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FOREWORD

By Aaron Perzanowski[†] & Tara Wheatland[‡]

Through the scholarship it publishes, the Berkeley Technology Law Journal—formerly the High Technology Law Journal—has tracked the evolution of technology and intellectual property law for more than two decades. In keeping with this tradition, the *Annual Review of Law & Technology*, now in its ninth volume, catalogs the year's most significant developments in a wide range of topic areas, which this year include intellectual property, cyberlaw, constitutional law, and telecommunications. The summaries and analyses presented here aim to provide practitioners, judges, policymakers, scholars, and students a concise and thorough encapsulation of the year in technology and intellectual property law.

This year, the *Annual Review* includes twenty-four Notes. While most follow the traditional case note model, others provide more broadly focused legislative, regulatory, and policy discussions. Moreover, thirty-two Additional Developments summarize other noteworthy cases and developments of the past year.

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We are grateful to Professor Peter S. Menell for his continued dedication to this project. Without his guidance and expertise, publication of the *Annual Review* would be impossible. Thanks are also due to Robert Barr, Executive Director of the Berkeley Center for Law and Technology, for his valuable contribution to this year's patent Notes. In addition, the *Annual Review* advisors and the Journal's editorial staff were instrumental in the successful completion of this project. Finally, we owe our most sincere thanks to our authors for their enthusiasm, responsiveness, and perseverance.

I. INTELLECTUAL PROPERTY

A. Patent

This year's *Annual Review* covers a wide range of developments in patent law. The subject matter of the patents at issue in each case run the gamut from chemical compounds to software components to commercial pharmaceuticals. The legal questions span the spectrum of patent law, including the threshold of utility required for patentability, disclosure requirements, claim construction, the implications of cross-border infringement, the experimental use exception, and inequitable conduct.

Two Notes address the treatment of cross-border infringement under the U.S. patent system. The first of these Notes explores the inherently territorial nature of U.S. patent law, focusing on a recent Federal Circuit decision that considered whether the location of part of a defendant's allegedly infringing system in Canada precluded a finding of infringement under 35 U.S.C. § 271(a). In *NTP, Inc. v. Research in Motion, Ltd.*, the Federal Circuit distinguished between the "system" and "method" claims. The court held that the location of a system component in Canada did not preclude a finding of infringement as to the system claims, but that the fact that some method steps were performed in Canada did preclude a finding of infringement as to the method claims.

A second Note addresses extraterritorial infringement under 35 U.S.C. § 271(f). Section 271(f) provides infringement liability for shipment abroad of components of patented inventions when the supplier actively induces or otherwise encourages acts that would constitute infringement if they occurred within the United States. In a series of three recent cases, *Eolas Technologies Inc. v. Microsoft Corp.*,¹ *AT&T Corp. v. Microsoft Corp.*,² and *Union Carbide Chemicals & Plastics Technologies Corp. v. Shell Oil Co.*,³ the Federal Circuit opted to expand the scope of the extraterritorial provision § 271(f) to include software and process patents. This Note argues that the origins and legislative history of § 271(f) require limiting its extraterritorial liability to device patents, excluding processes and software.

Another Note analyzes *University of Rochester v. G.D. Searle & Co.*⁴ In that decision, the Federal Circuit invalidated the University's patent on a method of producing and administering a chemical compound to relieve

1. 399 F.3d 1325 (Fed. Cir. 2005).

2. 414 F.3d 1366 (Fed. Cir. 2005).

3. 425 F.3d 1366 (Fed. Cir. 2005).

4. 358 F.3d 916 (Fed. Cir. 2004).

inflammation, applying a stringent disclosure standard formerly applied in biotechnology cases. This Note argues that although *Rochester* was correctly decided, the court improperly extended the strict DNA-specific disclosure standard to chemical inventions.

The Supreme Court's most recent pronouncement of the scope of the statutory experimental use exception is explored in another Note. The exception allows generic drug companies to begin the regulatory approval process for generic drugs before the brand name drug patent expires. In *Merck KGaA v. Integra Lifesciences I, Ltd.*,⁵ the Supreme Court unanimously broadened the statutory experimental use exemption, to include preclinical testing on patented products far upstream of FDA approval. This Note contends that this interpretation of the current statutory exception is overbroad and calls for the enactment of a new limited, but balanced, experimental use exemption in patent law.

In *Phillips v. AWH Corp.*,⁶ the en banc Federal Circuit reaffirmed the *Vitronics*⁷ line of cases, emphasizing the primacy of the specification in patent claim construction, and disavowed the "dictionaries first" approach of *Texas Digital*.⁸ The court chose not to address the issue of deference to trial courts despite the vehement dissent of Judge Mayer. One Note discusses this decision and its implications for patent claim construction.

Another Note analyzes *In re Fisher*,⁹ a case exploring whether five express sequence tags (ESTs), in the absence of any claimed utility, possess specific and substantial utility as required by 35 U.S.C. § 101. The Federal Circuit held that the uses offered by Fisher were not "specific" to the claim because the function of the underlying gene was unknown and the uses were not unique to the claimed ESTs. Further, the ESTs lacked "substantial utility" because the molecules did not provide a presently significant benefit to the public. This Note argues that the utility requirement serves as a "timing device," assessing not only the "ripeness" of an invention, but the height of the utility barrier as well.

A final Note explores the doctrine of inequitable conduct, outlining a current proposal to reform the doctrine and presenting some alternative options. This Note also employs *Purdue Pharma L.P. v. Endo Pharmaceu-*

5. 125 S. Ct. 2372 (2005).

6. 415 F.3d 1303 (Fed. Cir. 2005) (en banc).

7. *Vitronics Corp. v. Conceptiontronic, Inc.*, 90 F.3d 1576 (Fed. Cir. 1996).

8. *Texas Digital Sys., Inc. v. Telegenix, Inc.*, 308 F.3d 1193 (Fed. Cir. 2002).

9. 421 F.3d 1365 (Fed. Cir. 2005).

*tics Inc.*¹⁰ as a case study, analyzing how the proposed Patent Reform Act¹¹ would alter the outcome in that case.

B. Copyright

The copyright Notes in this year's *Annual Review* reflect both the influence of new technology on the development of copyright law and the persistent importance of more traditional "analog" concerns.

One Note examines *Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.*,¹² in which the Supreme Court redefined indirect copyright liability in the face of peer-to-peer file sharing technology. In *Grokster*, the Court announced a new theory of inducement-based indirect liability for copyright infringement, supplementing the established doctrines of contributory and vicarious liability.

A second Note addresses the Sixth Circuit's decision in *Bridgeport Music, Inc. v. Dimension Films*.¹³ Therein, the court considered the availability of the de minimis use defense in the context of digital sampling of sound recordings, and concluded that such sampling, unless it qualifies as fair use, requires a license from the copyright holder regardless of the length of the sample. This Note argues that the court's decision rests on a misinterpretation of § 114 of the Copyright Act but will ultimately have little impact on the established norms of sampling.

The Family Movie Act¹⁴ was enacted to permit the private display of altered but unfixed versions of films and other audiovisual works. A third Note discusses this legislation and the litigation that sparked its enactment. Further, it outlines a framework for creating "surgical safe harbors" to resolve fair use disputes.

A final Note addressing the impact of new technologies on the traditional copyright paradigm examines the ongoing litigation surrounding the Google Library Project, an effort by the search engine giant to create a searchable index of the collections of five major libraries. This Note presents a fair use analysis of this ongoing litigation that favors the Library Project.

10. 410 F.3d 690 (Fed. Cir. 2005), *reh'g granted*, No. 04-1189, 2006 U.S. App. LEXIS 2412 (Fed. Cir. Feb. 1, 2006), *rev'd*, No. 04-1189, 2006 U.S. App. LEXIS 2887 (Fed. Cir. Feb. 1, 2006).

11. H.R. 2795, 109th Cong. (2005).

12. 125 S. Ct. 2764 (2005).

13. 410 F.3d 792 (6th Cir. 2005).

14. Pub. L. No. 109-9, 119 Stat. 218 (2005) (codified as amended at 17 U.S.C. § 110(11) and 15 U.S.C. § 1114(3)(A)-(D)).

Other important developments in copyright law are rooted in more traditional contexts. The Copyright Office conducted a lengthy inquiry¹⁵ into the problems surrounding orphan works—copyrighted works whose owners are difficult or impossible to locate. One Note surveys the various proposals for resolving this issue as well as the legislative recommendation recently issued by the Copyright Office.

In *Toney v. L'Oreal USA, Inc.*,¹⁶ a rehearing panel of the Seventh Circuit ruled upon copyright preemption of the right of publicity, holding that because the plaintiff's right of publicity claim was based on her likeness or persona, which was not "fixed," her claim was not invalidated by copyright law's express preemption provision. Thus, a second Note explores the difficult task of reconciling the benefits provided to individuals and to society through both the right of publicity and copyright protections in drawing the line of preemption.

A final copyright Note examines an increasingly rare issue in modern copyright law: common law protection. The *Capitol Records, Inc. v. Naxos of America, Inc.*¹⁷ decision addressed state common law copyright protection for certain pre-1972 sound recordings of British origin. The New York Court of Appeals, on a certified question from the Second Circuit, held that New York common law copyright did furnish protection for these recordings, regardless of the lapsing of protection in the works' country of origin. This Note explores the ramifications of *Naxos* for copyright holders and distributors of remastered sound recordings.

C. Digital Millennium Copyright Act

The Digital Millennium Copyright Act, while distinct from copyright law proper, continues to demonstrate its power to affect the development of copyright and technology industries.

The sole Note addressing the paracopyright protections of the DMCA discusses the statute's potential anti-competitive effects in the videogame industry. In *Davidson & Associates v. Jung*,¹⁸ the Eight Circuit held that a competitive game server, which allowed owners of the plaintiff copyright holder's massively-multiplayer online games to engage in online play, violated the DMCA. This Note attempts to provide some conceptual clarity to counteract the court's muddled analysis of both the technology and law at issue in *Davidson*.

15. See Notice of Inquiry, 70 Fed. Reg. 3739 (Jan. 26, 2005), available at <http://www.copyright.gov/fedreg/2005/70fr3739.pdf>.

16. 406 F.3d 905 (7th Cir. 2005).

17. 830 N.E.2d 250, 263-64 (N.Y. 2005).

18. 422 F.3d 630 (8th Cir. 2005).

D. Trademark

The three trademark Notes in this year's *Annual Review* emphasize the limits of trademark protection and their implications for free discourse.

One Note examines the Supreme Court's decision in *KP Permanent Make-up, Inc. v. Lasting Impression I, Inc.*¹⁹ There the Court grappled with the relationship between the likelihood of confusion test—the lynchpin of trademark infringement analysis—and the fair use defense in determining a trademark owner's ability to appropriate descriptive terms from the English language.

Two other Notes focus on the use of trademarks online. The *WhenU*²⁰ and *Google*²¹ lines of cases offer inconsistent interpretations of the circumstances under which imperceptible use of a trademark to serve targeted advertising qualifies as the sort of use protected under the Lanham Act. This Note suggests that courts analyze the nature of the use at issue as a question distinct from and prior to the likelihood of confusion analysis.

The *Lamparello v. Falwell*²² and *Bosley Medical Institute, Inc., v. Kremer*²³ decisions both involve disputed uses of trademarks in domain names by critics of the trademark holders, and both courts held in favor of the alleged infringers. This Note suggests that, in light of courts' and consumers' increasingly sophisticated understanding of the internet, these cases reject early domain name precedent and signal a significant rethinking of the doctrine of initial interest confusion as well as the "use in commerce" requirement.

E. Trade Secret

One Note explores the intersection of trade secret protection and the First Amendment through a discussion of *Apple v Does*.²⁴ After information regarding an unreleased Apple product was disclosed to a number of blogs, Apple filed suit against several anonymous Doe plaintiffs, and sought to subpoena the email records of the websites that published the

19. 543 U.S. 111 (2004).

20. *U-Haul Int'l, Inc. v. WhenU.com, Inc.*, 279 F. Supp. 2d 723 (E.D. Va. 2003); *Wells Fargo & Co. v. WhenU.com, Inc.*, 293 F. Supp. 2d 734 (E.D. Mich. 2003); *1-800 Contacts, Inc. v. WhenU.com, Inc.*, 414 F.3d 400 (2d Cir. 2005).

21. *Gov't Employees Ins. Co. v. Google, Inc.*, 330 F. Supp. 2d 700 (E.D. Va. 2004); *Google Inc. v. Am. Blind & Wallpaper Factory, Inc.*, No. C 03-05340 JF, 2005 U.S. Dist. LEXIS 6228 (N.D. Cal. Mar. 30, 2005).

22. 420 F.3d 309 (4th Cir. 2005).

23. 403 F.3d 672 (9th Cir. 2005).

24. *Apple Computer, Inc. v. Doe No. 1*, No. 1-04-CV-032178 (Cal. Super. Ct. Mar. 11, 2005) (order denying motion for protective order).

information. When the website operators claimed to be protected under the journalist's privilege, many expected the court to rule on whether bloggers qualified as journalists. Instead, the court held that the privilege did not apply in this case regardless of the proper classification of bloggers. This Note argues that the court misapplied the privilege test, perhaps in an effort to avoid the difficulty of defining the class of qualifying journalists.

II. CYBERLAW

Two of this year's Notes and several Additional Developments fall within the broad ambit of cyberlaw.

The first of these Notes addresses *United States v. Councilman*.²⁵ Sitting en banc, the First Circuit held that the Wiretap Act applies to an electronic communication in transient, electronic storage intrinsic to the communication process, reversing its previous panel-majority decision. This Note argues that despite the court's reversal, internet service providers enjoy overly broad immunity for their interception of customer communications, and proposes a legislative solution to the deficiencies of the Electronic Communications Privacy Act.

A second Note considers the preemption of state anti-spam laws by the CAN-SPAM Act. In *White Buffalo Ventures, LLC v. University of Texas at Austin*,²⁶ the Fifth Circuit offered the first judicial interpretation of CAN-SPAM's express preemption clause. The court held that the University's regulations, which blocked unsolicited commercial email, were not preempted by CAN-SPAM because of an apparent ambiguity regarding the applicability of the preemption provision to state entities that also function as internet service providers. This Note argues that although the court reached the appropriate result, non-legislative solutions to the spam problem may offer a more desirable approach.

III. CONSTITUTIONAL LAW

Although a number of Notes touch on constitutional questions, only one case in this year's *Annual Review* was decided solely on constitutional grounds.

*Granholm v. Heald*²⁷ addressed state statutes that allowed in-state producers to ship directly to in-state customers while requiring out-of-state producers to comply with more rigorous regulations. Concerns over this

25. 418 F.3d 67 (1st Cir. 2005).

26. 420 F.3d 366 (5th Cir. 2005).

27. 125 S. Ct. 1885 (2005).

disparity took on great prominence because of the increasing frequency of internet wine sales. The Court found that these preferential laws violate the Commerce Clause and were not saved by the special privileges granted to states under the Twenty-first Amendment. This Note examines this case and its likely effect on California's wine shipping regulations.

IV. TELECOMMUNICATIONS

Two Notes highlight the evolution and expansion of telecommunications regulation in the particular arena of the internet and digital entertainment.

The first of these Notes considers the recent deregulatory trend the FCC's treatment of high-speed internet services. In *National Cable & Telecommunications Ass'n v. Brand X Internet Services*,²⁸ the Supreme Court upheld the FCC's decision not to impose common carrier obligations on providers of cable modem high speed internet services. The Court, as a matter of administrative law, upheld the FCC's classification of cable modem services as "information services" rather than "cable" or "telecommunications" services, relieving the FCC of any statutory duty to regulate. This Note suggests that a more hands on regulatory approach based on the FCC's universal service program may be a more appropriate policy.

The second Note discusses the D.C. Circuit's decision in *American Library Ass'n v FCC*.²⁹ In hopes of spurring the transition to digital television (DTV) broadcasting, the FCC issued a rule requiring all devices capable of receiving DTV signals include technology that would recognize the broadcast flag, a signal embedded in DTV signals that specifies the extent of copying, if any, permitted by the copyright holder. The court held that the rule exceeded the FCC's statutory authority under Title I of the Communications Act since the broadcast flag's copy protection scheme was not incidental to the transmission of DTV signals. This Note suggests that Congress should grant the FCC authority to impose the broadcast flag regime, but must do so in a way that preserves the fair use rights of the public.

28. 125 S. Ct. 2688 (2005).

29. 406 F.3d 689 (D.C. Cir. 2005).

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INTELLECTUAL PROPERTY

UNIVERSITY OF ROCHESTER V. G.D. SEARLE & CO.: IN SEARCH OF A WRITTEN DESCRIPTION STANDARD

By Corrin Nicole Drakulich

The patent system strives to reward pioneering inventors for their efforts while simultaneously promoting subsequent research and innovation.¹ This balancing effort succeeds when the scope of the patent reward is commensurate with the inventor's contribution to society—namely, when the inventor receives exclusive rights to what he *actually invented* and nothing more.² The written description requirement of § 112³ is one of the patent system's mechanisms of regulating this balance. A central purpose of the written description requirement is to ensure that “the scope of the right to exclude, as set forth in the claims, does not overreach the scope of the inventor's contribution to the field of art as described in the patent specification.”⁴ The Federal Circuit and its predecessor courts have consistently held that, in order to satisfy the written description requirement, the inventor must demonstrate that he was in “possession” of the claimed invention when he filed the patent application.⁵ The underlying assumption is that a sufficiently detailed description would not be possible if the inventor were speculating about the invention's features.⁶

While patent law theoretically governs the validity of all patents in a technology-neutral manner, application of the rules has in fact varied among technologies.⁷ The biotechnology and pharmaceutical industries, in

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1. See Alison E. Cantor, *Using the Written Description and Enablement Requirements to Limit Biotechnology Patents*, 14 HARV. J. L. & TECH. 267, 268 (2000).

