans Rival's Links*, FINANCIAL TIMES, Jan. 17, 2001, at <http://news.ft.com/ft/gx.cgi/ftc?pagename=View&c=Article&cid=FT3YQ8AC21C>.

77. The court dismissed the defendant's argument that the substantial investment inquiry should ignore costs incurred in building the database itself and focus only on those related to the provision of information to the market. According to the court opinion, 40 people were involved in acquiring the postings for the database and 36 people were involved in arranging it in database format and posting it online. See Zur Zulaessigkeit von "Deep Links," JURPC: INTERNET-ZEITSCHRIFT FUER RECHTINFORMATIK 138/2001, para. 1-29, at <http://www.jurpc.de/rechtspr/20010138.htm>.

right law, which implements the Directive's exclusive rights granted to the database creator.<sup>78</sup>

In the Netherlands, the spin-off doctrine analysis is now being given short shrift. In *ElCheapo.nl*<sup>79</sup> the court addressed whether the protection of a database can still be upheld if it is used for spin-off purposes—that is, for a purpose other than that for which the substantial investment required by law was originally made by the producer. Applying the spin-off doctrine to distinguish between an offline and an online database, the lower court held that a collection of real estate objects on a site did not qualify

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78. *Id.* According to an unofficial translation, German copyright law Art. 87a defines database as “a collection of works, data or other independent elements arranged in a systematic or methodical way the elements of which are individually accessible either by electronic or by other means, and the obtaining, verification or presentation of which requires a qualitatively or quantitatively substantial investment.” Press Release, Newsclub.de, German Legislation: Is there a right to retrieve information from public sources at all? (Aug. 13, 2002), available at <http://www.newsclub.de/prozess/pressrelease2.html>. In Article 87b the rights of the database creator are defined:

The maker of the database has the exclusive right to reproduce, to distribute and to communicate to the public the whole database or a qualitatively or quantitatively substantial part thereof. The repeated or systematic reproduction, distribution or communication to the public of qualitatively and quantitatively insubstantial parts of the database shall be deemed as equivalent to the reproduction, distribution or communication of a qualitatively or quantitatively substantial part of the database provided that these acts run counter to a normal exploitation of the database or unreasonably prejudice the legitimate interests of the maker of the database.

*Id.*

79. *NVM v. De Telegraaf*, Hoge Raad (Supreme Court of the Netherlands), Mar. 22, 2002, available at [http://www.rechtspraak.nl/uitspraak/frameset.asp?ui\\_id=32352](http://www.rechtspraak.nl/uitspraak/frameset.asp?ui_id=32352) [hereinafter *ElCheapo.nl*]. The plaintiff in this case, the Dutch real estate brokers association, NVM, operates a site that provides free access to its database of private real estate for sale. The site offers various search options such as location, type and price range. Each item on the list of objects appearing on the screen after the visitor has entered the criteria is a hyperlink to a page which contains a further description of the object. The defendant newspaper, *De Telegraaf*, operates a search engine which allows the visitor to search for private real estate by using similar criteria. The engine searches through several real estate databases, including NVM's, and displays the collected data. Although the list presented has its own “look and feel,” more than four of the five of the items displayed on the *El Cheapo* site originated from the site of NVM. The defendant newspaper argued that a substantial investment was lacking because the database was merely a spin-off of NVM's primary activity of selling real estate. See *The Database Act: The End of the “Spin-Off” Doctrine?* LEGAL INFOSOC NEWS KIOSK, 5-6, May-June 2002, at [http://www.vocats.com/vocats/LeGoueff.nsf/LABNewsEng/E5E6F72C79734BB7C1256BCE002F4740/\\$file/\\_Toc10612763](http://www.vocats.com/vocats/LeGoueff.nsf/LABNewsEng/E5E6F72C79734BB7C1256BCE002F4740/$file/_Toc10612763).

for the *sui generis* database right because individual real estate brokers in the plaintiff organization had designed it for use in an internal network. However, the Netherlands Supreme Court rejected this reasoning, suggesting that substantial investment is not necessary for each purpose of the database and, thus, that the investments made in the offline version should also be taken into account with respect to the online database.<sup>80</sup> The Court reasoned that the protection of the database and the purpose for which it is used must be treated as two separate issues. Thus, a substantial investment is required in order to acquire protection, but the Dutch implementation of the Directive does not require a separate substantial investment for the use of a database.<sup>81</sup>

### C. Recent Cases

The most recent cases under the Directive have set the threshold for infringement surprisingly low.<sup>82</sup> A high profile case in Denmark was filed by the Danish Newspaper Publishers Association (Newspapers) against Newsbooster, a headline aggregator that searched the Newspapers' sites using key words provided by paid subscribers.<sup>83</sup> Arguing that Newsbooster's links had deprived them of advertising revenue and that this practice was particularly unfair since Newsbooster was a direct competitor, the Newspapers sought to enjoin these deep links.<sup>84</sup> Newsbooster argued that it clearly attributed the source of the link<sup>85</sup> and that it did not store electronic copies of the articles in its internal database.<sup>86</sup> The court enjoined Newsbooster from reproducing the Newspapers' headlines or deep linking to their articles, holding that the Newspapers' collections of articles were databases protected under the Directive,<sup>87</sup> thus their exclusive right under Section 71 of the Danish Copyright Act<sup>88</sup> had been in-

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80. *Id.*

81. The court went on to suggest that each database can consist of a collection of sub-databases. *Id.*

82. See Evans, *supra* note 31, at 67.

83. Newsbooster.com, Byret (District Court) Copenhagen, July 16, 2002, *translated at* <http://www.newsbooster.com/?pg=judge&lan=eng>.