2. See Paula K. Davis, *Questioning the Requirement for Written Description: Enzo Biochem v. Gen-Probe and Overly Broad Patent Cases*, 37 IND. L. REV. 467, 468 (2004); see also Jeffrie A. Kopczynski, Note, *A New Era for §112? Exploring Recent Developments in the Written Description Requirement as Applied to Biotechnology Inventions*, 16 HARV. J.L. & TECH. 229, 251-54 (2002) (discussing the pros and cons of a heightened written description standard).

3. 35 U.S.C. § 112 (2000).

4. *Univ. of Rochester v. G.D. Searle & Co.*, 358 F.3d 916, 920 (Fed. Cir. 2004).

5. See, e.g., *Hyatt v. Boone*, 146 F.3d 1348, 1353 (Fed. Cir. 1998); *Vas-Cath, Inc. v. Mahurkar*, 935 F.2d 1555, 1563-64 (Fed. Cir. 1991); *In re Edwards*, 568 F.2d 1349, 1351 (C.C.P.A. 1978).

6. Dan L. Burk & Mark A. Lemley, *Is Patent Law Technology-Specific?*, 17 BERKELEY TECH. L.J. 1155, 1174 (2002).

7. *Id.* at 1156.

particular, have become subject to more stringent written description requirements than other disciplines.⁸ In several pivotal decisions, the Federal Circuit addressed what constitutes “possession” in the context of biotechnology inventions and imposed a strict disclosure requirement for inventions involving DNA claims.⁹ In the landmark case of *Regents of the University of California v. Eli Lilly and Co.*,¹⁰ the court required disclosure of the precise nucleotide sequence of the claimed cDNA¹¹ to prove the inventor in fact possessed the invention.¹² The court’s insistence that a DNA invention must be described by its precise structure has resulted in a stringent written description rule—the *Lilly* standard—specifically targeted at biotechnology patents.¹³

In its recent *University of Rochester v. G.D. Searle & Co.* decision,¹⁴ the Federal Circuit solidified the *Lilly* standard and extended its stringent rule to all claims directed to biotechnology and pharmaceutical inventions. While the court rightly aimed to standardize the written description requirement, it missed the mark by choosing the *Lilly* rule as the standard for all DNA and chemical claims. The per se disclosure rule created by the *Rochester* court was not only unnecessary for reaching the proper outcome in the case, but it also strayed from a long line of precedent, promising to produce unreasonable outcomes and undermining the policy goals of the patent system. Most importantly, the rigid standard threatens to overshadow the fundamental inquiry when granting patent rights—whether or not the inventor *actually invented* that which he seeks to patent.¹⁵

Part I of this Note examines the historical development and evolution of the written description requirement in the United States patent system. Part II provides a summary of *Rochester* and examines the Federal Circuit’s application of the written description requirement to chemical in-

8. *See id.*

9. *See Regents of Univ. of Cal. v. Eli Lilly & Co.*, 119 F.3d 1559, 1566-67 (Fed. Cir. 1997); *Fiers v. Revel*, 984 F.2d 1164, 1170-71 (Fed. Cir. 1993).

10. 119 F.3d 1559.

11. *Id.* at 1566-67. cDNA is “complementary DNA,” a type of DNA often used for cloning or as a DNA probe for locating specific genes. cDNA, MEDICINET.COM, <http://www.medterms.com/script/main/art.asp?articlekey=2656> (last visited Jan. 11, 2006).

12. *Lilly*, 119 F.3d at 1568-69.

13. *See* Janice M. Mueller, *The Evolving Application of the Written Description Requirement to Biotechnological Inventions*, 13 BERKELEY TECH. L.J. 615, 618 (1998).

14. 358 F.3d 916 (Fed. Cir. 2004).

15. *See In re Barker*, 559 F.2d 588, 592 n.4 (C.C.P.A. 1977) (explaining that the “essential goal” of the description of the invention is to clearly convey that the applicant has invented the subject matter he claims).

ventions. Part III contends that although *Rochester* was properly decided, the court's extension of the strict DNA-specific disclosure standard to all chemical inventions was unnecessary and improper in light of precedent and the policy goals of the patent system. This Note concludes that the "possession" test is the appropriate standard by which to harmonize the written description requirement and achieve the proper outcome among differing technologies.

I. BACKGROUND

The U.S. patent system aims to promote the progress of science and technology.¹⁶ An inventor may be granted limited monopoly rights, in the form of patents, in exchange for contributing something of value to society.¹⁷ In order for a patent to issue and withstand judicial scrutiny, the claimed subject matter must be useful, novel, nonobvious, and adequately described in the patent application.¹⁸ Adequate disclosure is the "quid pro quo of the right to exclude";¹⁹ it serves a teaching function in which the public is given meaningful disclosure in exchange for being excluded from practicing the invention for a limited period of time.²⁰

Section 112 sets forth the current standard for adequate disclosure:

The specification shall contain a written description of the invention, and of the manner and process of making and using it, in such full, clear, concise, and exact terms as to enable any person skilled in the art to which it pertains, or with which it is most nearly connected, to make and use the same, and shall set forth the best mode contemplated by the inventor of carrying out his invention.²¹

The courts and the United States Patent and Trademark Office (PTO) interpret § 112 to contain three separate requirements: (1) the written description requirement; (2) the enablement requirement; and (3) the best mode requirement.²²

16. U.S. CONST. art. I, § 8, cl. 8.

17. See generally *Bonito Boats v. Thunder Craft Boats*, 489 U.S. 141 (1989).

18. 35 U.S.C. §§ 101-103, 112 (2000).

19. *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 484 (1974).

20. *Enzo Biochem, Inc. v. Gen-Probe, Inc.*, 323 F.3d 956, 970 (Fed. Cir. 2002).

21. 35 U.S.C. § 112, ¶ 1 (2005).

22. *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, 234 F.3d 558, 566 (Fed. Cir. 2000); UNITED STATES PATENT & TRADEMARK OFFICE, MANUAL OF PATENT EXAMINING PROCEDURE § 2161 (8th ed., rev. 2003) [hereinafter MPEP]. Although there

The following Part traces the development of the written description doctrine. Section A discusses the purpose and function of the written description requirement, detailing its evolution from a priority policing device with only procedural relevance into a substantive disclosure standard crucial to patentability and validity determinations.²³ Section B discusses the development of the “possession” standard as the test for adequate written description and the court’s application of the possession standard to biotechnology inventions.

A. Development of the Written Description Requirement

As early as 1822, the Supreme Court recognized the existence of separate enablement and written description requirements. In *Evans v. Eaton*,²⁴ the Court interpreted the purpose of the Patent Act of 1793 as being twofold: (1) to enable artisans to make and use the invention, and (2) to put the public in possession of the invention to prevent an inventor from “pretending that his invention is more than what it really is.”²⁵ Early cases implied, however, that the written description requirement mattered only for policing priority of invention.²⁶ While the enablement requirement served as the substantive disclosure requirement for the original application, requiring that it enable artisans to make and use the invention, the written description requirement served the procedural function of preventing applicants from improperly amending claims after submitting the initial application.²⁷ Over time, however, the written description doctrine began to play a role in evaluating the substantive merit of originally filed claims,²⁸ making it difficult for the courts to clearly distinguish the written description and enablement requirements.²⁹

are three requirements, I do not discuss best mode because it is beyond the scope of this Note.

23. Koczynski, *supra* note 2, at 236.

24. 20 U.S. (7 Wheat.) 356 (1822).

25. *In re Barker*, 559 F.2d 588, 592 n.4 (C.C.P.A. 1977) (quoting *Evans*, 20 U.S. (7 Wheat.) at 434).

26. *See Rengo Co. v. Molins Mach. Co.*, 657 F.2d 535, 551 (3d Cir. 1981); *In re Bowen*, 492 F.2d 859, 864 (C.C.P.A. 1974); *see also* Guang Ming Whitley, *A Patent Doctrine Without Bounds: The “Extended” Written Description Requirement*, 71 U. CHI. L. REV. 617, 619-20 (2004) (explaining that the original purpose of the written description requirement was to prevent a patent applicant from misusing the amendment process by introducing new matter into his claims while still retaining his original filing date, and therefore, his place in the “priority line”). *See generally* 3A DONALD S. CHISUM, CHISUM ON PATENTS §§ 10.01-.09 (2005) (offering a comprehensive explanation of priority).

27. Whitley, *supra* note 26, at 620.

28. Mueller, *supra* note 13, at 618-22.

29. *See* Mueller, *supra* note 13, at 634.

1. *The Purpose and Function of the Written Description Requirement*

In the early development of the written description doctrine, courts interpreted the requirement to prevent applicants from adding new disclosures to the patent through amendments while retaining the benefit of an earlier filing date.³⁰ In *In re Ruschig*,³¹ the Court of Customs and Patent Appeals (CCPA) recognized a written description requirement that the court could use to deny priority in an interference proceeding where “new matter” was added to a patent application.³² The inquiry in *Ruschig* was whether “the specification conveys clearly to those skilled in the art, to whom it is addressed, *in any way*, the information that appellants invented that specific compound.”³³ The court rejected *Ruschig*’s amended claim on the grounds that the compound added to the claim was never “named or otherwise exemplified” in the original application.³⁴ Because the specification failed to provide an adequate written description of the later-claimed species, the invention lacked a “written description” in the patent.³⁵

The *Ruschig* court not only expressly recognized a written description requirement for claims filed or amended after an original filing date, but also established the standard by which to evaluate compliance with the requirement. The court made it clear that the *manner* in which a claimed invention is described is not critical, as long as the description conveys that the inventor had actually invented the claimed subject matter.³⁶ The CCPA developed this point further in *In re Smith*, explaining that the specification need not describe the claimed subject matter “*in haec*

30. Whitley, *supra* note 26, at 617-18.

31. 379 F.2d 990 (C.C.P.A. 1967).

32. *See id.* at 992, 996 (affirming rejection of an added claim to a patent application on the basis that the chemical compound was never “named or otherwise exemplified” in the original patent application even if it was within the literal scope of the originally filed claim, and observing that the specification would not “convey clearly to those skilled in the art” the information that applicants invented that specific compound); Harold C. Wegner, A New “Written Description” Requirement: Going Beyond the Statute, Address Before the American Intellectual Property Law Association (Apr. 19, 2002), *available at* http://www.foley.com/files/tbl_s31Publications/FileUpload137/819/enzo_wp_final.pdf.

33. *Ruschig*, 379 F.2d at 996 (emphasis added).

34. *Id.* at 992.

35. *See id.* at 995-96.

36. *Id.* at 996.

verba”³⁷ for it to satisfy the written description requirement.³⁸ The court described the “essential goal” of the description requirement as conveying “clearly to those skilled in the art the information that the applicant has invented the specific subject matter later claimed.”³⁹ When the original specification accomplishes this goal, the written description requirement is satisfied “regardless of how [the specification] accomplishes it.”⁴⁰

In *Regents of the University of California v. Eli Lilly and Co.*,⁴¹ the Federal Circuit extended the scope of the written description requirement beyond the context of priority policing. In a case where the defendant never raised enablement, the court utilized the written description requirement to invalidate the University of California’s originally filed claims.⁴² The Federal Circuit thereby created a new substantive requirement for original claims by requiring patent applicants to show adequate disclosure through both the enablement and written description requirements.⁴³ As a result, the demarcation between the two requirements blurred.⁴⁴ The court has since struggled to articulate a function for the written description requirement that is distinct from that of the enablement requirement.⁴⁵

2. *Written Description and Enablement are Separate and Distinct Requirements*

While the written description requirement traditionally served the procedural function of priority policing, the enablement requirement traditionally served to evaluate the substantive merit of the claims.⁴⁶ The enablement requirement ensures that the specification allows one skilled in the art “to make and use” the claimed invention without “undue experimentation.”⁴⁷ The Federal Circuit, in *In re Wands*,⁴⁸ articulated a list of

37. *In haec verba* is Latin for “in these words,” which refers to stating the exact language. LAW.COM: LAW DICTIONARY, <http://dictionary.law.com/default2.asp?typed=in+haec+verba&type=1> (last visited Mar. 6, 2006).

38. *In re Smith*, 481 F.2d 910, 914 (C.C.P.A. 1973).

39. *Id.*

40. *Id.*

41. 119 F.3d 1559 (Fed. Cir. 1997).

42. *Id.* at 1567.

43. *Id.*; see also Whitley, *supra* note 26, at 621 (observing that the Federal Circuit has had difficulty articulating a function for the written description requirement that is distinct from that of enablement, now that the written description requirement extends beyond the discrete sphere of priority and into the realm of adequate disclosure).

44. Mueller, *supra* note 13, at 634.

45. Whitley, *supra* note 26, at 621.

46. Whitley, *supra* note 26, at 617-18.

47. Adang v. Fischhoff, 286 F.3d 1346, 1355 (Fed. Cir. 2002).

factors that may be considered in determining whether or not the disclosure requires such “undue experimentation,” including the “predictability” of the art.⁴⁹ The chemical and biotechnological arts, for example, are considered “unpredictable” because scientists are unable to predict how simple changes will affect chemical reactions or physiological activities.⁵⁰ While the scope of enablement theoretically varies inversely with the degree of unpredictability,⁵¹ the *Wands* test failed to enumerate specific criteria for determining adequate disclosure in the unpredictable arts.⁵² This inadequacy resulted in the granting of overbroad patents in unpredictable fields like biotechnology, and commentators have hypothesized that this deficiency eventually led the courts to demand higher levels of disclosure to satisfy both the enablement and written description requirements.⁵³

As the written description requirement progressively assumed a larger role in determining the substantive validity of patents, the Federal Circuit grappled with whether the written description and enablement requirements were separate or intertwined.⁵⁴ In *In re Wilder*⁵⁵ the court explicitly stated: “The description requirement . . . is separate from the enablement requirement.”⁵⁶ Upon revisiting the issue three years later, however, the

48. 858 F.2d 731 (Fed. Cir. 1988).

49. Factors to be considered in determining whether a disclosure would require undue experimentation . . . include (1) the quantity of experimentation necessary, (2) the amount of direction or guidance presented, (3) the presence or absence of working examples, (4) the nature of the invention, (5) the state of the prior art, (6) the relative skill of those in the art, (7) the predictability or unpredictability of the art, and (8) the breadth of the claims.

Id. at 737.

50. Margaret Sampson, *The Evolution of the Enablement and Written Description Requirements Under 35 U.S.C. § 112 in the Area of Biotechnology*, 15 BERKELEY TECH L.J. 1233, 1240 (2000). The electrical and mechanical arts, in contrast to the chemical and biotechnological arts, are considered “predictable” because once a single embodiment of the invention is enabled, other embodiments can be made without difficulty and their performance characteristics can be predicted by known scientific laws. *Id.*

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

52. Whitley, *supra* note 26, at 618.

53. See Whitley, *supra* note 26, at 618, 630; Natasha N. Aljalian, *The Role of Patent Scope in Biopharmaceutical Patents*, 11 B.U. J. SCI. & TECH. L. 1, 27 (2005); see, e.g., *Amgen, Inc. v. Chugai Pharm. Co.*, 927 F.2d 1200, 1214 (Fed. Cir. 1991) (holding that the gene isolation methods disclosed were not enabling because conception of a DNA invention “has not been achieved until reduction to practice has occurred, i.e., until after the gene has been isolated”).

54. See *Vas-Cath, Inc. v. Mahurkar*, 935 F.2d 1555, 1563 (Fed. Cir. 1991) (discussing conflicting precedents).

55. 736 F.2d 1516 (Fed. Cir. 1984).

56. *Id.* at 1520.

court determined that the purpose of the written description requirement is merely to “communicate that which is needed to enable the skilled artisan to make and use the claimed invention.”⁵⁷ The court concluded that the requirements “may be viewed separately, but they are intertwined.”⁵⁸

In 1991, the Federal Circuit finally reviewed the requirements in *Vas-Cath, Inc. v. Mahurkar*⁵⁹ and stated that written description and enablement are two separate and distinct requirements.⁶⁰ The court explained that the purpose of the written description requirement goes beyond merely explaining how to “make and use” (i.e., enable) the invention.⁶¹ Adequate description prevents the inventor’s overreaching “by insisting that he recount his invention in such detail that his future claims can be determined to be encompassed within his original creation.”⁶² In addition, the *Vas-Cath* court stated that to fulfill the written description requirement the applicant must “convey with reasonable clarity to those skilled in the art that, as of the filing date sought, he or she was *in possession* of the invention.”⁶³

B. The Possession Standard for Adequate Written Description

The “possession” standard that *Vas-Cath* articulated was adopted in subsequent cases⁶⁴ and embraced by the PTO.⁶⁵ *Lockwood v. American Airlines, Inc.*⁶⁶ further explained that an inventor demonstrates “possession” of the invention by describing the invention with “all its claimed limitations.”⁶⁷ According to *Lockwood*, an applicant may comply with the disclosure requirement through such descriptive means as words, struc-

57. *Kennecott Corp. v. Kyocera Int’l, Inc.*, 835 F.2d 1419, 1421 (Fed. Cir. 1987).

58. *Id.*

59. 935 F.2d 1555 (Fed. Cir. 1991).

60. *Id.* at 1563-64.

61. *Id.* at 1563.

62. *Id.* at 1561 (quoting *Rengo Co. v. Molins Mach. Co.*, 657 F.2d 535, 551 (3d Cir. 1981)).

63. *Id.* at 1563-64 (emphasis added).

64. *See, e.g.*, *Hyatt v. Boone*, 146 F.3d 1348, 1354 (Fed. Cir. 1998) (affirming that the purpose of the written description requirement *in all cases* is to ensure that the inventor had possession of the subject matter claimed); *Fujikawa v. Wattanasin*, 93 F.3d 1559, 1570 (Fed. Cir. 1996) (“the disclosure need only reasonably convey to persons skilled in the art that an inventor had possession of the subject matter in question”); *Fiers v. Revel*, 984 F.2d 1164, 1170 (Fed. Cir. 1993) (affirming that the legal standard for written description requires that the specification reasonably conveys to the artisan that the inventor had possession of the claimed subject matter).

65. *See* MPEP, *supra* note 22, §§ 2161, 2163.

66. 107 F.3d 1565 (Fed. Cir. 1997).

67. *Id.* at 1572.

tures, figures, diagrams, and formulas that fully set forth the claimed invention.⁶⁸

In *Amgen, Inc. v. Chugai Pharmaceutical Co.*,⁶⁹ the Federal Circuit applied a variation of the possession standard to invalidate claims to DNA inventions on grounds of insufficient enablement. The court defined possession in terms of “conception” of the complete and operable invention, which occurs when one has a “mental picture of the structure of the chemical” or is able to “define it by its method of preparation, its physical or chemical properties, or whatever characteristics sufficiently distinguish it.”⁷⁰ The court invalidated claims to gene isolation methods, concluding that conception of a DNA invention cannot be achieved until after the gene has been isolated, because an inventor would be unable to envision the detailed constitution of a gene until the gene had been cloned and characterized.⁷¹ Thus, the court held that proof of conception of a DNA invention requires actual reduction to practice.⁷²

While the court’s analysis in *Amgen* pertained to enablement, it was not long before the new possession-by-completed-conception standard carried over into the written description context. Two years after *Amgen*, the Federal Circuit applied the new articulation of the possession standard, along with the heightened disclosure rule for DNA inventions, to evaluate the adequacy of written descriptions for biotechnology inventions.

1. *The Strict Possession Standard for Biotechnology Inventions*

In *Fiers v. Revel*,⁷³ the Federal Circuit co-opted the *Amgen* standard to evaluate compliance with the written description requirement, reasoning that “one cannot describe what one has not conceived.”⁷⁴ In a three-way interference case regarding claims to DNA encoding human beta-interferon, Revel and Fiers lost the priority battle to Sugano, the party who was first to set forth “the complete and correct nucleotide sequence” of the

68. *Id.*

69. 927 F.2d 1200, 1206, 1212, 1214 (Fed. Cir. 2001) (invalidating claims for insufficient enablement because conception had not been proven where patentee generically claimed all possible DNA sequences that would encode a protein “sufficiently duplicative” of erythropoietin).

70. *Id.* at 1206.

71. *Id.*

72. *Id.*

73. 984 F.2d 1164 (Fed. Cir. 1993).

74. *Id.* at 1171.

claimed DNA.⁷⁵ The court equated the *Amgen* standard for conception with the possession test for written description, demanding actual reduction to practice (i.e., isolation and sequencing) to prove possession of the DNA claimed.⁷⁶ Although the court established a DNA-specific standard for written description compliance, it preserved a crucial degree of flexibility by leaving open other ways of claiming DNA.⁷⁷

The Federal Circuit revisited the issue of the written description requirement for original claims to DNA sequences in *Regents of the University of California v. Eli Lilly and Co.*⁷⁸ Relying on its reasoning in *Fiers*, the court invalidated the University of California's patent on human insulin-encoding cDNA because the specification only recited the nucleotide sequence of rat insulin-encoding cDNA.⁷⁹ Even though the University's inventors had isolated a cDNA gene for rat insulin and described a general method of producing human insulin cDNA in the specification, the court found the University's written description inadequate for failure to provide the specific nucleotide sequence of the human cDNA.⁸⁰ In the words of the court: "[A]n adequate written description of a DNA . . . 'requires a precise definition, such as by structure, formula, chemical name, or physical properties,' not a mere wish or plan for obtaining the claimed chemical invention."⁸¹ The court demanded a showing of possession through recitation of nucleotide sequences, and accordingly, limited the patent to only those cDNA sequences the University had in fact isolated and specifically described.⁸² The court further elaborated on the written description re-

75. *Id.* at 1172. Human fibroblast beta-interferon (B-IF) is a protein that promotes viral resistance in human tissue. Interferon, ANSWERS.COM, <http://www.answers.com/topic/interferon> (last visited Jan. 17, 2006).

76. 984 F.2d at 1170-71. DNA sequencing is the process of determining the order of nucleotides (base sequences) in a segment of DNA. DNA sequence, MEDICINENET.COM, <http://www.medterms.com/script/main/art.asp?articlekey=3101> (last visited Jan. 17, 2006).

77. 984 F.2d at 1169-70; *see* Mueller, *supra* note 13, at 624 ("Prior to the Federal Circuit's decision in Lilly, adequate 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.").

78. 119 F.3d 1559 (Fed. Cir. 1997).

79. *Id.* at 1567-68. cDNA is "complementary DNA," a type of DNA often used for cloning or as a DNA probe for locating specific genes. *See* cDNA, MEDICINENET.COM, <http://www.medterms.com/script/main/art.asp?articlekey=2656> (last visited Jan. 11, 2006).

80. 119 F.3d at 1567-68.

81. *Id.* at 1566 (quoting and upholding a standard established in *Fiers*, 984 F.2d at 1171).

82. *Id.* at 1567-69.

quirement, stating that a description of what a material does, rather than what it is, usually does not suffice, because the disclosure must allow one skilled in the art to distinguish between the claimed subject matter and other materials with the same function or activity.⁸³

After the *Lilly* court tightened the disclosure standard for biotechnology inventions, the Federal Circuit returned five years later in *Enzo Biochem, Inc. v. Gen-Probe, Inc.*⁸⁴ to relax the written description requirement.⁸⁵ In an earlier opinion in this case,⁸⁶ the Federal Circuit applied the *Lilly* standard and invalidated claims to polypeptides that detect the gonorrhea bacteria, despite the fact that the inventor of these DNA probes deposited three polypeptides at a public depository.⁸⁷ The court concluded that merely depositing the material did not satisfy the nucleotide-by-nucleotide recitation required by *Lilly*.⁸⁸

Within a few months, the court vacated its original opinion and reversed the result, remedying the inappropriate outcome that had resulted from applying the rigid *Lilly* standard.⁸⁹ The court in *Enzo II* resurrected the possession test from *Vas-Cath*, affirming that the purpose of the written description requirement is to demonstrate that the inventor did in fact possess what he sought to claim.⁹⁰ The court declared that functional descriptions of genetic material *can* establish possession, if those functional characteristics are “coupled with a known or disclosed correlation between function and structure, or some combination of such characteristics.”⁹¹ The court held that Enzo’s patent claims, describing the functional ability of the probes and referring to a deposit of the biological material in a public depository, satisfied the written description requirement. Accordingly, *Enzo II* not only rejected the strict *Lilly* disclosure standard and reinstated

83. *Id.* at 1568.

84. 323 F.3d 956 (Fed. Cir. 2002) [hereinafter *Enzo II*].

85. *Id.* at 964 (“It is not correct . . . that all functional descriptions of genetic material fail to meet the written description requirement.”). *But see* Chandra Garry, Note, *Written Description: Enzo Biochem, Inc. v. Gen-Probe, Inc.*, 18 BERKELEY TECH. L.J. 195, 202 (2003) (arguing that *Enzo* does not relax, but rather redefines the written description requirement).

86. *Enzo Biochem, Inc. v. Gen-Probe, Inc.*, 285 F.3d 1013 (Fed. Cir. 2002) [hereinafter *Enzo I*], *vacated*, 323 F.3d 956 (Fed. Cir. 2002).

87. *Id.* at 1022. A polypeptide is a chain of linked amino acids, also known as a protein molecule. Polypeptide, EVERYTHINGBIO.COM, <http://www.everythingbio.com/glos/definition.php?word=polypeptide> (last visited Jan. 17, 2006).

88. 285 F.3d at 1022.

89. *See Enzo II*, 323 F.3d at 960; *Univ. of Rochester v. G.D. Searle & Co.*, 375 F.3d 1303, 1308 (Fed. Cir. 2004) (Newman, J., dissenting).

90. 323 F.3d at 969 (citing *Vas-Cath*, 935 F.2d at 1563-64).

91. *Id.* at 964.

the possession test, but it also proffered an example of an invention successfully described by its functional characteristics.⁹²

II. *UNIVERSITY OF ROCHESTER V. G.D. SEARLE & CO.*

The University of Rochester received U.S. Patent No. 6,048,850 (the '850 patent) for a method of producing and administering a compound to relieve inflammation.⁹³ The day the '850 patent issued, Rochester sued several pharmaceutical companies, alleging that their sale of the anti-inflammatory drugs Celebrex and Bextra infringed the patent.⁹⁴ On appeal, the Federal Circuit assessed the validity of the '850 patent based on the written description requirement of Section 112 and examined the written description standard for all DNA and chemical inventions.⁹⁵

A. **Facts and Procedural History**

Scientists from the University of Rochester developed a screening assay to determine whether a particular drug selectively inhibits the enzyme responsible for inflammation, without also inhibiting the enzyme responsible for protecting the stomach lining.⁹⁶ Traditional non-steroidal anti-inflammatory drugs (NSAIDs), including aspirin, ibuprofen, ketoprofen, and naproxen are believed to function by inhibiting the activity of enzymes called cyclooxygenases (COX).⁹⁷ Specifically, NSAIDs inhibit both COX-1 (also called PGHS-1), which provides protection for the stomach lining, and COX-2 (also called PGHS-2), which is responsible for the inflammation associated with diseases such as arthritis.⁹⁸ As a result, NSAIDs not only reduce inflammation, but can also cause gastrointestinal side effects including upset stomach, ulcers, and bleeding.⁹⁹ After the separate functions of COX-1 and COX-2 were discovered, it was hypothesized that the side effects of NSAIDs could be prevented if a method could be found for selectively inhibiting the activity of COX-2.¹⁰⁰ To this end, Rochester scientists developed a screening assay to identify com-

92. *Id.* at 970.

93. *Univ. of Rochester v. G.D. Searle & Co.*, 358 F.3d 916, 918 (Fed. Cir. 2004).

94. *Id.* at 918-19.

95. *See id.*

96. *Id.* An assay is a test used to determine the presence of a substance and the amount of that substance or to analyze the biological or pharmacological potency of a drug. Assay, BIOLOGY-ONLINE.ORG, <http://www.biology-online.org/dictionary/assay> (last visited Jan. 17, 2006).

97. *Rochester*, 358 F.3d at 917.

98. *Id.*

99. *Id.* at 917-18.

100. *Id.* at 918.

pounds with such selective inhibition capabilities, and in 1998 obtained United States Patent No. 5,837,479 (the '479 patent) covering the methods.¹⁰¹

Two years later, the University obtained another patent, the '850 patent, from a division of the application that led to the '479 patent.¹⁰² The '850 patent claimed a method of treating humans by administering a selectively inhibiting compound.¹⁰³ The specification described the compound necessary to practice the treatment method only in terms of its function: "a non-steroidal compound that selectively inhibits activity of the PGHS-2 gene product."¹⁰⁴ The day the '850 patent issued, Rochester brought suit against G.D. Searle & Co., Inc., Monsanto Co., Pharmacia Corp., and Pfizer Inc. (collectively, "Searle") for infringement of the '850 patent by Celebrex and Bextra, which treat inflammation.¹⁰⁵

B. The District Court Decision

The District Court for the Western District of New York granted summary judgment to the manufacturers, declaring the '850 patent invalid for failure to meet the written description and enablement requirements of 35 U.S.C. § 112.¹⁰⁶ The court found that although all eight claims of the '850 patent require the use of a "non-steroidal compound that selectively inhibits activity of the PGHS-2 gene," the '850 patent neither disclosed any such compound nor provided any suggestion as to how such a compound could be made or otherwise obtained other than by trial-and-error research.¹⁰⁷ The court concluded that the specification failed to provide evidence that the inventors themselves knew of any such compound at the time their patent application was filed and accordingly held that the claims were invalid for lack of written description.¹⁰⁸ In addition, the court held that the claims were also invalid for lack of enablement, because the prac-

101. *Id.* In 1998, the '479 patent issued, covering methods for identifying a compound "that inhibits prostaglandin synthesis catalyzed by mammalian prostaglandin H synthase-2 (PGHS-2)." U.S. Patent No. 5,837,479 (filed June 7, 1995). The validity of the '479 patent was not at issue in this case.

102. *Rochester*, 358 F.3d at 918.

103. *Id.* More specifically, all eight claims of the '850 patent were directed to methods "for selectively inhibiting PGHS-2 activity in a human host" by "administering a non-steroidal compound that selectively inhibits activity of the PGHS-2 gene product to [or in] a human host in need of such treatment." U.S. Patent No. 6,048,850 (filed June 7, 1995).

104. *Rochester*, 358 F.3d at 918.

105. *Id.* at 918-19.

106. *Id.* at 919.

107. *Id.*

108. *Id.*

tice of the claimed methods would require a person of ordinary skill in the art "to engage in undue experimentation, with no assurance of success."¹⁰⁹ Finding no genuine issue of material fact concerning either written description or enablement, the court granted Searle's motions for summary judgment and denied Rochester's cross-motion.¹¹⁰

Rochester appealed, arguing that the district court erred on three grounds: (1) granting Searle's motion for summary judgment of invalidity for lack of written description; (2) granting Searle's motion for summary judgment of invalidity for lack of enablement; and (3) denying Rochester's cross-motion for summary judgment with regard to written description.¹¹¹

C. The Federal Circuit's Analysis

The Federal Circuit affirmed the district court's invalidation of the '850 patent for lack of written description and affirmed summary judgment in favor of Searle on that ground.¹¹² Upon finding the patent invalid on its face, the court held the enablement issue to be moot.¹¹³ The court also affirmed the district court's denial of Rochester's cross-motion for summary judgment, holding that no evidence to rebut the presumption of validity is necessary where a patent is, as a matter of law, invalid for failure of description.¹¹⁴

Focusing on the possession aspect of the written description requirement, the court reaffirmed that a patent application must "describe the claimed subject matter in terms that establish that the applicant was in *possession* of the . . . claimed invention, including all the elements and limitations."¹¹⁵ Stated another way, the specification must provide sufficient description to show one of ordinary skill in the art that the inventor possessed the claimed invention at the time of filing.¹¹⁶

The court observed that Rochester's claimed method depended upon finding a compound that selectively inhibits PGHS-2 activity; without such a compound, it is impossible to practice the claimed method of treatment.¹¹⁷ The Federal Circuit agreed with the district court's finding

109. *Id.*

110. *Id.*

111. *Id.*

112. *Id.* at 929-30.

113. *Id.* at 930.

114. *Id.*

115. *Id.* at 926 (emphasis added).

116. *Id.* at 928.

117. *Id.* at 926.

that “one critical aspect of the method—a compound that selectively inhibits PGHS-2 activity—was hypothetical, for it is clear that the inventors had neither possession nor knowledge of such a compound.”¹¹⁸ The ’850 patent disclosed nothing more than a “hoped-for function for an as-yet-to-be-discovered compound, and a research plan for trying to find it.”¹¹⁹ To that end, the Federal Circuit affirmed invalidation of Rochester’s ’850 patent.¹²⁰

But, the Federal Circuit did not stop there. After acknowledging the undisputed fact that the ’850 patent does not disclose any compounds that can be used in its claimed methods, and that the patent was therefore invalid on its face, the court went on to articulate a more stringent disclosure standard for future chemical inventions. The court recited the *Lilly* standard for demonstrating possession of biotechnology inventions: “an adequate written description of a DNA . . . ‘requires a precise definition, such as by structure, formula, chemical name, or physical properties,’” and added, “that requirement applies just as well to non-DNA (or -RNA) chemical inventions.”¹²¹ The Federal Circuit held that because the ’850 patent did not disclose just “which ‘peptides, polynucleotides, and small organic molecules’ have the desired characteristic of selectively inhibiting PGHS-2,” the claimed methods were not adequately described.¹²²

III. DISCUSSION

While *Rochester* was properly decided, the court’s extension of the strict biotech-specific disclosure standard to all chemical inventions was unnecessary and improper in light of precedent and the policy goals of the patent system. Section A explains why extension of the *Lilly* standard was unnecessary. Section B examines *Capon v. Eshhar*,¹²³ a biotechnology case decided six months after *Rochester*, to illuminate the problems the rigid standard has already caused. Section C addresses the undue burden placed on patentees and argues that the “possession” test is the appropriate standard by which to harmonize the written description requirement and achieve the proper outcome among differing technologies.