84. See *Selected news from the press*, at <http://www.newsbooster.com/?pg=pressinfo10&lan=eng> (last visited Dec. 2, 2002).

85. *Id.*

86. See Newsbooster.com, *supra* note 83.

87. The court reasoned that the Newspapers' collections of articles were databases protected under the Directive because they were the result of "structured systems or methods" and Internet users are able to access them individually by various means (such as available search functions and highlighted headlines). *Id.*

88. Section 71(1) of the Danish Consolidated Act on Copyright says: "The person who produces a catalogue, a table, a database or the like, in which a great number of

fringed.<sup>89</sup> Citing Newsbooster's annual subscription fee and the fact that its business is based on the news media, the court reasoned that the company has a commercial interest in accessing the articles and headlines. Crucial to the court's decision was its characterization of Newsbooster as a news communication service in competition with the plaintiffs and predictions of advertising revenue loss by expert testimony. The court denied injunctive relief to several of the Newspapers, finding they had prevented deep linking by technological measures. Nevertheless, the absence of actual damages beyond the predictive expert testimony seemed to many commentators to be a significant expansion of the property-like rights of database owners.<sup>90</sup> Newsbooster announced it is waiting for other Danish or international technology companies to intervene before taking the case to the higher court in Copenhagen.<sup>91</sup>

A similar German case filed against the news search engine Newsclub.de (Newsclub) by the publishing company Handelsblatt for deep linking to its newspaper articles has resulted in a provisional ruling for Handelsblatt by Munich's highest court.<sup>92</sup> This case is particularly significant because the challenge is based on the Directive itself, rather than the implementation law of an individual Member State.<sup>93</sup> Given that Newsclub did not charge its users, this represents a considerable expansion of the Newsbooster holding and creates a significantly lower threshold for harm.

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items of information has been compiled, or which is the result of a substantial investment, shall have the exclusive right to control the product in question as a whole or an essential part thereof by making copies of it and by making it available to the public." Section 71(2) says: "The provision of subsection (1) shall apply correspondingly to a reproduction or making available to the public of insubstantial parts of the contents of a catalogue, a table, a database or the like, which is made repeatedly and systematically, if the said acts may be equalled to acts which conflict with normal exploitation of the products in question or which unreasonably prejudice the legitimate interests of the producer." See Consolidated Act on Copyright 2001, translated at <http://www.kum.dk/sw4550.asp>.

89. Newsbooster's repeated scouring of the Newspapers' sites to compile lists of headlines and links according to subscribers' search criteria constituted both "repeated and systematic" reproduction, extraction and re-utilization of insubstantial parts of the contents of the database implying acts which conflicted with a normal exploitation of the database and "unreasonably prejudice" the plaintiffs' interests. See Newsbooster, *supra* note 83.

90. See, e.g., *Dänisches Gericht verbietet Deep Linking*, HEISE ONLINE, July 6, 2002, at <http://www.heise.de/bin/nt.print/newsticker/data/wst-06.07.02-000/?id=c30d3cbe&todo=print>.

91. *Id.*

92. *Presse Zeitungsverlagsgesellschaft mbH & Co. v. Christian Kohlschütter*, Oberlandesgericht Munich, July 15, 2002, at <http://www.newsclub.de/prozess>.

93. *Id.*

The order, which is likely to be affirmed in the hearings ahead,<sup>94</sup> contrasts with a favorable verdict for another search engine, Paperboy.de, which awaits the German federal court after a ruling from the highest court in Cologne.<sup>95</sup>

As Europe waits for these cases to be appealed, there is a general consensus that the case law provides little meaningful guidance on the legal status of deep linking under the Directive. Several key notions of the Directive, such as the definition of “substantial investment,” continue to be interpreted inconsistently by national courts. Meanwhile, word from the European Court of Justice, which is due to issue an advisory opinion on the *British Horseracing* case submitted to it last year, is awaited.<sup>96</sup> Further, a recently-completed progress report on the triennial review called for by

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94. Press Release, Newsclub.de, *supra* note 78.

95. *Paperboy.de*, Oberlandesgericht (Court of Appeal) Köln, Oct. 27, 2000, available at MULTIMEDIA UND RECHT, 6/2001, pp. 387-391. Defendant newspaper search engine browsed through several online versions of newspapers, collecting the headlines of the articles in the process and deep linking to the relevant web pages from its site. The headlines could be selected on the basis of search words and then forwarded by e-mail. Although the court held that the mere copying of headlines does not constitute copyright infringement, the online version of the newspaper was a database. Nevertheless, the substantial parts of the database were not extracted and the fact that the newspaper had been voluntarily placed online suggested that reproduction of the titles amounted to “normal use.” Thus, the court concluded that there was no repeated and systematic extraction of unsubstantial parts of the database. *Id.*