118. *Id.*

119. *Id.* at 926-27.

120. *Id.* at 929.

121. *Id.* at 927.

122. *Id.*

123. 418 F.3d 1349 (Fed. Cir. 2005).

A. Extending the *Lilly* Standard to all Chemical Inventions was Unnecessary

According to the *Lilly* standard, inventions involving claims to DNA require disclosure of the specific nucleotide sequence.¹²⁴ By applying this strict standard across the board to all chemical inventions, the *Rochester* court declared that proof of possession necessarily requires description of the *precise structure* of the compound required to practice the claimed method.¹²⁵ Stated another way, the court assumes that the written description requirement in the chemical arts cannot be satisfied by describing compounds in terms of their function, properties, method of making, or any other manner, regardless of whether or not that description is sufficient to convey possession.¹²⁶ While it may have been the case in *Lilly* that disclosure of the specific nucleotide sequence was necessary to prove possession of the human insulin cDNA, the *Rochester* court's assumption that this will *always* be the case for claims involving DNA or chemical inventions contradicts a long line of precedent. Ironically, the Federal Circuit acknowledged this in its own reasoning.

The *Rochester* court recognized that historically courts have afforded patent applicants flexibility in the mode selected for compliance with the written description requirement.¹²⁷ In *In re Edwards*, for example, the CCPA held that the written description requirement was satisfied by a specification describing a water-insoluble polyol by the process by which it was made, rather than by its chemical structure.¹²⁸ The court found that Edwards' application, "taken as a whole, reasonably leads persons skilled in the art to the [recited reactions] and, concomitantly, to the claimed compound."¹²⁹ In *Union Oil Co. v. Atlantic Richfield Co.*, the Federal Circuit rejected the argument that Unocal's patent was invalid because it described claimed gasoline mixtures by their "desired characteristics," rather than by their "exact chemical components."¹³⁰ The court held that the disclosure was sufficient because artisans in petroleum refining knew how to

124. *Regents of Univ. of Cal. v. Eli Lilly & Co.*, 119 F.3d 1559, 1566-67 (Fed. Cir. 1997).

125. 358 F.3d at 927; *see Lilly*, 119 F.3d at 1567-69.

126. *See Mueller, supra* note 13, at 624.

127. *Rochester*, 358 F.3d at 928.

128. *In re Edwards*, 568 F.2d 1349, 1354 (C.C.P.A. 1978). A polyol is an alcohol containing more than two hydroxyl groups. The polyol claimed in *Edwards* had sufficient self-catalytic activity to react with organic compounds to form fire-retardant polyurethane foams. *Id.* at 1350.

129. *Id.*

130. *Union Oil Co. v. Atl. Richfield Co.*, 208 F.3d 989, 997 (Fed. Cir. 2000) [hereinafter *Unocal*].

mix the sources to achieve a final product with the desired characteristics.¹³¹ Finally, the *Rochester* court discussed *In re Herschler*, which found adequate written description support for broad claims to processes for topically administering a steroidal agent to a human or animal by concurrently administering the steroid and dimethyl sulfoxide (“DMSO”).¹³² The specification only disclosed one example of “a physiologically active steroidal agent,” but the court upheld the claims nonetheless because many such steroidal agents were known in the art.¹³³

The Federal Circuit went to great lengths to distinguish the facts of *Rochester* from cases that had allowed diverse forms of disclosure.¹³⁴ In “marked contrast to the *Edwards* application,” the court reasoned, Rochester’s patent failed to disclose any method for making even a single compound that can achieve the claimed effect.¹³⁵ The court distinguished *Unocal* by the fact that artisans skilled in petroleum refining could recognize what Unocal claimed based on the disclosed ranges of gasoline properties, whereas Rochester presented no evidence that the ordinarily skilled artisan would be able to identify any compound based on its vague functional description as “a non-steroidal compound that selectively inhibits . . . PGHS-2.”¹³⁶ Finally, the *Rochester* court distinguished *Herschler* based on the fact that, unlike “non-steroidal compounds that selectively inhibit . . . PGHS-2,” there is no question that numerous physiologically active steroidal agents were known to those of ordinary skill in the art.¹³⁷ The *Herschler* court allowed the broad claims because the novelty in that invention was the DMSO solvent, not the steroids.¹³⁸

After distinguishing *Rochester*, the court properly concluded that the ’850 patent specification failed to establish a necessary link between the functional characteristics disclosed and a corresponding structure that would uniquely identify a compound. Furthermore, Rochester presented no evidence at trial that the ordinarily skilled artisan would be able to identify any compound based on its vague functional description.¹³⁹ The court properly held that, because the ’850 patent specifications disclosed nothing more than an elaborate research plan and provided no evidence

131. *Unocal*, 208 F.3d at 1000-01.

132. 358 F.3d at 928; *In re Herschler*, 591 F.2d 693, 701 (C.C.P.A 1979).

133. *Herschler*, 591 F.2d at 700-01.

134. *Rochester*, 358 F.3d at 926-28.

135. *Id.* at 928.

136. *Id.*

137. *Id.*

138. *Id.*

139. *Id.*

that the patentees ever possessed a compound necessary for the process, the written description was inadequate.¹⁴⁰ However, by taking the analysis one unnecessary step further and declaring that the strict DNA disclosure standard from *Lilly* “applies just as well” to all chemical inventions,¹⁴¹ the court diverged from all of its cited precedents.

The Federal Circuit seems to have forgotten its own warning in *Vas-Cath* that each case involving the issue of written description must be decided on its own facts, because “the primary consideration . . . depends on the nature of the invention and the amount of knowledge imparted to those skilled in the art by the disclosure.”¹⁴² The court has lost sight of a critical characteristic of the written description requirement—flexibility, both in the methods of disclosure available to patentees for proving possession and in the court’s discretion to determine the extent of disclosure necessary to demonstrate possession of the specific technology. The new rigidity of the written description standard proved problematic shortly thereafter.

B. The Rigid Standard Has Already Proven Problematic: *Capon v. Eshhar*

The August 2005 decision in *Capon v. Eshhar*¹⁴³ reveals the inherent problem with the *Rochester* court’s creation of a rigid per se rule: the Federal Circuit will continually have to carve out exceptions to the rule in order to rectify the illogical outcomes that will result from the lower court’s application of the inflexible standard. In *Capon*, both of the parties to a patent interference proceeding appealed the decision of the Board of Patent Appeals and Interferences (“Board”) regarding claims directed to the production of chimeric genes designed to enhance immune responses.¹⁴⁴ Both *Eshhar* and *Capon* claimed novel genetic material described in terms of the functional characteristics of the protein encoded by the chimeric gene.¹⁴⁵ The specifications of both applications described procedures for identifying and obtaining the desired immune-related DNA segments and linking them into the desired chimeric genes.¹⁴⁶ In addition, both pointed to the specific examples of chimeric DNA prepared using identified

140. *Id.* at 926-27.

141. *Id.* at 927.

142. *See Vas-Cath, Inc. v. Mahurkar*, 935 F.2d 1555, 1562 (Fed. Cir. 1991) (quoting *In re Wertheim*, 541 F.2d 257, 262 (C.C.P.A. 1976)).

143. 418 F.3d 1349 (Fed. Cir. 2005).

144. *Id.* at 1350. A chimeric gene is an artificial gene that combines segments of DNA in a way that does not occur in nature. *Id.* at 1351.

145. *Id.* at 1355.

146. *Id.*

known procedures, along with citations to the scientific literature for every step of the preparative method.¹⁴⁷

Despite the elaborate disclosures, the Board held that neither party's specification met the written description requirement for failure to provide "the requisite description of the full scope of the chimeric DNA or encoded proteins, by reference to knowledge in the art of the 'structure, formula, chemical name, or physical properties' of the DNA or the proteins."¹⁴⁸ The Board stated that "controlling precedent" required inclusion in the specification of the complete nucleotide sequence of "at least one" chimeric gene.¹⁴⁹

On appeal, the Federal Circuit concluded that the Board erred in holding that the specifications did not meet the written description requirement.¹⁵⁰ The court held that there is not a per se rule requiring nucleotide-by-nucleotide analysis when the structure of the component DNA segments is already known, or readily determined by known procedures.¹⁵¹ Rather, the written description requirement must be applied in the context of the particular invention and the state of the knowledge in the art.¹⁵² In the words of the court:

The descriptive text needed to meet these requirements varies with the nature and scope of the invention at issue, and with the scientific and technologic knowledge already in existence. The law must be applied to each invention that enters the patent process . . . its application will vary with differences in the state of knowledge in the field and differences in the predictability of the science.¹⁵³

The court concluded that the written description requirement does not mandate that every invention be described in the same way and found the Board's demand that the sequences be reported precisely would not have added descriptive substance.¹⁵⁴ As each field evolves, the "balance also evolves between what is known and what is added by each inventive con-

147. *Id.*

148. *Id.* at 1354.

149. *Id.* at 1356 (quoting the Board). As controlling precedent, the Board cited *Reagents of Univ. of Cal. v. Eli Lilly & Co.*, 119 F.3d 1559 (Fed. Cir. 1997), *Fiers v. Revel*, 984 F.2d 1164 (Fed. Cir. 1993), *Amgen, Inc. v. Chugai Pharm. Co.*, 927 F.2d 1200 (Fed. Cir. 1991), and *Enzo Biochem, Inc. v. Gen-Probe, Inc.*, 296 F.3d 1316 (Fed. Cir. 2002).

150. *Capon*, 418 F.3d at 1358.

151. *Id.*

152. *Id.*

153. *Id.* at 1357.

154. *Id.* at 1358.

tribution.”¹⁵⁵ Because the chimeric genes at issue in the case are prepared from known DNA sequences of known function, the Board erred in holding that the specifications do not meet the written description requirement simply because they do not reiterate the structure, formula, or chemical name for the nucleotide sequences of the claimed chimeric genes.¹⁵⁶

Capon makes it clear that even in the case of DNA inventions, the strict standard cannot be applied across the board. Extension of the standard to chemical inventions promises to generate even more problems for the Federal Circuit, as there will certainly be similar cases in the chemical arts in which the per se rule leads to the wrong result. Precedent cited by the *Rochester* court illustrates precisely those scenarios in which application of the strict standard would have led to the invalidation of meritorious patents.¹⁵⁷ The court is likely to find itself carving out more and more exceptions to the *Lilly* standard in order to rectify illogical outcomes. As a result, the written description standard will gradually approach the pre-*Lilly* standard that directly addressed the question of whether or not the description proves that the inventor was *in possession* of the invention.

C. The Traditional Possession Test is the Appropriate Standard for Harmonizing the Written Description Requirement

While the court was justified in trying to harmonize the written description standard between DNA and chemical inventions,¹⁵⁸ the rigid standard it chose to apply was inappropriate in light of precedent, policy, and the unreasonable outcomes it will produce. As the Federal Circuit acknowledged in both *Capon* and *Enzo*, applying a rigid per se disclosure rule that fails to account for the context of the particular invention, indus-

155. *Id.*

156. *Id.*

157. See Univ. of Rochester v. G.D. Searle & Co., 358 F.3d 916, 928 (Fed. Cir. 2004) (discussing precedent cases which upheld claims disclosed by diverse forms of description, including description based on functional characteristics, description by deposit, and description by method of making); *supra* Section III.A.

158. See Qin Shi, *Patent System Meets New Sciences: Is the Law Responsive to Changing Technologies and Industries?*, 61 N.Y.U. ANN. SURV. AM. L. 317, 336-37 (2005) (discussing the benefits of harmonization in light of the problems associated with creating specially-tailored patent standards for different technologies). Shi addresses the difficulties of technology classification and synchronization of the rules with rapidly changing technologies, arguing that the patent law can be “technologically responsive” without being “technologically different” by applying established patent standards which have “intrinsic technology-responsive hinges” rather than tailor-making standards for every technology. *Id.* at 337-38.

try, and knowledge among inventors in that field can lead to illogical outcomes.¹⁵⁹

The *Lilly* standard imposes an undue burden on inventors who are able to demonstrate possession of their DNA or chemical invention by means other than disclosing the precise structure of each component. This encourages superfluous disclosure, undermining the well-established principle of the patent system that a patent “need not teach, and preferably omits, what is well known in the art.”¹⁶⁰ Demanding that such unnecessary information be disclosed threatens to elicit voluminous disclosures, create validity problems for patents issued prior to *Rochester*, and discourage development, thereby frustrating the patent system’s policy goal of encouraging prompt disclosure of new inventions.¹⁶¹

A standard that is too lenient, on the other hand, can be equally detrimental. Granting overbroad patents stifles the competition necessary for creative development and valuable downstream innovation.¹⁶² Patents should therefore be limited in scope to encourage other inventors to continue researching and inventing in the same area without fear of infringing previous patents.¹⁶³ Even more problematic than overbroad patents is granting exclusive rights to an invention *not yet in existence*. *University of Rochester* is a prime example, as the claimants likely did not yet possess what they sought to claim.¹⁶⁴ If *Rochester*’s patent had been upheld, the competitors that ultimately produced and supplied the useful drugs to the public would have been penalized. Furthermore, competitors would have been discouraged from committing the vast resources necessary to continue pursuing innovations in the same field. Granting an inventor rights to something he does not possess can thus erect upstream obstacles that ultimately deprive society of the benefits of valuable downstream innovation.

The proper standard by which to harmonize the written description requirement must be just strict enough to grant patent rights to that which an inventor can prove he actually invented, but nothing more. The classic *Vas-Cath* possession standard accomplishes precisely that; it naturally adjusts the amount of disclosure necessary depending on the facts and cir-

159. See *Capon*, 418 F.3d at 1360-61; *Enzo II*, 323 F.3d 956, 960.

160. *Hybritech, Inc. v Monoclonal Antibodies, Inc.*, 802 F.2d 1367, 1384 (Fed. Cir. 1986) (emphasis added); Whitley, *supra* note 26, at 622.

161. Mueller, *supra* note 13, at 617.

162. See Cantor, *supra* note 1, at 270. See generally Aljalian, *supra* note 53.

163. See Cantor, *supra* note 1, at 270.

164. See *Univ. of Rochester v. G.D. Searle & Co.*, 358 F.3d 916, 926-27 (Fed. Cir. 2004).

cumstances of the case.¹⁶⁵ The standard automatically requires more disclosure in cases like *Lilly*, where disclosure of anything less than the actual nucleotide sequence would be insufficient to prove that the inventor in fact possessed the compound.¹⁶⁶ On the other hand, it requires less in cases like *Enzo*, where an inventor clearly evidenced possession by depositing the compound in a public depository,¹⁶⁷ or *Capon*, where the compound is clearly recognizable in the art by disclosure of its method of making.¹⁶⁸ Thus, the possession standard provides for a degree of technology specificity without imposing an undue burden on all patentees.

IV. CONCLUSION

The Federal Circuit properly invalidated the University of Rochester's '850 patent. A patent that claims a method of achieving a biological effect, which discloses no compound that can accomplish that result, clearly fails to satisfy the patent disclosure requirements. The Federal Circuit went beyond what was necessary to resolve *Rochester*, however, and imposed an unnecessarily stringent per se disclosure rule on all pharmaceutical and biotechnology patentees. To the detriment of future applicants, current patent owners, and the patent system as a whole, the court chose the *Lilly* rule as the standard by which to harmonize the written description requirement across technologies.

While the *Lilly* standard frustrates the policy goals of the patent system by imposing undue burdens on all patentees, producing unreasonable outcomes, and discouraging innovation, the *Vas-Cath* possession standard ensures that the scope of the patent reward is commensurate with the inventor's contribution to society. Patent jurisprudence has demonstrated that the *Vas-Cath* possession standard achieves the desired balance between rewarding pioneering inventors for their efforts and promoting subsequent research and innovation. Possession, therefore, serves as the appropriate standard by which to harmonize the written description requirement among technologies.

165. See *Vas-Cath, Inc. v. Mahurkar*, 935 F.2d 1555, 1561-64 (Fed. Cir. 1991).

166. See *Regents of Univ. of Cal. v. Eli Lilly & Co.*, 119 F.3d 1559, 1567-69 (Fed. Cir. 1997).

167. See *Enzo II*, 323 F.3d 965 (Fed. Cir. 2002).

168. See *Capon*, 418 F.3d 1349.

EOLAS, AT&T, & UNION CARBIDE: THE NEW EXTRATERRITORIALITY OF U.S. PATENT LAW

By Virginia Zaunbrecher

U.S. patent law, like all patent systems in the world, embodies the multi-faceted doctrine of territoriality: (1) it applies only within the territorial boundaries of the United States; (2) it is subject to the jurisdictional limitations of the U.S.; and (3) it is bound by principles of comity cautioning against the application of U.S. patent law in a manner which may interfere with the sovereignty of other nations.¹ At the same time, 35 U.S.C. § 271(f) extends liability to those who seek to evade patent protection by supplying

all or a substantial portion of the components of a patented invention, where such components are uncombined in whole or in part, in such manner as to actively induce the combination of such components outside of the United States in a manner that would infringe the patent if such combination occurred within the United States.²

Reflecting both the globalization of commerce and the expansion of U.S. patent protection to software, several recent cases have resurrected this relatively unused provision and with it the relevance of the doctrine of territoriality. The Federal Circuit's expansive interpretation of this long-dormant provision extends liability well beyond Congress's intent and the limitations of the territoriality principle.

This Note proceeds in three parts. Part I examines the history of territoriality and U.S. patent law. It explores how patent law adapted to an increasingly global economy largely through the enactment of the Trade Related Aspect of Intellectual Property Rights (TRIPS) agreement. Part I also surveys some of the district court decisions leading up to the three main

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1. See PAUL GOLDSTEIN, INTERNATIONAL INTELLECTUAL PROPERTY LAW 16 (2001).

2. 35 U.S.C. § 271(f)(1) (2000).

cases considered by this Note. Part II discusses *Eolas Technologies Inc. v. Microsoft Corp.*,³ *AT&T Corp. v. Microsoft Corp.*,⁴ and *Union Carbide Chemicals & Plastics Technology Corp. v. Shell Oil Co.*,⁵ three recent cases implicating the doctrine of territoriality that provide the subject matter for this Note. Part III then analyzes the prudence of the modern interpretation of § 271(f) and the current enforcement scheme. From a historical perspective, Part III examines how the legislative history and commercial context surrounding the statute's enactment informs its intended scope. It discusses how the current interpretation of § 271(f) affects international law and American business interests, and concludes that by working multilaterally within the international scheme, rather than using § 271(f) in a unilateral manner, the regulation of intellectual property rights can be more fairly and equitably applied.

I. BACKGROUND: THE DOCTRINE OF TERRITORIALITY AND PATENT LAW IN THE UNITED STATES

A. The History of Territoriality in United States Patent Law

United States patent law has a long history of territoriality. This tradition dates back to the early adoption of patent law and continues through the twenty-first century.⁶ The convention of territoriality is also evident in new international intellectual property agreements, specifically in TRIPS. This section will chronicle the tradition of territoriality.

United States patent law is territorial in nature and is based upon the premise expounded in *Dowagiac Manufacturing Co. v. Minnesota Moline Plow Co.*⁷ that “[t]he right conferred by a patent under [U.S.] law is confined to the United States and its territories.”⁸ The Supreme Court first articulated this idea in *Brown v. Duchesne*,⁹ where the Court reasoned:

[T]hese acts of Congress do not, and were not intended to, operate beyond the limits of the United States; and as the patentee's right of property and exclusive use is derived from them, they cannot extend beyond the limits to which the law itself is con-

3. 399 F.3d 1325 (Fed. Cir. 2005).

4. 414 F.3d 1366 (Fed. Cir. 2005).

5. 425 F.3d 1366 (Fed. Cir. 2005).

6. The Patent Act of 1790 states that infringement only occurs if the act happens “within these United States.” Patent Act of 1790, Ch. 7, § 4, 1 Stat. 109, 111 (1790) (repealed 1793).

7. 235 U.S. 641, 650 (1915).

8. *Id.*

9. 60 U.S. (19 How.) 183 (1856).

fined. And the use of it outside of the jurisdiction of the United States is not an infringement of his rights, and he has no claim to any compensation for the profit or advantage the party may derive from it.¹⁰

Congress codified this concept in the language of 35 U.S.C. § 154(a)(1), which states that a patent shall protect “the invention *throughout the United States* or [against the] import[ation of] the invention into the *United States . . .*”¹¹ There is thus a common consensus that U.S. patent law is territorial,¹² and, in fact, one scholar claims that “[o]f the three principle forms of intellectual property, patent rights are [the] most explicitly territorial.”¹³

In the most recent Supreme Court decision involving territoriality, *Deepsouth Packing Co. v. Laitram Corp.*, the Court adamantly adhered to the doctrine of territoriality despite the defendant’s use of a “loophole” to avoid liability.¹⁴ There, plaintiff held two patents on a machine for deveining shrimp. Defendant assembled nearly complete infringing machines and shipped them overseas in three constituent parts.¹⁵ Once the parts arrived, the buyers could assemble the parts into a complete infringing machine in less than an hour.¹⁶

As none of the individual parts defendant manufactured infringed upon any of plaintiff’s patents, the infringement, if any, occurred when there was complete assembly and use abroad.¹⁷ The Supreme Court, however, rejected the idea that such foreign assembly constituted infringement under U.S. patent law.¹⁸ Citing *Brown v. Duchesne*¹⁹ and *Dowagiac Manufacturing Co. v. Minnesota Moline Plow Co.*,²⁰ the Court held that, with respect to § 271, “[t]he statute makes it clear that it is not an infringement to make or use a patented product outside of the United States.”²¹ The

10. *Id.* at 195-96.

11. 35 U.S.C. § 154(a)(1) (2000) (emphasis added).

12. *See, e.g.*, GRAEME B. DINWOODIE ET AL., INTERNATIONAL COMPARATIVE PATENT LAW 30-31 (2002). “Territorial” means that the reach of a particular law does not extend outside of the U.S.

13. Donald S. Chisum, *Normative and Empirical Territoriality in Intellectual Property: Lessons from Patent Law*, 37 VA. J. INT’L L. 603, 605 (1997).

14. 406 U.S. 518 (1972).

15. *Id.* at 523-24.

16. *Id.* at 524.

17. *Id.* at 522-23.

18. *Id.* at 526.

19. 60 U.S. (19 How.) 183 (1856).

20. 235 U.S. 641 (1915).

21. *Deepsouth*, 406 U.S. at 527.

court further noted that it would “require a clear and certain signal from Congress” before expanding United States patent protection to cover infringement of any kind in foreign countries.²²

Congress eventually responded to the *Deepsouth* decision, as the Court invited it to do, by enacting 35 U.S.C. § 271(f). Congress’s stated goal was to “prevent[] copiers from avoiding U.S. patents by supplying components of a patented product in this country so that the assembly of the components may be completed abroad.”²³ The statute reads:

(1) Whoever without authority supplies or causes to be supplied in or from the United States all or a substantial portion of the components of a patented invention, where such components are uncombined in whole or in part, in such manner as to actively induce the combination of such components outside of the United States in a manner that would infringe the patent if such combination occurred within the United States, shall be liable as an infringer.

(2) Whoever without authority supplies or causes to be supplied in or from the United States any component of a patented invention that is especially made or especially adapted for use in the invention and not a staple article or commodity of commerce suitable for substantial noninfringing use, where such component is uncombined in whole or in part, knowing that such component is so made or adapted and intending that such component will be combined outside of the United States in a manner that would infringe the patent if such combination occurred within the United States, shall be liable as an infringer.²⁴

Congress made it clear that the intent of the statute was to close the loophole exposed by *Deepsouth*.²⁵ Descriptions of the statute during the hearings and debates included such phrases as “components are supplied for

22. *Id.* at 531.

23. 130 CONG. REC. H10525 (daily ed. Oct. 1, 1984), reprinted in 1984 U.S.C.C.A.N. 5827, 5828. This statement also exemplifies another Congressional purpose of preventing people from avoiding U.S. patent law altogether by shipping the components abroad for production.

24. 35 U.S.C. § 271(f) (2000).

25. See 130 CONG. REC. H10525 (daily ed. Oct. 1, 1984) (statement of Rep. Kastemeier) (“This proposal responds to the United States Supreme Court decision in *Deepsouth Packing Co. v. Laitram Corp.*, 406 U.S. 518 (1972), concerning the need for a legislative solution to close a loophole in patent law.”); *Patent Law Improvement Act: Hearing Before the Subcomm. on Patents, Copyrights, and Trademarks of the House Comm. on the Judiciary*, 98th Cong. 26 (1984) (prepared statement of Gerald J. Mossinghoff).

assembly abroad”²⁶ and “a *product’s* patent protection cannot be avoided through the *manufacture* of component parts,”²⁷ suggesting that § 271(f) applied narrowly to articles of manufacture.

Despite the extraterritorial nature of this statute, for the most part, the tradition of territoriality in patent law continued in step with the globalization of intellectual property law generally. The first major step toward harmonization of international patent law came with the ratification of the TRIPS agreement.²⁸ The accord set minimum standards for intellectual property protection and required adoption by all World Trade Organization (WTO) member states.²⁹ As a general matter, it supported the territoriality of patent law by allowing member states to maintain additional standards so long as such standards did not conflict with the provisions of the TRIPS agreement.³⁰ It allowed members the freedom “to determine the appropriate method of implementing the provisions of th[e] Agreement within their own legal system[s] and practice[s],”³¹ further reaffirming the principle of territoriality. It is within this context of territoriality, from both a historical and an international perspective, that this Note reviews the decisions leading up to *Eolas, AT&T*, and *Union Carbide*.

B. Early § 271(f) Cases: Differing Interpretations

The district court cases interpreting § 271(f) reflect the uncertainty surrounding the application of the statute to technologies outside of the subject matter in *Deepsouth*, specifically with respect to method or process patents. This uncertainty created a mix of outcomes that are best understood when plotted by claim type and technology classification. To facilitate the subsequent analysis, this Note will use a grid to organize these

26. S. REP. NO. 98-663, at 3 (1984) (emphasis added).

27. 130 CONG. REC. H10529 (daily ed. Oct. 1, 1984) (statement of Sen. Kastenmeier) (emphasis added).

28. ROBERT P. MERGES ET AL., *INTELLECTUAL PROPERTY IN THE NEW TECHNOLOGICAL AGE* 295 (2003). Ratification of TRIPS occurred at Marrakesh on April 15, 1994, with the agreement taking effect January 1, 1995. DANIEL GERVAIS, *THE TRIPS AGREEMENT: DRAFTING HISTORY AND ANALYSIS* 27 (2d ed. 2003). While the Paris Convention of 1883 was the first to address international patent law, it did not do so nearly as extensively. *See, e.g.*, Paris Convention for the Protection of Industrial Property art. 2, Mar. 20, 1883, *as revised* at Stockholm on July 14, 1967, art. 2, 21 U.S.T. 1583, 858 U.N.T.S. 305 (“(3) The provisions of the laws of each of the countries of the Union . . . are expressly reserved [for the states].”).

29. *See generally* GERVAIS, *supra* note 28.

30. Agreement on Trade-Related Aspects of Intellectual Property Rights, Apr. 15, 1994, Marrakesh Agreement Establishing the World Trade Organization, Annex 1C, art. 1.1, 1869 U.N.T.S. 299, 33 I.L.M. 1197 (1994) [hereinafter TRIPS Agreement].

31. *Id.*

cases, with claim type, either product or method, on one axis, and technology, either physical or intangible, on the other.

Table 1. Classification of Prior Extraterritorial Patent Infringement Cases

	Manufacturing/Physical Technologies	Intangible Technologies
Product Claims	<i>Deepsouth*</i> <i>Waymark</i> I	<i>Pellegrini</i> <i>Eolas</i> <i>AT&T</i> II
Method Claims	<i>Standard Havens</i> <i>Union Carbide</i> III	<i>Enpat</i> <i>Synaptic</i> IV

Key: *Case*—Defendants in bold were held liable, defendants in plain typeface were not held liable.

* Decided before the enactment of § 271(f).

Outside of the quadrant defined by *Deepsouth* (quadrant I), relating to product claims for manufacturing or physical technologies, consensus exists in only one other quadrant, that representing method claims for intangible technologies (quadrant IV). There, two cases, *Enpat, Inc. v. Microsoft Corp.*³² and *Synaptic Pharmaceuticals Corp. v. MDS Panlabs, Inc.*,³³ held that there could not be infringement of a method claim for an intangible technology under § 271(f).

In *Enpat*, plaintiff sued Microsoft for making and selling products that allegedly infringed on the method claims of a software patent.³⁴ Microsoft claimed it was not liable for damages from foreign sales because it in-

32. 6 F. Supp. 2d 537 (E.D. Va. 1998).

33. 265 F. Supp. 2d 452 (D.N.J. 2002).

34. 6 F. Supp. 2d at 537-38

fringed only method claims, and Congress intended § 271(f)(2) to only extend to components of an apparatus that are physically manufactured abroad.³⁵ The district court agreed with Microsoft, holding that “the language and legislative history of § 271(f) demonstrate[d] an exclusive focus on the sale of components patented in the United States for combination into a finished product, apparatus, or invention abroad.”³⁶ The court added that if Congress had intended to protect method patents under § 271(f) it would have done so explicitly.³⁷

In *Synaptic* the court granted summary judgment for defendant finding as a matter of law “that § 271(f) [did] not apply to method patents.”³⁸ Plaintiff *Synaptic* accused defendant of infringing *Synaptic*’s method claims for a patented receptor-binding assay under § 271(f) by shipping various supplies abroad for use in the assay.³⁹ The defendant claimed that method patents could not be infringed under § 271(f). The court agreed, relying on the *Enpat* court’s analysis of the statute’s legislative history.⁴⁰ Both cases interpreted the lack of discussion in the legislative history as an indication that method and process claims did not fall under the purview of § 271(f).⁴¹

*W.R. Grace & Co.-Conn. v. Intercat, Inc.*⁴² shortly followed *Enpat*, and drew the opposite conclusion with regard to the limitation to product patents from the same ambiguous legislative history. There, defendant *Intercat* internationally marketed compounds that allegedly infringed upon plaintiff’s patents on a composition of chemicals used to treat sulfur oxide release.⁴³ Defendant argued that because plaintiff’s patents were chemical patents and not apparatus patents they did not merit protection under § 271(f).⁴⁴ The court rejected this defense, holding that “[n]owhere in the statute or its legislative history is there a limitation to components of ma-

35. *Id.* at 538.

36. *Id.* at 539.

37. *Id.*

38. *Synaptic Pharm. Corp.*, 265 F. Supp. 2d at 464.

39. *Id.* at 454-55. The supplies included “cells, membrane preparations, validation studies, protocols and laboratory equipment . . .” *Id.* at 464.

40. *Id.*

41. *Id.*; *Enpat, Inc. v. Microsoft Corp.*, 6 F. Supp. 2d 537, 539 (E.D. Va. 1998). It is interesting to note that while both cases dealt with intangible technologies, both courts held that § 271(f) did not cover *any* method claim. Under these rulings there can be no liability for the situations covered by quadrant III or quadrant IV.

42. 60 F. Supp. 2d 316 (D. Del. 1999).

43. *Id.* at 319.

44. *Id.* at 320.

chines and other structural combinations.”⁴⁵ *Grace* dealt with a chemical composition patent and therefore the case does not fit into the grid laid out above. However, the case is noteworthy in its demonstration that the legislative history of § 271(f) is ambiguous enough to allow for courts to interpret the legislative intent regarding the breadth of the statute differently.

The Court of Appeals for the Federal Circuit also grappled with the intended scope of § 271(f) in three cases that preceded the *Eolas* line of cases. These decisions also demonstrate some of the difficulties involved in interpreting the statute. In a 1991 decision, *Standard Havens Products, Inc. v. Gencor Industries, Inc.*,⁴⁶ the Federal Circuit addressed a “method for producing asphalt.”⁴⁷ The court noted that the patent claimed a method for producing the asphalt and not “the apparatus for implementing the process”⁴⁸ and simply stated that it did “not find the provisions of 35 U.S.C. § 271(f) (1988) [to be] implicated.”⁴⁹ The *Synaptic* court reasonably interpreted this conclusion as an indication that method patents did not fall within the ambit of § 271(f).⁵⁰

Waymark Corp. v. Porta Systems Corp.,⁵¹ pertained to an apparatus claim for a manufactured technology, and thus fell into the same category as *Deepsouth* (quadrant I), but in its holding, the court made a noteworthy comment on the statute. The Federal Circuit addressed the issue of whether there had to be actual assembly of the infringing device abroad for liability to attach under § 271(f).⁵² By concluding that there need only be intent that the infringing device be completed abroad and not actual completion,⁵³ the Federal Circuit’s holding on this issue appeared to give §271(f) more breadth. However, the court continued, “[i]f 271(f)(2) required actual assembly abroad, then infringement would depend on proof of infringement in a foreign country. This requirement would both raise the difficult obstacle of proving infringement in foreign countries and pose

45. *Id.* at 321.

46. 953 F.2d 1360 (Fed. Cir. 1991).

47. *Id.* at 1374.

48. *Id.*

49. *Id.*

50. *Synaptic Pharm. Corp. v. MDS Panlabs, Inc.*, 265 F. Supp. 2d 452, 464 (D.N.J. 2002).

51. 245 F.3d 1364 (Fed. Cir. 2001).

52. *Id.* at 1367.

53. *Id.* at 1368 (“At no point does the statutory language require or suggest that the infringer must actually combine or assemble the components. A party can intend that a shipped component will ultimately be included in an assembled product even if the combination never occurs.”). Also notice the use of the word “assembled,” which denotes physical manufacture.

the appearance of 'giving extraterritorial effect to United States patent protection.'"⁵⁴ Thus, while making it easier to sue for infringement under a statute that is extraterritorial, the court re-asserted the historical mantra that United States patent law is territorial in nature.⁵⁵

In *Pellegrini v. Analog Devices, Inc.*,⁵⁶ the Federal Circuit held that designing an infringing product in the United States and shipping the instructions for its manufacture overseas did not constitute infringement under § 271(f).⁵⁷ The court noted that "§ 271(f) . . . applie[d] only where components of a patent invention [we]re physically present in the United States and then either sold or exported . . ."⁵⁸ The opinion quoted from earlier Supreme Court cases that affirmed the territoriality of U.S. patent law⁵⁹ and emphasized language from § 271(f)(2) requiring active inducement,⁶⁰ implying that there should be a strong causal link between activity in the United States and infringement that occurs abroad.⁶¹

Thus, the cases on point leading up to the *Eolas* decision consisted of an array of district court holdings, as well as opinions from the Federal Circuit that appeared to narrow the scope of the doctrine⁶² and implied that method claims were not protected by § 271(f).⁶³ With this background of mixed decisions, this Note turns to the *Eolas* line of cases.