96. This suit was filed against a bookmaker who launched an online betting service using information from a computerized database compiled and published by the British Horseracing Board (BHB), responsible for administering the British racing industry. The BHB provided the information in its database to two companies, who were entitled to exploit that information commercially by supplying it to bookmakers and other customers. The BHB claimed that the defendant bookmaker had infringed its database right by extracting and/or re-utilizing a substantial part of the database and by repeated and systematic extraction or reutilization of insubstantial parts of the contents of the database. The defendant argued unsuccessfully that its use of the database in its online service was noninfringing since the right protected only the form of the database, whereas the defendant had merely used items of information from the database which were not individually protected. Among the issues referred to the European Court of Justice by the Court of Appeal (England and Wales) (Civil Division) in this suit filed on May 24, 2002, were:

- (1) what constituted a database as opposed to the data contained in it;
- (2) whether the fact that part of a database is made available to the public through a license arrangement has any significance in application of the database right; and
- (3) whether a new database is created each time a database is updated.

United Kingdom: Database Protection Right, LADAS & PERRY NEWSLETTER, Feb. 2002, at <http://www.ladas.com/BULLETINS/2002/0202Bulletin/UKDatabaseProtectionRight.html>.

the Directive,<sup>97</sup> may also serve to clarify provisions that continue to be ambiguous to E.U. member states.

#### IV. ANALYSIS

Given that much of the recent case law implicates the standard for infringement of the database right for online actors, an important question is whether deep linking to protected “databases” constitutes prohibited extraction or re-utilization of the database, and if so, whether such uses are inconsistent with the normal exploitation of a database or unreasonably prejudicial to the legitimate interests of a database maker. Even where a reasonable interpretation of the statute may prohibit linking to internal pages of protected databases, as the *Stepstone*, *Newsbooster* and *Newsclub* cases would suggest, important policy considerations counsel against this reading of the Directive.

##### A. The Benefits of Linking

Since its founding, the Internet has fostered a cultural norm of information sharing by virtue of its decentralization and openness.<sup>98</sup> In fact, the Internet’s interconnectivity and rapid growth were enabled by the practice of linking among web pages for users seeking information in the form of successive references.<sup>99</sup> U.S. and European courts that have considered linking practices have accepted the fundamental role of links and search engines in the development of the Internet.<sup>100</sup> Although the early days of

97. The European Commission is required to produce an evaluation report of the Database Directive, to be presented to the European Parliament and the Council of Ministers. *See supra* note 3.

98. Since the Internet was founded in the late 1960s as part of the Department of Defense’s ARPANET project to enable computer communication between the government and government-funded researchers, this global “network of networks” has provided a means by which steadily increasing numbers of users communicate with one another and access information despite differences in machinery and physical location. The term “network of networks” is often used to define the Internet. *See, e.g.*, Michael J. Schmelzer, Note, *Protecting the Sweat of the Spider’s Brow: Current Vulnerabilities of Internet Search Engines*, 3 B.U. J. SCI. & TECH. L. 12, 4 (1997). *See Berners-Lee, supra* note 1.

99. *See, e.g.*, Garrote, *supra* note 13, at 1.

100. *See, e.g.*, *DVD Copy Control Ass’n. Inc. v. McLaughlin*, 2000 WL 48512, \*4 (Cal. Super. 2000) (“Links to other websites are the mainstay of the Internet and indispensable to its convenient access to the vast world of information.”), *available at* <http://www.tomwbell.com/NetLaw/Ch07/DVDCCA.html> (last visited Nov. 21, 2001) (finding that “links to other sites are the mainstay of the Internet and indispensable to its convenient access to the vast world of information”); *see also Kelly v. Arriba Soft Corp.*, 77 F. Supp. 2d 1116 (C.D. Cal. 1999). European courts have acknowledged the impor-

the Internet have given way to the new marketplace of the Web, site owners continue to provide links for educational, informational, or other purposes that are not exclusively commercial.<sup>101</sup> This information loses much of its value if it is not easy to find.

However, the fact that computers are linked together to make movement from one site to another so easy has also raised legal questions about linking. Specifically, it is unclear whether linking can be prohibited under U.S. or European copyright law as an infringement of one of the exclusive rights granted to the copyright owner.<sup>102</sup> Normative questions also arise about the extent to which the free linking ethos of the Internet's founders and first users should be reflected in the laws governing its use by commercial interests.<sup>103</sup> Business interests are concerned about what information is shared with whom and in what context—especially when the communications may interfere with their sales and marketing or involve their competitors. As such interests have become more powerful and sought to enforce protection of their electronically distributed information, they have suggested limits to the ability to create links in the form of unfair competition and copyright infringement claims.<sup>104</sup> Indeed, the legal and normative questions are inextricably linked. The question of whether there is a “right to link” becomes increasingly important as linkers struggle to formulate a response to these claims.

## B. Custom of the Internet

Extra-judicial means for resolving disputes online have long been governed by netiquette, which can be thought of as a set of norms for Internet communication.<sup>105</sup> Custom often serves as a source of law and commentators have suggested that it is desirable for the law to reflect what people actually do in practice.<sup>106</sup> The netiquette of linking suggests that it is per-

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tance of linking to the developing of the Internet as well. For an example in Europe, *see, e.g.,* Algemeen Dagblad, *supra* note 16.

101. *See e.g.,* Nicholas G. Tomaiuolo, *When Image is Everything: Finding and Using Graphics from the Web*, INFORMATION TODAY, INC., Volume 10, Issue 1, Tuesday, January 1, 2002.