54. *Id.*

55. There can be no contributory infringement without direct infringement under 35 U.S.C. § 271(c) (2000). *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 365 U.S. 336, 341-42 (1961).

56. 375 F.3d 1113 (Fed. Cir. 2004).

57. *Id.* at 1116.

58. *Id.* at 1117.

59. *Id.* at 1117, 1119.

60. *Id.* at 1117.

61. The Federal Circuit again addressed infringement of a method claim under § 271(f) five months after the *Eolas* decision, in *NTP, Inc. v. Research in Motion, Ltd.*, and declined to find liability. 418 F. 3d 1282 (Fed. Cir. 2005). In reviewing the alleged infringement of a patented method, some steps of which took place in Canada, the Federal Circuit found it "difficult to conceive of how one might supply or cause to be supplied all or a substantial portion of the steps of a patented method in the sense contemplated by the phrase 'components of a patented invention' in section 271(f)." *Id.* at 1322. Although stating, "*Eolas* was correct to observe that Congress did not expressly limit § 271(f) to a specific kind of invention," the court continued "we have held that the very nature of invention may compel a difference." *Id.* (citing *Minton v. Nat'l Ass'n of Sec. Dealers, Inc.*, 336 F.3d 1373, 1378 (Fed. Cir. 2003)).

62. See *Waymark Corp. v. Porta Sys. Corp.*, 245 F.3d 1364 (Fed. Cir. 2001); *Pellegrini v. Analog Devices, Inc.*, 375 F.3d 1113 (Fed. Cir. 2004).

63. See *Synaptic Pharm. Corp. v. MDS Panlabs, Inc.*, 265 F. Supp. 2d 452, 464 (D.N.J. 2002).

II. THE BROADENING OF § 271(f): *EOLAS, AT&T, & UNION CARBIDE*

Three recent cases illustrate an expansion of § 271(f) beyond its prior bounds, a move that could have huge implications for American industries generally and the software industry specifically. Two of these cases concern software patents in particular. In *Eolas Technologies Inc. v. Microsoft Corp.*⁶⁴ the Federal Circuit held that software code written in the United States and exported abroad was a “component of a patented invention” for the purposes of determining infringement under § 271(f),⁶⁵ thereby addressing the application of § 271(f) to quadrant II. In *AT&T Corp. v. Microsoft Corp.*,⁶⁶ the Federal Circuit, relying on *Eolas*, determined that copying software in a foreign country constituted “supplying” a component of a patented invention.⁶⁷ The most recent case, *Union Carbide Chemicals Plastics Technologies Corp. v. Shell Oil Co.*,⁶⁸ clarified prior case law and revisited the question of whether process claims have components for the purposes of liability under § 271(f).

A. *Eolas v. Microsoft*

1. *Facts and Procedural History*

In 1999 Eolas sued Microsoft alleging that Microsoft’s Internet Explorer software infringed Eolas’s patent, U.S. Patent No. 5,838,906 (“the ’906 patent”).⁶⁹ As part of its suit, Eolas claimed damages under § 271(f) for “golden masters” of Internet Explorer that Microsoft shipped abroad to Original Equipment Manufacturers (OEMs) who installed the resultant software on computers overseas.⁷⁰ The ’906 patent claims software that allows the automatic display of embedded objects on a given

64. 399 F.3d 1325 (Fed. Cir. 2005).

65. *Id.* at 1338.

66. 414 F.3d 1366 (Fed. Cir. 2005).

67. *Id.*

68. 425 F.3d 1366 (Fed. Cir. 2005).

69. *Eolas*, 399 F.3d at 1328. The patent claims a “distributed hypermedia method for automatically invoking external application proving interaction and display of embedded objects within the hypermedia document,” and was licensed exclusively to Eolas by the University of California. *Id.* at 1328 & n.1 (quoting U.S. Patent No. 5,838,906 (filed Oct. 17, 1994)). Although the patent characterizes the claim as a “method,” the claim in dispute in the case is actually a product. “Claim 6 reads: 6. A computer program *product* . . .” *Id.* at 1330 (emphasis added).

70. *Eolas Techs., Inc. v. Microsoft Corp.*, 274 F. Supp 2d 972, 973 (N.D. Ill. 2003).

“workstation” or computer.⁷¹ Foreign contractors thus “manufactured” allegedly infringing devices overseas by installing the Internet Explorer software onto the foreign-made computers.⁷² This raised the question of whether the software was considered a “component of a patented invention” for the purposes of § 271(f) liability. The district court answered that question in the affirmative, and Microsoft appealed.⁷³

2. *Analysis and Holding*

The Federal Circuit held that the golden masters were components for the purposes of § 271(f).⁷⁴ The court began its analysis by finding that software qualified as a patentable invention under 35 U.S.C. § 101.⁷⁵ It then concluded that “computer readable program code” could qualify as a component of patented software, effectively extending § 271(f) protection to include reproducible technologies in quadrant II of the grid.⁷⁶

The Federal Circuit supported its holding by relying largely upon the same legislative history as the *Enpat* and *Grace* courts. It suggested that if Congress meant to narrow the scope of § 271(f) it would have done so expressly.⁷⁷ The court thus determined that § 271(f) was not limited to physical elements, but rather protected every eligible invention, and every component of those eligible inventions,⁷⁸ and found that policy supported this decision.⁷⁹ It went on to distinguish this conclusion from the holding in *Pellegrini*, noting *Pellegrini* only required “that components [be] physically *supplied* from the United States,” not that the components themselves be physical.⁸⁰ Using this reasoning the court concluded that the golden masters encoding the software were “components” for the purposes of § 271(f) and therefore, Microsoft was liable for the infringing devices

71. *Eolas*, 399 F.3d at 1330. The court focused on claim 6 of the patent, a product claim, because “Eolas asserted that the computer program product in claim 6 embodies the method of claim 1.” *Id.*

72. *Id.* at 1339.

73. *Id.* at 1328.

74. *Id.* at 1341.

75. *Id.* at 1338-39.

76. *Id.* at 1339. It is important to note that while there are method claims in the patent at issue in this case, the court decides § 271(f) liability solely with respect to a product claim.

77. *Id.* at 1340. The court asserted this while also quoting from the legislative history, which specified that § 271(f) addressed “supplying components of a patented *product*” *Id.* (emphasis added) (quoting 130 CONG. REC. H10525 (daily ed. Oct. 1, 1984)).

78. *Id.* at 1339.

79. *Id.* at 1339-40.

80. *Id.* at 1341 (emphasis added).

made overseas from the golden masters.⁸¹ *Eolas* thus stands as the first case to find that software distribution creates liability under § 271(f).

B. *AT&T v. Microsoft*

AT&T v. Microsoft arose when Microsoft shipped golden masters of its Windows software, which allegedly infringed upon a software patent held by AT&T, to foreign OEMs who then replicated the software from the golden masters onto individual computers.⁸² Microsoft argued that even if software was a component it was not liable for all of the foreign computers containing the infringing software sold abroad because it had not “supplied” the software to each of those foreign sold computers.⁸³ The district court found Microsoft liable for the copies made abroad under § 271(f), and Microsoft appealed.⁸⁴

The Federal Circuit was left to decide whether providing a few copies to third parties for replication onto millions of computers constituted a “supply” of components for every computer the third party replicated the software onto.⁸⁵ The court⁸⁶ defined the word “supplied” specifically as it related to software, finding that within that context “the act of copying [wa]s subsumed in the act of ‘supplying,’ such that sending a single copy abroad with the intent that it be replicated invoke[d] § 271(f) liability for

81. *Id.* Microsoft’s liability was contingent on the validity of the patent, which was litigated separately. On September 27, 2005, the PTO reissued the patent. *See Eolas v. Microsoft: Patent Set to Reissue, Patently-O*, http://patentlaw.typepad.com/patent/2005/09/eolas_v_microso.html (Sept. 28, 2005).

82. *AT&T Corp. v. Microsoft Corp.*, 414 F.3d 1366, 1368 (Fed. Cir. 2005). The fact pattern was exactly the same as *Eolas*, but the Federal Circuit decided an additional issue here.

83. *Id.*

84. *AT&T Corp. v. Microsoft Corp.*, No. 01-CV-4872, 2004 WL 406640 (S.D.N.Y. Mar. 5, 2004).

85. *AT&T*, 414 F.3d at 1369.

86. Judge Rader wrote for the majority in *Eolas*. 399 F.3d at 1325. Oddly, however, he dissented in *AT&T*. 414 F.3d at 1372. While it is possible that Rader viewed the facts as being somehow distinguishable, the fact patterns were in fact identical. Thus, it seems likely that the views of at least one judge regarding § 271(f) are changing. In *Eolas*, § 271(f) was not litigated heavily and it is likely that the Federal Circuit devoted little consideration to the issue. Indeed, the parties in *Eolas* only devoted about four pages of briefing to the § 271(f) issue. Brief for Appellant at 23-24, *Eolas Techs., Inc. v. Microsoft Corp.*, 399 F.3d 1325 (Fed. Cir. 2005) (No. 04-1234). On the other hand, § 271(f) was the only issue presented in *AT&T*, forcing the Federal Circuit to look into it more deeply. 414 F.3d at 1368. It is perhaps expected that a judge’s view on a matter could change somewhat upon a more in-depth examination.

those foreign made copies.”⁸⁷ The court held that because a single disk may lead to the replication of a software program many times over, providing a disk for copying must be considered “supplying.”⁸⁸ The court again distinguished this situation from that in *Pellegrini*, which only involved instructions for infringement, by reiterating that software was an actual component of the patented invention.⁸⁹

The court rejected Microsoft’s contention that software sent over electronic transmission required different treatment, concluding that “[l]iability under § 271(f) [wa]s not premised on the mode of exportation, but rather the fact of exportation.”⁹⁰ The court further cited the legislative intent behind § 271(f), adding that the legislature would want the patent system to remain responsive to a changing world to protect the extraterritorial effect of the statute.⁹¹ Altogether, *AT&T* expands on *Eolas*, holding not only that software is a component, but also that its replication by third parties in foreign countries can constitute infringement under U.S. law.

C. *Union Carbide v. Shell*

In a very recent decision, the Federal Circuit decided affirmatively that § 271(f) covered the “components” of a patented process,⁹² analogizing the case to *Eolas* and *AT&T* even though it represented the first case to extend liability to process claims.⁹³ *Union Carbide* involved the sale, by defendant Shell, of a silver catalyst to foreign consumers who then used it abroad as a key component in a patented process for the production of ethylene oxide.⁹⁴ This scenario presented the Federal Circuit with its first opportunity to rule on the applicability of § 271(f) to method patents since

87. *AT&T*, 414 F.3d at 1369-70. This appears to be in conflict with the idea espoused in *Eolas* that software should be analyzed in the same manner as other types of inventions. 399 F.3d at 1339-41.

88. *AT&T*, 414 F.3d at 1370.

89. *Id.* at 1371. In *AT&T*, the court fails to address its reliance on the word “supplied” in *Pellegrini*. *Eolas*, 399 F.3d at 1341.

90. *AT&T*, 414 F.3d at 1371.

91. *Id.* The court did not suggest a reason why the legislature would not facilitate the responsiveness of the patent system.

92. *Union Carbide Chems. & Plastics Tech. Corp. v. Shell Oil Co.*, 425 F.3d 1366 (Fed. Cir. 2005).

93. *Id.* at 1378-80. The court analogized the case to *Eolas* despite the fact that the holding of that case did not technically extend liability to process claims. A group of scholars exemplified this, writing after the decision in *Eolas* that “§ 271(f) does not apply at all to process claims.” Mark A. Lemley et al., *Divided Infringement Claims*, 33 AIPLA Q.J. 255, 266 (2005).

94. *Union Carbide*, 425 F.3d at 1369-70.

its 1991 *Standard Havens* decision where it had simply stated that it did not “find the provisions of 35 U.S.C. § 271(f) [to be] implicated.”⁹⁵

Here, the court relied heavily on *Eolas*, even though that case involved a product claim and not a method claim,⁹⁶ finding that “the statute [made] no distinction between patentable method/process inventions and other forms of patentable inventions.”⁹⁷ At the same time, however, the court also quoted from its recent decision in *NTP* that “it [was] difficult to conceive of how one might supply or cause to be supplied all or a substantial portion of the steps of a patented method”⁹⁸ Nevertheless, the Federal Circuit acted to extend liability under § 271(f) to include process claims, effectively extending liability to quadrant III and possibly quadrant IV.

III. ANALYSIS: IMPLICATIONS OF THE FEDERAL CIRCUIT’S INTERPRETATION OF § 271(f)

All three of these cases significantly extended the purview of § 271(f) by imposing liability in areas where it had never before been imposed. However, when looking at both the history of § 271(f) and the implications of these cases, the unnecessary nature of the extension becomes evident. First, this Part will look at the context within which Congress enacted § 271(f), including both the legislative history and the development of the software industry. Second, it will examine the implications of the recent extension of this extraterritorial application of U.S. patent law. This includes both its effect on international law as well as its impact on domestic markets. The resulting analysis will demonstrate that the most effective and appropriate way to handle new challenges in global intellectual property law is to work within the existing multilateral framework rather than attempt to unilaterally force a solution as the broad interpretation of § 271(f) does.

A. The Context of § 271(f) Suggests a More Conservative Application

An inquiry into the circumstances surrounding the enactment of § 271(f) is telling from two perspectives. The first is the historical perspective, namely the legislative history surrounding § 271(f), from the *Deepsouth* case through the subsequent Congressional discussions, which

95. *Standard Havens Prods., Inc. v. Gencor Indus., Inc.*, 953 F.3d 1360, 1374 (Fed. Cir. 1991).

96. *Eolas*, 399 F.3d at 1330.

97. *Union Carbide*, 425 F.3d at 1379.

98. *Id.* at 1380.

shows the narrow intended scope of the statute. The second is the economic and developmental environment that existed when Congress enacted the statute. This includes the state of the software industry and software patenting, and an explanation of why § 271(f) should not extend to cover the modern software industry.

1. Legislative History

There is no doubt that 35 U.S.C. § 271(f) was the legislative answer to the Supreme Court's decision in *Deepsouth*.⁹⁹ It is, therefore, significant that *Deepsouth* exclusively addressed a mechanical device.¹⁰⁰ Because the opinion dealt entirely with whether "the substantial manufacture of the constituent parts of a machine constitute[d] direct infringement,"¹⁰¹ when the Court called upon Congress, requiring a "clear and certain signal . . . before approving the position of the litigant,"¹⁰² it appears to have simply sought an answer to the narrow question raised specifically as to *machines*.

An analysis of *Deepsouth*, and an acknowledgement of its role in shaping § 271(f), leaves questions open as to the breadth of the statute. While *Deepsouth* suggests that the scope is very narrow, the language of the statute is open-ended about its proper application. Because of this ambiguity, almost every court that examined the issue has turned to the legislative history as a possible guide to the proper interpretation.¹⁰³

Indeed, the Congressional record affirms that § 271(f) was a specific and narrow response to the *Deepsouth* case, labeling it as such on many occasions.¹⁰⁴ The language used to describe the bill within Congress included the terms like "assembly" and "manufacture,"¹⁰⁵ and even indicated that the statute would "prevent copiers from avoiding U.S. patents by supplying components of a patented *product*,"¹⁰⁶ which strongly sug-

99. See *supra* note 25 and accompanying text.

100. *Deepsouth Packing Co. v. Laitram Corp.*, 406 U.S. 518, 519 (1972) ("Petitioner and respondent both hold patents on machines. . .").

101. *Id.* at 528.

102. *Id.* at 531.

103. *Eolas Techs., Inc. v. Microsoft Corp.*, 399 F.3d 1325, 1340 (Fed. Cir. 2005); *AT&T Corp. v. Microsoft Corp.*, 414 F.3d 1366, 1371 (Fed. Cir. 2005); *Enpat, Inc. v. Microsoft Corp.*, 6 F. Supp. 2d 537, 538-39 (E.D. Va. 1998); *Synaptic Pharm. Corp. v. MDS Panlabs, Inc.*, 265 F. Supp. 2d 452, 464 (D.N.J. 2002) (quoting *Enpat*, 6 F. Supp. 2d at 539); *W.R. Grace & Co.-Conn. v. Intercat, Inc.*, 60 F. Supp. 2d 316, 321 (D. Del. 1999); *Waymark Corp. v. Porta Sys. Corp.*, 245 F.3d 1364, 1368 (Fed. Cir. 2001).

104. 130 CONG. REC. H10525 (daily ed. Oct. 1, 1984), *reprinted in* 1984 U.S.C.C.A.N. 5827, 5828; *see also supra* note 25.

105. See *supra* notes 26 and 27.

106. 130 CONG. REC. H10525 (daily ed. Oct. 1, 1984), *reprinted in* 1984 U.S.C.C.A.N. 5827, 5828 (emphasis added).

gests that Congress had only mechanical devices in mind. The representative who presented the bill in Congress explained that it pertained to "a *product's* patent protection."¹⁰⁷ Both the impetus for the statute and the history of its enactment make it clear that the statute was intended to apply only to product patents.