102. *See, e.g.,* Jörg Dittrich, *Zur Frage der urheber- und wettbewerbsrechtlichen Zulässigkeit von Hyperlinks*, JURPC WEB-DOK. 72/2002, para. 1-28, available at <http://www.jurpc.de/aufsatz/20020072.htm>.

103. O'Rourke, *supra* note 22, at 630-31.

104. *Id.*

105. *See* Strowel & Ide, *supra* note 17, at 414.

106. *See, e.g.,* O'Rourke, *supra* note 22, at 642-43; Richard Danzig, *A Comment on the Jurisprudence of the Uniform Commercial Code*, 27 STAN. L. REV. 621, 626 (1975) (arguing that Article 2 (“Sales”) of the Uniform Commercial Code largely reflects its drafters' beliefs that law is revealed by the practices of concerned parties).

missible to use a hyperlink to connect to a site without first seeking permission.<sup>107</sup> The efficiency rationale for this general rule is the potentially onerous volume and high cost of processing requests.<sup>108</sup> The policy mandate it promotes is the openness of the Internet and the overall purpose of the Web.

The view of technologists is that by choosing to post a site, the web publisher opts into a system in which other documents may link to her site.<sup>109</sup> She may counter the presumption of free linking or opt out of that system by restricting access to her site through technological barriers, just as a landowner prevents trespass by building a fence around her property.<sup>110</sup> Possible solutions are password-protected content, firewalls, periodically changing the page's URL, dynamic paging, and Java navigation programs.<sup>111</sup> There are also mechanisms that enable a site to prevent linking by some sites but not others; the programmer can even write the web page's HTML code to recognize links from the undesired site and refuse to process them.<sup>112</sup> Sites can also employ technology to prevent linkers from bypassing the ads on the homepage or block spiders from indexing the site in the spider's database.

Commercial interests, meanwhile, have already turned to the mechanisms of the private sector to build such fences. Capitalizing on the symbiotic nature of the linking relationship—the ability of the linking site to link might be said to increase its value while the linked site derives a benefit from the extra traffic generated by linking—businesses are increasingly using linking agreements to “establish complementary business and marketing relationships, provide for reciprocal links, establish performance requirements, and clarify liability issues.”<sup>113</sup>

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107. Internet custom might also suggest that it is polite to first send an e-mail to the site's owner informing it of the newly established link, O'Rourke, *supra* note 22, at 642, although Berners-Lee would disagree. See Berners-Lee, *supra* note 1.

108. O'Rourke, *supra* note 22, at 642.

109. *Id.* at 643.

110. *Id.*

111. Dynamic URL display creates path-specific URLs based on an individual user's navigation around the site and stores them only temporarily to prevent linking. Since the web page is built only when the user executes a certain program, the reference point of the dynamic pages changes, giving linkers no fixed site at which to point. See Eric Schlachter, *The Intellectual Property Renaissance in Cyberspace: Why Copyright Law Could Be Unimportant on the Internet*, 12 BERKELEY TECH. L.J. 15, 46 (1997) (describing various technologies that may be implemented by site operators to stop unwanted linking to their site).

112. O'Rourke, *supra* note 22, at 646.

113. *Id.* at 644.

Both commercial and non-commercial sites have also tried posting notices that prohibit linking to the site without permission or from an interior page.<sup>114</sup> The legal value of such unilateral notices is unclear. In civil law countries the relevant consideration is whether such a notice constitutes a unilateral legal act that creates obligations.<sup>115</sup> Some commentators suggest that the presence of notices on a linked site does not create any obligations but is a factor to be taken into account when assessing the liability of the creator of a link that caused damages—for example, loss of advertising revenues as a result of users bypassing the homepage in the case of deep linking.<sup>116</sup> In other words, notices would enable the operators of linked sites to obtain damages more easily in the event of damaging links. In common law countries, some commentators consider notices of this kind to have no legal effect and others accord them value only insofar as “netiquette” would compel Internet users to comply.<sup>117</sup>

In cases where the prohibition concerning the establishment of links to a site is included in the general terms and conditions of the services offered by the site, as long as it can be proved that the user accepted the terms, a contract between parties might be formed and those who link to the site notwithstanding these general terms and conditions are acting in breach of contract and may be held liable. The major problem, though, is proving that the operator of the linking site accepted the terms. Even assuming that contracts concluded online are valid, it is possible to create a link to a site without ever having visited the site. In the *Ticketmaster* case, for instance, the court held that Ticketmaster failed to prove the conclusion of a contract with Tickets.com because while the latter had not been obliged to accept the terms by means of a positive act (such as clicking on an “I agree” button) it had been able to consult the pages of the site without viewing the terms of use.<sup>118</sup> Yet, so long as click-on agreements are enforceable and sufficient proof of agreement can be demonstrated by both parties, there does not seem to be any reason why linking prohibition terms would not also be enforceable as a matter of contract law.<sup>119</sup> Indeed,

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114. Media sites that have attempted to ban linking to their material include National Public Radio (which has since backed down from this request), Belo Media and Bloomberg. Michelle Delio, *Deep Link Foes Get Another Win*, July 8, 2002, at <http://www.wired.com/news/print/0,1294,5367,00.html>.