Additionally, the debate surrounding another potential statute also suggests that processes were never considered to be within the scope of § 271(f). Congress debated a bill to prevent the importation of products made abroad by a patented process during the same hearing that it considered § 271(f).¹⁰⁸ This bill was potentially of great importance to the pharmaceutical industry because it would have prevented generic producers from circumventing process patents held by name-brand companies by importing drugs manufactured abroad using those processes. Many of the witnesses present at the hearing were industry representatives from the chemical or pharmaceutical industries, both generic and name-brand, who were concerned about the importation of generic drugs produced abroad.¹⁰⁹

Both of these sectors would have had the same if not a greater interest in § 271(f), at the time, if there had been any reason to think that it would apply to process patents. If the brand-name pharmaceutical companies anticipated the possibility that § 271(f) might apply to process patents, surely they would have expressed their approval. Conversely, if the generic manufacturers thought this would prevent them from shipping "components" of process patents abroad, meaning that they would be barred from producing *anywhere*, they would have likely voiced adamant disapproval of the scope of the statute. As it was, these experts did not even consider that § 271(f) could apply to process patents. This suggests that such infringement, the exact same infringement found in *Union Carbide*, was not intended to fall under the statute. Rather, these intellectual property experts rubberstamped § 271(f), recognizing it as a simple fix for *Deep-south*.¹¹⁰

107. 130 CONG. REC. H10529 (daily ed. Oct. 1, 1984) (statement of Sen. Kastenmeier) (emphasis added).

108. 130 CONG. REC. H10525 (daily ed. Oct. 1, 1984), *reprinted in* 1984 U.S.C.C.A.N. 5827, 5828.

109. *See, e.g., Patent Law Improvement Act: Hearing on H.R. 6286 Before the Subcomm. on Patents, Copyrights, and Trademarks of the H. Comm. on the Judiciary, 98th Cong.* 169 (1984) (statement of Richard C. Witte, Chemical Manufacturers Association); *id.* at 202 (statement of Alfred B. Engelberg, Chief Patent Counsel, Generic Pharmaceutical Industry Association).

110. *See, e.g., id.* at 55 (statement of Bernarr R. Pravel and Robert B. Benson of the American Intellectual Property Law Association).

The legislative history also suggests that § 271(f) liability should not apply in the *Eolas* and *AT&T* cases regardless of whether it is appropriate to extend § 271(f) to software. Both statements from Congress and testimony from business people confirm that § 271(f) should prohibit people from *avoiding* U.S. patent law by manufacturing abroad.¹¹¹ This understanding reflects the fact pattern in *Deepsouth* where the defendant only sold the machines abroad and specifically stated its purpose in doing so was to avoid liability.¹¹² In neither of the present cases did Microsoft seek to avoid liability. In fact, in both cases, the infringing product was sold in the U.S., exposing Microsoft to liability for those copies as well.¹¹³ Microsoft was simply using its standard supply system, and was not trying to circumvent U.S. patent law. It does not appear that Congress intended to prohibit these non-malevolent actions with § 271(f).

Altogether, an in depth analysis of the legislative history is informative and the subject matter of the case that precipitated the enactment of the statute is instructive. However, based on the wide range of interpretations by the courts, they are not dispositive. While all of the available signs suggest that Congress did not intend for this statute to extend beyond solving the mechanical issue in *Deepsouth*, more contextual evidence would prove useful. In this vein, studying the environment surrounding the enactment of § 271(f) is enlightening.

2. Commercial Context

The legislative history suggests that Congress did not consider § 271(f) as applicable to software, and the nascent state of the software industry at the time supports this hypothesis. The relative insignificance of software patents in 1984 indicates that Congress had no reason to consider § 271(f)'s effect on the software industry even if Congress had intended

111. 130 CONG. REC. H10525 (daily ed. Oct. 1, 1984), *reprinted in* 1984 U.S.C.C.A.N. 5827, 5828 (“[W]ill prevent copiers from avoiding U.S. patents”); Patent Law Improvement Act: Hearing on H.R. 6286 Before the Subcomm. On Patents, Copyrights, and Trademarks, Comm. on the Judiciary, 98th Cong. 46 (prepared statement of Donald W. Banner) (“[§ 271(f)] makes it infringement to supply components . . . for final assembly abroad, if supplied for the purpose of avoiding the patent[,]” and “[t]he existing patent law on this point is unfair. It permits a subterfuge. The law should not permit substantially all the manufacturing activity to take place in the United States and yet allow the patent to be avoided by a technicality.”).

112. *Deepsouth Packing Co. v. Laitram Corp.*, 406 U.S. 518, 524 n.5 (1972) (“*Deepsouth* is entirely straightforward in indicating that its course of conduct is motivated by a desire to avoid patent infringement.”).

113. *Eolas Techs., Inc. v. Microsoft Corp.*, 399 F.3d 1325, 1328 (Fed. Cir. 2005); *AT&T Corp. v. Microsoft Corp.*, No. 01 Civ. 4872 (WHP), 2003 WL 21459573, at *1 (S.D.N.Y. June 24, 2003).

for the statute to reach beyond mechanical inventions. The Supreme Court deemed software patenting possible in the *Diamond v. Diehr* decision, which came only three years before the enactment of the statute.¹¹⁴ Industry experts were still guarded about the unhindered existence of software patents.¹¹⁵ Empirical evidence also demonstrates the lack of software patents in the mid-1980s when Congress codified the statute.¹¹⁶ Thus, not only is there no evidence that Congress considered software to fall within the ambit of § 271(f) protection, contextual evidence shows it had no reason to.

However, even though software was not an issue when Congress enacted the statute, one could argue that jurisprudence should expand to accommodate new technologies. Although software patents are still sometimes claimed as products, probably as a relic of their troubled beginning, they are significantly more akin to processes. Process claims are found in a large portion of U.S. software patents.¹¹⁷ Intuitively, software falls into the process category because its role is to perform a function, not be a physical thing. Most software inventions are implemented by algorithms, which are “easily transferred into a description and claim using a method approach.”¹¹⁸ Even if the software patent uses product claims, they are of-

114. 450 U.S. 175 (1981).

115. One commentator explained, “[i]f not there already, the courts are clearly moving toward the position that computer programs are statutory subject matter . . . [and] this trend will probably continue absent further intervention by the Supreme Court.” William L. Anthony, Jr. & Robert C. Colwell, *Litigating the Validity and Infringement of Software Patents*, 41 WASH. & LEE L. REV. 1307, 1324 (1984); see James Besson & Robert M. Hunt, *An Empirical Look at Software Patents* 3 (Fed. Res. Bank of Phila., Working Paper No. 03-17/R, 2004), <http://www.researchoninnovation.org/swpat.pdf> [hereinafter *Besson & Hunt*] (positing that it was not until the 1994 decision in *In re Alapat* that some of the remaining questions about software patents were clarified).

116. In 1984 the percentage of software patents among total issued patents was 2.9%, indicating the nascent state of the software industry in the mid 1980s; by 2002 that number jumped to 14.9%. *Besson & Hunt, supra* note 115, at 47 tbl. 1. No public software product company existed until 1978. Software History Center, *An Overview of the History of the Software Industry*, <http://www.softwarehistory.org/history/Default.htm> (last visited Nov. 5, 2005). Microsoft did not sell its first version of Windows until 1985 and did not go public until 1986, two years after the enactment of the statute. Microsoft Visitor Center Timeline, <http://www.microsoft.com/visitorcenter/timeline.mspx#> (last visited Nov. 6, 2005).

117. Keith E. Witek, *Developing a Comprehensive Claim Drafting Strategy for U.S. Software Patents*, 11 BERKELEY TECH. L.J. 363, 385 (1996) (“Software process claims can be found in roughly 85% of all issued U.S. software patents.”).

118. Christopher E. Everett, Comment, *Software Terminology: How to Describe a Software Invention in a United States Patent Application*, 29 NOVA L. REV. 693, 701 (2005).

ten still interpreted as method claims. For example, the claim litigated in *Eolas* was technically a product claim,¹¹⁹ but even Judge Rader referred to it as “various method steps” in *Union Carbide*.¹²⁰ While software patents can still be filed as either product or process claims, the USPTO acknowledges that the product element of product-based software claims derives from the hardware it is installed upon, and not from the software itself.¹²¹ Because software is more similar to a process than a product, it should, like processes generally, be excluded from the purview of § 271(f). Thus, even if one believed the statute should expand to cover new product technologies, it should nevertheless still exclude software.

B. Territoriality Suggests § 271(f) Should Have a Limited Scope

There has been dramatic change in both the global market and the international intellectual property regime since the enactment of § 271(f) in 1984, altering the context within which the statute is applied. The globalization of business suggests that a narrow construction or even a possible abolition of § 271(f) is optimal. Thus, even if one takes the functionalist view that the scope of legislation should change with evolving contexts, the circumstances suggest that allowing a broadening change would be ill advised. Indeed, there is considerable concern that the statute affects international law in a manner it did not at its enactment, while influencing domestic industry in unproductive ways. There are also sizable questions as to how § 271(f) should apply to other new technologies that did not exist in 1984.

1. *Effects on International Law*

The Federal Circuit’s broad construction of § 271(f) forces the statute into the domain of international law. This unilateral application of American patent law to actions in foreign countries is contrary to the established system for international intellectual property enforcement.

Since 1984 the world has seen an enormous change in international intellectual property regulation. The adoption of TRIPS in 1994, after over a decade of negotiations, marked an enormous step forward in the stan-

119. *Eolas Techs., Inc. v. Microsoft Corp.*, 399 F.3d 1325, 1330-31 (Fed. Cir. 2005).

120. *Union Carbide Chems. & Plastics Tech. Corp. v. Shell Oil Co.*, 425 F.3d 1366, 1379 (Fed. Cir. 2005).

121. See UNITED STATES PATENT & TRADEMARK OFFICE, MANUAL OF PATENT EXAMINING PROCEDURE § 2106 (8th ed., rev. 2005), available at http://www.uspto.gov/web/offices/pac/mpep/documents/2100_2106.htm (“Product claims are claims that are directed to either machines, manufactures or compositions of matter. The discrete physical structures or materials may be comprised of hardware or a combination of hardware and software.”).

standardization of international intellectual property law.¹²² While setting minimum standards for all WTO countries, the agreement also made it easier for foreign citizens to obtain patents in other countries.¹²³ This proves significant in an analysis of § 271(f) because at the time of its enactment no such guarantee existed. At the time, there were simply some places where U.S. citizens could not receive the same relative level of protection as with their domestic patents, making evasion possible. This meant that companies might not have an actionable infringement claim in a foreign nation if the product assembly occurred abroad, creating situations like that in *Deepsouth* where a potential infringer could ship components overseas specifically to avoid liability.

With the adoption of TRIPS, this is no longer the case. If a U.S. company requires protection in a foreign country it can apply for foreign patent protection and prevent anyone from making or using its patented invention in that country provided the country is TRIPS compliant.¹²⁴ This system protects U.S. inventors not only from other Americans, but also from foreign infringers. Thus, the increasing level of international protection, and greater ease in acquiring such protection, to a large extent, negates the need for § 271(f).¹²⁵

While TRIPS is quite comprehensive, it does allow for differences in patent policy between countries. For instance, the U.S. maintains its first

122. See generally MICHAEL BLAKENEY, TRADE RELATED ASPECTS OF INTELLECTUAL PROPERTY RIGHTS: A CONCISE GUIDE TO THE TRIPS AGREEMENT (1996); GERVAIS, *supra* note 28.

123. For a general overview of the filing of international patent applications, see INTERNATIONAL INTELLECTUAL PROPERTY (Insight Press 1998) [hereinafter IIP].

124. TRIPS Agreement, *supra* note 30. This approach increases the price of patent protection because of the cost of filing, prosecuting, and maintaining the patent in a foreign country. However, it also gives significantly more protection. For a comparison of filing and maintenance costs, and suggestions on how to lower those costs, see Jay L. Chaskin, *Reducing the Costs of International Patents*, in IIP, *supra* note 123, at 59, 68. For suggestions and considerations when deciding where to file, see generally Samson Helfgott, *Foreign Filing Decisions—What and Where to File*, in IIP, *supra* note 123, at 95.

125. The ease of filing in foreign countries involves a number of factors beyond the TRIPS agreement. Such factors include new telecommunications advances that make it much easier to do business abroad. See, e.g., Dale Bastian, *A Change of Image for Videoconferencing—The Carrier/Corporate Relationship*, TELECOMM. INT'L, Sept. 2002, http://www.findarticles.com/p/articles/mi_m0IUL/is_9_36/ai_92586878 (positing that videoconferencing will become more and more popular as businesses look for more cost effective ways to do business over long distances). The globalization of many law firms is also relevant as such firms can now provide prosecution services in many foreign countries. Global Policy Forum, *Globalization and Law*, <http://www.globalpolicy.org/globaliz/law/index.htm> (last visited Nov. 6, 2005) (“[I]n order to serve giant, transnational companies, law firms are globalizing their practice.”).

to invent rule over the otherwise universal first to file rule used elsewhere.¹²⁶ TRIPS also allows countries to set differing standards of patentability for certain technologies, such as software. Individual countries struggled to maintain these seemingly purposeful differences throughout the TRIPS negotiations.¹²⁷ However, § 271(f) allows the U.S. to override these meaningful differences in foreign patent law under certain circumstances. As an example, an American could obtain patent protection of software in Europe through § 271(f) even though the letter of European Union law does not permit software patents.¹²⁸ This is especially important in the context of the *Eolas* decision, where putatively it was not possible to obtain the key patent in Europe, where much of the infringement occurred. Section 271(f) thus allows Americans to override EU law and obtain protection via a U.S. patent.

The diversity of international patent law serves a number of purposes. Most importantly, it permits countries to choose what balance of intellectual property protection and public disclosure they prefer.¹²⁹ Diversity in patent law also allows for the testing of different intellectual property systems, creating a patent law “test tube” where experts can assess how particular patent laws function in practice. Imposition of U.S. patent law not only stifles this diversity, but also presumes that American intellectual property law is optimal. Here, the Federal Circuit’s broad reading of § 271(f) as including software could create a unilateral dismissal of foreign patentability and enforcement standards in certain situations. This creates a scenario where American companies can receive patent protection internationally, not only for a heavily discounted price,¹³⁰ but also in countries where they previously might not have received protection or

126. 35 U.S.C. § 102(g) (2000); European Patent Convention art. 60(2), Oct. 5, 1973, 1065 U.N.T.S. 199, available at <http://www.european-patent-office.org/legal/epc/e/ar60.html> [hereinafter *European Patent Convention*].

127. See GERVAIS, *supra* note 28.

128. *European Patent Convention*, *supra* note 126, art. 55, available at <http://www.european-patent-office.org/legal/epc/e/ar52.html>. The European Union’s official stance on software patentability indicates: “[t]he following in particular shall not be considered patentable . . . programs for computers.” *Id.*

129. WTO countries would still need to remain within the parameters set by TRIPS. It is important to emphasize that whatever constraints TRIPS effectuates are constraints that the sovereign country agreed to by its involvement in the WTO. In fact, they are constraints that the sovereign country had ample opportunity to discuss and contest in the many years leading up to the final TRIPS agreement. In short, any imposition by TRIPS represents an accepted change that is the product of a multilateral agreement.

130. By this I mean that, if the invention was patentable in the foreign country, the inventor would receive protection there without paying for the prosecution or maintenance of the patent.

would have received limited protection. This limits the diversity of international patent law and creates different standards based on a given inventor's country of origin.

2. *Impact on Domestic Businesses and Effects on Other Industries*

The ill effects of a broad application of § 271(f) will be felt not only by foreign patent regimes, but also by the U.S. companies that are the subjects of infringement suits. Given the broad application of the statute, potential defendants outside of the software industry might be affected as well. Because a company is only liable under § 271(f) if the component in question originates in the United States, the law has an adverse effect on American defendants. With a jury verdict against it for over \$520 million,¹³¹ Microsoft is a prime example of the adverse implications § 271(f) can have for a U.S. company. If Microsoft had moved its research and development facilities just a couple hundred miles north to Canada, and shipped the golden masters from there, it could have avoided the overseas infringement. The Federal Circuit's broad interpretation of § 271(f) essentially exposes U.S. companies to liability and potential costs that their foreign competitors do not face, putting them at a disadvantage in the global market.

Another threat, which Microsoft raised in the *AT&T* case as well as in its *Eolas* certiorari petition,¹³² is that with this type of liability being imposed upon U.S. software companies, some corporations might outsource their R&D abroad.¹³³ Given the importance of the U.S. software industry, both in terms of economics and employment,¹³⁴ the consequences of this

131. Brief of Petitioner at 3, *Microsoft Corp. v. Eolas Techs., Inc.*, 126 S. Ct. 568 (2005) (No. 05-288) [hereinafter *Microsoft Petition*]. This number includes the price of domestic as well as international infringement.

132. *AT&T Corp. v. Microsoft Corp.*, 414 F.3d 1366, 1372 (Fed. Cir. 2005); *Microsoft Petition*, *supra* note 131, at 10-11.