115. Strowel & Ide, *supra* note 17, at 413-14.

116. *Id.* at 414.

117. See, e.g., L.A. Stangret, *The Legalities of Linking on the World Wide Web*, 2 COMM. L. 202, 204 (1997).

118. Ticketmaster has since altered the presentation of its homepage so that the legal notice appears in the first place.

119. See Strowel & Ide, *supra* note 17, at 424, 427.

the *Ticketmaster* court even suggested in dicta that a click-on agreement might be the private contract solution to the perceived problem of linking.<sup>120</sup>

None of these enforcement mechanisms has proved to be sufficient on its own. Internet custom and private agreements are often inadequate to address the conflicting interests and increasingly complex relationships between sophisticated parties. Technological solutions are often circumventable in practice and unappealing to commercial sites, worried about the effect of measures such as password protection and dynamic page solutions on their marketing strategies.<sup>121</sup> Business interests have also found it difficult to leverage the value inherent in the ability to link because of the popular sentiment that requiring permission to establish a link is inconsistent with the nature of the Internet.<sup>122</sup> Even among Internet users, dissent exists on questions such as deep linking or the appropriate Internet custom in the case of an association between two sites that the linked site finds objectionable.<sup>123</sup>

Nevertheless, some maintain that a new norm is emerging among business interests—the norm to enter into linking agreements and to restrict access to sites by building technological fences—as web revenue models evolve and the profitability of site content increases.<sup>124</sup> Others suggest that separate norms for commercial and noncommercial linkers will emerge.<sup>125</sup> Grave policy concerns warn against the prospect of this development: the wide use of such agreements or technological measures would limit the functionality of the Internet and increase the transaction costs of locating information online, drastically altering the present landscape of the Internet and threatening the open culture intended by its first users.<sup>126</sup> The future of linking law remains unclear as some commentators remain skeptical that default rules are possible aside from the technological and contract law solutions already in practice.<sup>127</sup> Some subscribe to the view that the ambit of property rights is open-ended and may operate without being formally recognized in law.<sup>128</sup> Another possible develop-

120. See *Ticketmaster Corp. v. Tickets.Com, Inc.*, 2000 WL 525390, at \*3 (C.D. Cal. Mar. 27, 2000).

121. Garrote, *supra* note 12, at 10.

122. O'Rourke, *supra* note 22, at 644.

123. *Id.*

124. *Id.* at 645.

125. See, e.g., *id.*

126. Eugene R. Quinn, Jr., *Web Surfing 101: The Evolving Law of Hyperlinking*, 2 BARRY LAW REV. 37, 70 (2001).

127. See, e.g., Garrote, *supra* note 12, at 10-12.

128. Garrote, *supra* note 12, at 34.

ment would be what one author calls the “zoning phenomenon,” predicting that the Internet will evolve into open and closed areas, which will distinguish commercial and non-commercial sites or different pricing mechanisms from one another.<sup>129</sup>

### C. A Default Rule

The positivist need to define the present law and the unforeseen application of the Directive in this unresolved area of E.U. law necessitate the formulation of a default rule indicating whether linking should be permitted or not in the absence of terms of use, web linking agreements, or any other explicit prohibition expressed by the copyright owner. Because liability for linking involves a new application or expansion of existing law, the design of any liability scheme requires a close look at its effect on the core values of copyright. Commentators have pointed out that liability does not comport with the philosophy underlying the U.S. copyright system—the inducement of creative expression for the benefit of the public with a deliberate acceptance of leakage.<sup>130</sup> Others have argued that the digital age has seen an unwarranted expansion of content industries’ rights and that this trend should be resisted.<sup>131</sup>

In short, courts must evaluate whether enjoining a link is necessary to preserve copyright incentives. Even if a link might threaten incentives, liability is inappropriate if enjoining the link would cause even greater harm to the public than the potential harm enjoined. Even though the threshold for protection is lower in the Directive than in U.S. copyright law—it is specifically intended to protect sweat-of-the-brow investment rather than the higher threshold of creative expression—there does not seem to be any reason for a more stringent infringement analysis in one than the other.

Although the case law has not yet settled on clear definitions for “re-utilization” and “extraction,” the public interest in free expression would suggest that such rights should not be read more narrowly than “copy” has been. It is generally accepted that when creating a link, the linker does not

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129. *Id.*

130. The copyright scheme of the United States deliberately “contemplates some ‘leakage’ to the public of the expression induced by the grant. Such a system works fairly well as an economic framework that seeks to preserve financial incentives for creators of expression. Copyright’s incentive system, after all, does not require airtight protection; it merely requires enough protection to ensure recovery of the total costs of creation.” Dogan, *supra* note 15, at 885.

131. Mark A. Lemley, *Dealing with Overlapping Copyrights on the Internet*, 22 U. DAYTON L. REV. 547, 548-49 (1997) (arguing that the rights of copyright holders have expanded dramatically during the Internet age).

reproduce the linked document and does not communicate the work to the public;<sup>132</sup> the linking site merely provides a URL that directs the user to the content before the user's computer copies the content. From a policy perspective, linking should not be considered copying and, in any case, the role of the search engine is contributory at most.<sup>133</sup>

Even if the definition of "extraction" or "re-utilization" is narrower than "copying," it is unlikely that linking would fall within its ambit since a link is nothing more than a reference. The distinction between hyperlinking to content and posting content directly is important.<sup>134</sup> The information downloaded generally does not come from the originating site of the hyperlink but rather from another server location on the Internet.

However, if linking is ultimately found to be an infringement of one of the database creator's exclusive rights, the user's act of linking should be protected by an implied license, even in the case of interior pages. The copyright laws should be interpreted online so as to place burdens on intellectual property owners to "opt out" of the system by deploying technological controls. Site owners should be charged with the knowledge that the user's computer does not functionally distinguish between the URL of a homepage and the URL of a computer and that users add "bookmarks" to their web browsers to mark pages that they access regularly so as to travel directly to the marked page whether or not it is a homepage.

#### D. Implications for search engines

Many commentators speculate about the fate of the recently inaugurated Google news service, which bears a striking similarity to that of the ill-fated Newsbooster service.<sup>135</sup> They contend that the search engine and its peers can "deliver updated and precise search results to users only by continuously searching and indexing the different Web sites (or 'databases,' in the parlance of the EU directive)," activity that might invite claims for repeated and systematic extraction of content.<sup>136</sup>

132. See Strowel & Ide, *supra* note 24, at 427.

133. See *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, (9th Cir. 1996).

134. See Rob Shields, *Hypertext Links: The Ethic of the Index and Its Space-Time Effects*, in *THE WORLD WIDE WEB AND CONTEMPORARY CULTURAL THEORY* 145, 150 (Andrew Herman & Thomas Swiss eds. 2000); Dan L. Burk, *Proprietary rights in Hypertext Linkages*, 2 J. OF INFO. L. & TECH. 9 (1998).

135. "Google News" combs through the sites of thousands of newspapers and automatically selects what it considers to be the top stories in a variety of categories. The headlines are updated several times an hour.

136. Olav Ovredø, *Newsbooster's "Deep Links" Could Create Fallout*, YAHOO! FINANCE, Oct. 22, 2002, available at <http://sg.biz.yahoo.com/021021/72/33y92.html>. Pro-

Should the case law continue to expand the rights of database creators under the Directive's very broad definition of "database," many Internet users predict that search engines will be spidered and indexed from other parts of the world. "We are *all* connected," writes one Internet user on a discussion forum set up by Newsclub.de to discuss the legal challenge to its site. "They would simply crush a valuable service 'at home' which could (and . . . likely would) be replaced soon elsewhere outside of the German jurisdiction . . . . This Handelsblatt litigation, should it prevail, would IMHO [in my humble opinion] serve as another classic example of a Pyrrhic victory."<sup>137</sup>

Some scholars maintain that the recent efforts by business interests to capitalize on the uncertainty that persists in the case law interpreting key provisions of the Directive indicate that it is time for statutory reform. One suggestion is to convert it into an unfair competition statute that would require a showing of harm. This would have the effect of prohibiting outright piracy while protecting benign linking. "Courts would only take action if copying would threaten a product's existence. That kind of protection is what database producers really need."<sup>138</sup>

## V. CONCLUSION

Discussion of such alternative proposals suggest that there is a need to reassess the effectiveness of the Directive in achieving its stated purpose of harmonizing database protection throughout the E.U. and promoting the growth of the European database industry. Even if the results seen in recent case law on deep linking are predictable under the existing legislation, the policies that have been promoted should reflect a deliberate decision on the part of legislators rather than the unintended effect of ambiguous legislation.

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fessor Hugenholtz surmises in this article that Google might lose a court case under the Directive.

137. This poster suggested that a search engine that relocated outside a German jurisdiction might even be more attractive to German netizens, since it would be able to offer headlines from German publications, which by German law could not be offered by a German service.

138. Ovredo, *supra* note 136 (quoting P. Bernt Hugenholtz, professor of information law at the University of Amsterdam).

## ADDITIONAL DEVELOPMENTS—FOREIGN AND INTERNATIONAL LAW

### *EUROPEAN PARLIAMENT PASSES TELECOMMUNICATIONS DIRECTIVE*

On May 29, 2002, the European Parliament approved a Communications Data Protection Directive (“directive”) allowing countries to force telecommunication companies to keep detailed records of customers’ data for an unspecified period. The European parliament passed the controversial update to the 1997 directive on privacy in the telecommunications sector by a vote of 351-133. The directive grants police access to transmission data for e-mail, phone calls, internet use, faxes, and pager messages to deter terrorist attacks. The European Union’s fifteen member states are required to grant their approval before the directive goes into effect.

If approved, the legislation would require the European Union’s 15 member countries to draft laws requiring ISPs and telephone companies to keep track of phone calls, Internet surfing, e-mails, faxes and even pager messages, for an unlimited time period in case the data is needed by law enforcement authorities. Generally, European law takes precedence in cases where a directive conflicts with national laws. Thus, approval by the member states is expected, meaning that the directive may go into effect as soon as a few months, but almost certainly within five years.

Forty different civil liberties groups in Europe and the United States and an online petition have gathered over 16,000 signatures opposing the directive. These opponents urged parliament members to vote against the data-retention measure. Although the measure passed, the last minute addition of text requiring that data retention constitute a “necessary, appropriate and proportionate measure within a democratic society to safeguard national security,” and that it must be done in accordance with the tenants of the European Convention on Human Rights and Fundamental Freedoms, weakened the directive’s power.

An aggressive campaign will be waged by civil liberties groups who continue to denounce the measure as entitling governments to blanket general surveillance of the whole population. They say the measure would enable police to spy on citizens. Although police will still require a warrant to intercept the content of electronic communications, the new legislation means they will be able to build up a complete picture of an individual’s personal communications, including who they have emailed or phoned and when, and which Internet sites they have visited. From mobile phone records, police will also be able to map people’s movements because the phones communicate with the nearest base station every few seconds. In urban areas, the information is accurate to within a few hundred meters. The next generation of mobiles might be employed to pinpoint users’ locations to within a few meters. Currently, telephone records are kept only for a couple of months for billing purposes before being destroyed. The communications industry opposes data retention, questioning the feasibility and cost of storing such vast amounts of information.

## *EUROPEAN COUNCIL DIRECTIVE ON PRIVACY AND ELECTRONIC COMMUNICATION*

On July 12, 2002, the European Parliament adopted an updated Communications Data Protection Directive. This Directive, 2002/58/EC, toughens requirements regulating unsolicited advertising using personal data for marketing purposes. The new directive attempts to take account of technological changes and make the provisions as technology-neutral as possible. Member States have fifteen months to incorporate these provisions into their national legislation and bring their regulations into compliance with the new directive.

The new directive has serious implications for both the use of cookies and the sending of direct marketing e-mails. The directive allows the use of cookies provided that two requirements are met: first, the website user is given 'clear and comprehensive' information about the function of the cookie, and second, the website user is offered the right to refuse the cookie. The directive requires direct marketers to obtain prior explicit consent of the website user before e-mails, faxes, or automatic calling machines are used. Additionally, all direct marketing e-mails must provide a valid address for 'unsubscribe' requests. The only exception to the more stringent regulation of direct marketing e-mails is when a company markets products or services similar to a previous transaction that occurred between the individual website user and the company.

The new directive includes several important changes over predecessor data protection directives, 95/46/EC and 97/66/EC. First, it contains new definitions for electronic communications and services aiming to ensure technological neutrality and clarify the position of e-mail and the use of the Internet. Second, it enables value added services based on location and traffic data where subscribers consent, such as location based advertising to mobile phone users. Third, it prohibits charging subscribers for exercising the right not to appear in public directories. Fourth, new information and consent requirements on entries in publicly available directories, including a requirement that subscribers are informed of all the usage possibilities of publicly available directories, are introduced. Fifth, it extends controls on unsolicited direct marketing to all forms of electronic communications including unsolicited commercial e-mail, UCE or Spam, and SMS to mobile telephones. Sixth, the directive clarifies that Member States are not prevented from introducing provisions on the retention of traffic and location data for law enforcement purposes. Seventh, and last, the directive introduces controls on the use of cookies on websites.

Both the Council of Ministers and the European Union recognize that development of a frontier free market increases the cross-frontier flows of personal data among Member States of the European Union. The directive recognizes that, as data subjects, individuals are entitled to information explaining the processing of personal data. Further, individuals must not only have access to that data, but also receive an explanation as to how any significant decisions affecting them are made.

This directive is part of a package of five directives agreed upon between the Council of Ministers and the European Parliament establishing a framework for the regulation of electronic communications networks, services and associated facilities throughout the European Union.<sup>1</sup> By harmonizing data legislation, the European Union

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1. (1) Directive 2002/21/EC on a common regulatory framework for electronic communications networks and services (Framework Directive - FD); (2) Directive 2002/20/EC on the authorization of electronic communications networks and services

expects to achieve free movement of information, including personal data. At the same time, the European Union hopes to ensure the protection of any person concerned. These directives collectively attempt to remove potential obstacles to such flows and to ensure a high level of protection within the European Union.

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(Authorization Directive - AD); (3) Directive 2002/22/EC on universal service and users' rights relating to electronic communications networks and services (Universal Service Directive - USD); (4) Directive 2002/19/EC on access to, and interconnection of, electronic communications networks and services (Access and Interconnection Directive - AID); and (5) Directive 2002/58/EC concerning the processing of personal data and the protection of privacy in the electronic communications sector.

***KABUSHIKI KAISHA SONY COMPUTER ENTERTAINMENT V.  
STEVENS***

*[2002] 55 I.P.R. 497 (Fed. Ct. Austl.)*

The Federal Court of Australia ruled on whether the disablement of a computer game console's technological device that ensures the use of licensed software violated Australian copyright law. The Federal Court addressed whether the device represented a "technological protection measure" under Sections 10(1) and 116(A) of the Copyright Act and specifically ruled on whether the portion of the game software program stored in the console's RAM satisfied the material form requirement for a protected reproduction of a copyrighted work.

The Sony companies are owners and/or exclusive licensees of more than 150 copyrighted games for the Sony PlayStation game console. Sony builds a hidden track containing an encrypted access code into each CD-ROM game created for use on the PlayStation game console. The PlayStation game console contains a device that prevents the play of any CD-ROM game not containing the encrypted code. By doing so, the device not only generally discourages the making of illegal copies of the CD-ROM games, but it also specifically prevents the temporary storage of a portion of the CD-ROM software into the game console's RAM. Defendant Eddy Stevens modified Sony PlayStation game consoles to disable the device and allow the play of games not containing the encrypted code.

The Federal Court held that the modification did not violate Australian copyright law. The court held that Sony did not create a "technological protection measure" as defined under Section 10(1) of the Act, thereby precluding Sony's device from protection under Section 116A. First, the court found that the device's practical effect of discouraging copyright violations, which predated attempts to gain access to or copy the works, did not alone make the device a "technological protection measure." The court reasoned that the device must be designed to function, by its own processes and mechanisms, to prevent or hinder an act of copyright infringement, not simply discourage it. Second, the device also failed as a "technological protection measure" because the temporary storage of a portion of the software program from the CD-ROM to the PlayStation game console's RAM was insufficient to constitute a reproduction of a substantial part of the computer program "in a material form." While other cases had found programs copied to personal computer RAM to be in material form, the court distinguished the copying to PlayStation RAM on the grounds that the data temporarily stored in the PlayStation RAM cannot be used to reproduce a substantial part of the copyrighted work. The court found insufficient evidence existed to determine whether or not a reproduction in material form occurred when the data stored in the PlayStation RAM was transferred to the GPU.

***GALERIE D'ART DU PETIT CHAMPLAIN, INC. V. THEBERGE***

*[2002] 210 D.L.R.4th 385 (Can.)*

The Supreme Court of Canada addressed whether, in lifting the ink images of an artist's work off of authorized paper posters and transferring the images to a canvas substrate, several art galleries and a publishing firm had infringed the artist's copyright.

Claude Theberge, a painter of some international renown, contracted with a publishing firm to reproduce his works on paper posters and other stationary products. Appellant art galleries legally purchased those works and then used a chemical process to lift the ink off of the original paper product and reapply the image to canvas backing, creating a more painterly result. Theberge alleged that the process violated his copyright on the paintings and applied to the Quebec Superior Court for injunction, damages, and most significantly, obtained a writ of seizure before judgment. However, the Superior Court eventually rejected his copyright infringement claim and quashed the seizure. The Court of Appeal disagreed, found infringement, and allowed seizure of the goods. The art galleries appealed to the Supreme Court.

The Supreme Court held that the transfer of original lawfully purchased poster images to canvas did not constitute copyright infringement because no new reproductions were created in the process. In effect, the Court believed that copyright infringement could not be maintained absent actual "copying" and here there was no net increase in the number of total physical images. As a result, the Court allowed the appeal and ordered the seized goods returned. The Court reasoned that an opposite finding would lead to excessive control of copyrighted works subsequent to sale and would severely limit utilization by the eventual purchaser.

The Court believed that Theberge's claim could be more properly characterized as a claim of infringing his moral rights, which is addressed by a different section of the Copyright Act and requires that the modification cause "prejudice of the honor or reputation of the author." The Court reasoned that because of the drastic consequence of the seizure, the Parliament would require prior judicial review before any seizures take place based on an assertion of violation of moral rights. Therefore, the Court concluded that Theberge's seizure before judgment was not warranted.

***SOCIETY OF COMPOSERS, AUTHORS & MUSIC PUBLISHERS OF  
CANADA V. CANADIAN ASSOCIATION OF INTERNET  
PROVIDERS***

*[2002] 4 F.C. 3 (Fed. Ct.)*

The Society of Composers, Authors and Music Publishers of Canada (SOCAN) applied to the Canadian Federal Court of Appeal for judicial review of the decision reached by the Copyright Board that exempts Internet intermediaries from paying royalties for music transmitted over the Internet.

The judicial review raised three issues: (1) whether service providers and host servers merely provide the means for communication and are therefore immune from paying royalties on content transmitted; (2) whether materials transmitted from foreign servers are exempt from Canadian royalties as the Board had determined; (3) whether Internet intermediaries authorize the communication of music on the Internet by providing access to and storage of the content and are thus liable to pay royalties.

As to the first question, the court largely agreed with the Board that the normal activities of the Internet intermediaries satisfied the three requirements to be classified as telecommunications set forth in paragraph 2.4(1)(b) of the Copyright Act. Namely: (1) the activities are to provide “means” of telecommunication; (2) the activities are necessary for the communication and (3) the activities are the only activities of the Internet intermediaries. Therefore, Internet intermediaries are exempt from paying royalties to copyright owners. However, the majority disagreed with the Board in finding that caching is not necessary for the communication to occur, and therefore concluded that caching is not protected by paragraph 2.4(1)(b).

As to the second question, the court rejected the Board’s decision and held that transmissions originating from servers outside of Canada may still face Canadian royalties, since infringement only occurs at the request of the end user. The court found that the narrow jurisdictional determination by the Board severely limited the ability of copyright holders to protect their works in the Canadian market, and concluded that a test of “real and substantial connection with Canada” should be applied to determine whether a royalty may be made payable in Canada. The court proposed that the location of the content provider, the end user, and the host server should all be important factors in the test.

As to the third question, the court found it reasonable for the Board to conclude that Internet intermediaries do not “authorize” the communication of material requested by end users from host servers by providing their core services and equipment, since normal activities of the operators of host servers only provide passive means for others to communicate. As such, the service provider is not in a position to authorize content, and thus incur liability. The court likened the role of host servers to that of passive facilitators, rather than viewing them as actively sanctioning infringing material.

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