133. Indeed, in Microsoft's petition for certiorari, it asserts that the Federal Circuit's ruling creates "a powerful incentive . . . to avoid the potentially crippling liability." *Microsoft Petition*, *supra* note 131, at 11. This is especially interesting in view of suggestions that part of Congress's motivation for passing § 271(f) was to prevent American manufacturing jobs from being outsourced abroad. Brian E. Ferguson & Stephan K. Shihida, McDermott, Will & Emory, *From DeepSouth Shrimp to Microsoft Windows: Exporting Components of Patented Inventions Under 35 U.S.C. § 271(f)* (Oct. 2005), http://www.mwe.com/index.cfm/fuseaction/publications.nldetail/object_id/444601c1-55ac-46ef-b306-14776108043b.cfm.

134. In 2004, the top 500 software companies saw total revenues of \$330.7 billion dollars, which represents a 14% increase from 2003. John P. Desmond, *2004 Software 500: Growth Came in Segments*, *SOFTWARE 500 MAG.*, Oct. 2004, <http://www.>

shift may be substantial.¹³⁵ This concern also prompts an inquiry as to which other industries might be affected.

This raises the question of how much further § 271(f) could extend. From the matrix used to analyze the district court cases above, it is apparent that the statute was meant to affect physical product inventions in quadrant I. However, *Eolas* and *AT&T* illustrate an extension of the provision to include patents on intangible products in quadrant II. The effect of the Federal Circuit's extension to this quadrant could also implicate the growing biotechnology industry,¹³⁶ or any other industry based on replication technology. Additionally, *Union Carbide* exemplifies the further expansion of the recent decisions to cover physical process patents in quadrant III.

This leaves quadrant IV, intangible components of method patents, the only quadrant which the Federal Circuit has not affirmatively exposed to § 271(f) liability. One possible constraint to the expansion of quadrant IV is *Pellegrini*, which maintains that instructions cannot create liability under § 271(f). On the other side, is the notion that objects always embody information about themselves such that every object could contain the information needed for its own replication,¹³⁷ in which case everything sent

softwaremag.com/L.cfm?Doc=2004-09/2004-09software-500 (statistics include software services). The domestic software industry employs around one and a half million people and is predicted to be one of the fastest growing occupations in the next decade despite continued outsourcing. That number represents 675,000 computer software engineering employees, 256,000 software publishing employees, 499,000 software programmers, and part of the 758,000 computer support specialists. U.S. DEPT. OF LABOR, BUREAU OF LABOR STATISTICS, OCCUPATIONAL OUTLOOK HANDBOOK (2006-07), available at <http://www.bls.gov/search/oooh.asp?ct=OOH> (including all data for 2004); see ECONOMIC POLICY INSTITUTE, ECONOMIC SNAPSHOT (March 24, 2004), available at http://www.epinet.org/content.cfm/webfeatures_snapshots_archive_03242004 (showing graphically the decline in U.S. participation in software production).

135. Whether it is reasonable to assume that the U.S. software industry will take such a drastic step remains to be seen but, regardless, the industry will need to invest time and resources to avoid this kind of massive liability and, in doing so, the inefficiency costs will likely be passed on to consumers.

136. For instance, if Company A held a patent on a gene sequence that coded for a particular protein, and Company B sent one tube of plasmids that had been transformed with the sequence, would Company B be liable for every *E. Coli*. that then received the gene through a plasmid from the tube sent from the United States? Based on the precedent set in *Eolas* and *AT&T* it would seem so. Other variations prove interesting as well. If A held a patent not on the gene itself, but on a method for producing the resultant protein by transforming *E. Coli* with the gene, would B be liable for any protein it produced overseas from the plasmid, a component, it sent from the United States?

137. Andrew F. Knight, *Software, Components, and Bad Logic: Recent Interpretations of Section 271(f)*, 87 J. PAT & TRADEMARK OFF. SOC'Y 493, 505-09 (2005).

abroad could be considered a component. While this is certainly an extreme view, some have argued that software is effectively a set of instructions for a computer.¹³⁸ Under this reasoning, DNA is merely a set of instructions for a cell and parameters for machine settings are simply instructions for manufacturing. Given this potential expansion to quadrant IV, many exports may fall within the ambit of § 271(f). This could disrupt the way a multitude of U.S. industries are currently doing business even though they are not operating with the intent to circumvent U.S. patent law.

Given these potential difficulties and the ambiguous scope of the statute, using § 271(f) for international enforcement of U.S. patent law seems unsound at best. Alternatively, the existing international intellectual property protection framework is relatively comprehensive, more even-handed in its application, and multilateral in nature. The best apparent solution would be to prosecute infringement within the existing international framework¹³⁹ and judge infringement at its location.¹⁴⁰ This would avoid the effects of U.S. extraterritoriality and create a level playing field for the parties involved and their competitors.

IV. CONCLUSION

The legislative history demonstrates that Congress intended § 271(f) to specifically cover inventions that fell into quadrant I of Table 1. The recent cases decided by the Federal Circuit, as discussed in this Note, mark an expansion into quadrants II and III. While legislative history and context argue against this expansion, it could, on the other hand, be asserted that patent law should be altered to fit new technologies and that the Federal Circuit was doing just that in these cases. It is important to remember, however, that even if the legislative history is not dispositive, the impact on international law and domestic industry also counsels against giving § 271(f) a more expansive definition than that which existed at its enactment.

138. *Id.*

139. Some may argue that this will create a period of “under-protection” of IP rights. Such an argument would necessarily be founded on the premise that stronger IP rights are superior, an opinion that is far from conclusively substantiated.

140. This appears to be the conclusion of Judge Rader’s opinions. He authored the opinion in *Eolas* holding that software is a component, and thus extending § 271(f) outside of the bounds of *Deepsouth*. See *Eolas Techs. Inc. v. Microsoft Corp.*, 399 F.3d 1325 (Fed. Cir. 2005). However, he also wrote an adamant dissent in *AT&T* charging that the only components supplied from the U.S. are the golden masters, and that any copies made from those golden masters are not supplied from America. *AT&T Corp. v. Microsoft Corp.*, 414 F.3d 1366, 1372 (Fed. Cir. 2005) (Rader, J., dissenting).

Given the assertion that § 271(f) was never meant to reach as broadly as the Federal Circuit is now allowing it to, and the fact that the realm of international intellectual property is significantly more developed than it was twenty years ago when the provision first came into being, it is apparent that we need a new way of looking at this issue. As global trade and protective IP owners are pushing patent law into places it has never ventured before, this will become even more crucial. Some solutions, like TRIPS, call for a highly developed multilateral agreement. Here, however, the result has been the expansion of a law that never contemplated this subject matter, in a manner that is harmful to both American business interests and the sovereignty of foreign patent regimes. Given the suitable international framework that exists for prosecuting infringement, using that system seems less fraught with difficulty and more equitable for all parties involved.

NTP, INC. V. RESEARCH IN MOTION, LTD.:
INVENTIONS ARE GLOBAL, BUT POLITICS ARE
STILL LOCAL—AN EXAMINATION OF THE
BLACKBERRY CASE

By Jennifer Lane

The patent statutes are territorial in nature, primarily limited to the United States. Patent holders have the “right to exclude others from making, using, offering for sale, or selling the invention *throughout the United States*.”¹ Anyone who “without authority makes, uses, offers, to sell, or sells any patented invention, *within the United States*” directly infringes the patent.² The Federal Circuit confronted the territorial scope of the patent grant recently in *NTP, Inc. v. Research in Motion, Ltd.*³ Utilizing a “control and beneficial use” test, the Federal Circuit held that RIM’s BlackBerry system infringed patent holder NTP’s system claims despite the Canadian location of at least one system component. RIM, however, did not infringe NTP’s method claims through use, sale, or importation under § 271(f) or § 271(g).⁴

This Note proposes a framework for the analysis of domestic uses of patented inventions located at least partially outside the U.S. Part I provides a brief overview of the territoriality of United States patent laws and explains how the courts and Congress have interpreted or expanded the territorial scope of U.S. patents. Against that backdrop, Part II describes the Federal Circuit’s decision in *NTP v. RIM*, emphasizing the analysis of the extraterritorial issues involved. Part III criticizes the Federal Circuit’s extraterritorial analysis in *NTP* as incomplete and articulates a methodology for analyzing the domestic use of a remotely located invention. To lay the foundation for this methodology, Section III.A articulates the Federal Circuit’s conflation in *NTP* of the issues of system location and usage location. Section III.A concludes that RIM’s system should have been considered a wholly Canadian system for the purposes of U.S. patent law. Having concluded that precedent will not dictate the case’s outcome, Section III.B discusses the statutory interpretation of § 271(a) in light of its legislative history, concluding that little emphasis should be placed on the

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1. 35 U.S.C. § 154(a)(1) (2000) (emphasis added).

2. *Id.* § 271(a) (emphasis added).

3. 418 F.3d 1282 (Fed. Cir. 2005).

4. *See NTP*, 418 F. 3d at 1317-18, *cert. denied*, 126 S. Ct. 1174 (2006).

structure of § 271(a) itself. Instead, § 271(a) should be interpreted plainly as encompassing any violation of the rights secured to the patentee. Section III.C goes on to consider the specific domestic activities courts can consider in finding infringement in conjunction with a transnational system. The Note concludes, in agreement with the Federal Circuit, that RIM's U.S. customers' use of the BlackBerry system constituted a direct infringement of NTP's system claims, supporting a finding of induced and contributory infringement by RIM. However, the proposed framework treats the system and method claims identically for the purposes of infringement analysis, concluding that RIM's customers make an infringing use of both the system and method claims.

I. BACKGROUND

Congress and the courts have addressed the ability of the United States' territorial patent laws to reach actors and activities outside the U.S. in several contexts, including defining "within the United States," closing extraterritorial loopholes through Congressional enactment of § 271(f) and § 271(g), and assigning territoriality to an infringing system used outside the country. Examining each of these issues in turn reveals that the courts and Congress often base their decision to extend or restrict the scope of infringing activity on overriding policy concerns, such as respect for the treaty power, the desire to close infringement loopholes, and suspicion of patent monopolies.

A. Defining "within the United States"

Early decisions considered American ships on the high seas to be floating islands of U.S. territory for the purposes of patent law.⁵ Courts also applied the patent laws to foreign regions where the U.S. otherwise had jurisdiction.⁶ The addition of § 100(c) to the patent code in 1952, containing a definition of "United States," weakened the continuing validity of previous judicial extensions of territoriality.⁷ Section 100(c) specifically

5. See *Gardiner v. Howe*, 9 F. Cas. 1157, 1158 (C.C.D. Mass. 1865) (No. 5219) (finding that U.S. patent protection "extends to the decks of American vessels on the high seas, as much as it does to all the territory of the country").

6. See *Marconi Wireless Tel. Co. v. United States*, 99 Ct. Cl. 1, 67-68 (Ct. Cl. 1942), *aff'd in part and vacated in part on other grounds*, 320 U.S. 1 (1943) (finding patent infringement based on use of a patent at the American Legion in Peking); see also *Decca Ltd. v. United States*, 544 F.2d 1070, 1073 (Ct. Cl. 1976) (noting that the United States enjoyed extraterritorial rights at the American Legion at Peking at the time of the Marconi decision).

7. See *Decca*, 544 F.2d at 1073.

defines “United States” to include only “the United States of America, its territories and possessions.”⁸

The judicial extensions of territoriality are subject to exceptions. Despite the existence of the floating island doctrine, in *Brown v. Duchesne* the Supreme Court refused to extend liability for patent infringement to foreign ships docked at U.S. ports.⁹ In *Brown*, the Court refused to impose liability on a French ship employing a patented gaff¹⁰ for navigation¹¹ during the time she was present in U.S. waters or docked offshore.¹² Not only was the ship’s use of the patented gaff minimal during the time it was docked, but the Court reasoned that an extension of the U.S. patent laws to foreign ships at port would confer on patent holders not just a property right, but political power.¹³ The Court refused to place patent holders in a position to frustrate treaty-making powers of Congress, for example, to admit foreign ships into domestic ports.¹⁴ Considering the patent laws in their Constitutional context, the Supreme Court concluded that the rights of an American patentee were not violated by the temporary presence of a foreign ship in a U.S. port.¹⁵

Congress subsequently codified the holding of *Brown* as the temporary presence defense in § 272. Section 272 provides a defense to patent infringement for a vessel, aircraft, or vehicle utilizing a patented invention “exclusively for the needs of the vessel” and entering the United States “temporarily or accidentally” provided that the vessel’s home country affords a similar protection to U.S. vessels.¹⁶

B. Congress Closes Territorial Loopholes: § 271(f) and § 271(g)

Section 271(f)(1) extends infringement liability to actors who supply components of a patented invention from the U.S. and induce their combination into the patented invention outside the United States.¹⁷ Section 271(f)(2) further extends liability to U.S. suppliers of components especially adapted for use in a patented invention and unsuitable for nonin-

8. 35 U.S.C. § 100(c) (2000).

9. 60 U.S. 183, 198-99 (1857).

10. A gaff is a structure for supporting a ship’s sail. See, e.g., Sail-Plan, WIKIPEDIA: THE FREE ENCYCLOPEDIA, <http://en.wikipedia.org/wiki/Sail-plan> (last visited Feb. 5, 2006) (describing a gaff rigged sail).

11. *Brown*, 60 U.S. at 193.

12. *Id.* at 198.

13. *Id.* at 196-97.

14. *Id.* at 197.

15. *Id.*

16. 35 U.S.C. § 272 (2000).

17. *Id.* § 271(f).

fringing uses.¹⁸ Congress enacted § 271(f) in response to the Supreme Court's decision in *Deepsouth Packing v. Laitram Corp.*¹⁹ In *Deepsouth*, the Supreme Court refused to extend liability to the U.S. manufacturer of shrimp deveining machine components.²⁰ The components were shipped out of the country with instructions for their prompt assembly into the patented shrimp deveiner.²¹ The Court reasoned that Article I of the U.S. Constitution extended to Congress the power to promote the progress of science. Therefore, the Court "require[d] a clear and certain signal from Congress before approving the position of a litigant who . . . argues that the beachhead of privilege is wider, and the area of public use narrower, than courts had previously thought."²² Congress sent that signal with the later enactment of § 271(f).

Congress enacted § 271(g) as part of the Process Patents Amendment Act of 1988.²³ The Process Patents Amendment Act generally provided greater protection for process patent holders.²⁴ Section 271(g) extends liability to the domestic sale of products manufactured outside the U.S. using a patented process.²⁵ The subsection was intended as one of last resort—explicitly noting that it does not provide a remedy unless there is no adequate remedy for the direct use or sale of the product.²⁶

Section 271(f)-(g) thus imposes liability on infringers whose activities take place wholly outside of the United States but nonetheless have some nexus with this country—component manufacture within the U.S. or subsequent sale within the U.S.

C. Assigning U.S. Territoriality to a System Used Outside the United States

The Court of Claims extended infringement liability to include extra-territorial use of a patented system operated globally but controlled do-

18. *Id.*

19. See *NTP*, 418 F.3d at 1317-18 ("[S]ection 271(f) was Congress's response to *Deepsouth*. . . ."); see also S. REP. NO. 98-663, at 3 (1984) ("Permitting the subterfuge which is allowed under the *Deepsouth* interpretation of the patent law weakens confidence in patents among businesses and investors.").

20. 406 U.S. 518, 529 (1972).

21. *Id.* at 524.

22. *Id.* at 530-31.

23. Pub. L. No. 100-418, 102 Stat. 1563 (1988).

24. See H.R. REP. NO. 99-807, at 11 (1986) (concluding that "[n]otions of fairness and logic dictate expanded protection for United States process patents").

25. 35 U.S.C. § 271(g) (2000).

26. *Id.*

mestically. In *Decca Ltd. v. United States*²⁷ the court considered infringement of a global communication system having elements located on foreign soil. Plaintiff Decca claimed that its patent covered the global Omega navigation system and sought recovery for the government's infringing use of the system.²⁸ The Omega system used several broadcast towers, one of which was located in Norway, to emit radio waves later received and combined at receivers on ships and airplanes.²⁹ By analyzing the received radio waves, the vessels could accurately pinpoint their location.³⁰ The trial court in *Decca* found the government liable for infringement, concluding that use of the system, including the Norwegian station, occurred at the location of the ships and vessels receiving and utilizing the signals.³¹

The Court of Claims agreed with the trial court on liability, but refused to rest that decision on the fiction that U.S. vessels receiving Omega signals at sea were portions of U.S. territory.³² Instead, the Court of Claims held that the Omega system as a whole was not without territoriality simply because its components resided in more than one country.³³ According to the court, territoriality, for the purposes of U.S. patent law, lay where the "master" station was located—the United States.³⁴ Because the remaining broadcast stations had to be synchronized with the U.S. station for proper operation, the "master station" was deemed to be located in the United States.³⁵ Accordingly, the Court of Claims concluded that the foreign broadcast stations and receivers were simply slaves to the U.S. master station and had no connection with the location of the Omega system as a whole for the purposes of patent law.³⁶

The Court of Federal Claims, however, refused to extend liability for global use of a system whose "master station" was not within the United States. In *Hughes Aircraft Co. v. United States*, the court concluded that the patent laws did not extend to the Ariel 5 spacecraft because the "master station" was not located in the U.S.³⁷ Instead, the United States' in-

27. 554 F.2d 1070 (Ct. Cl. 1976).

28. *Id.* at 1074. The Court in *Decca* analyzed liability by the U.S. under 28 U.S.C. § 1498, but the territoriality issue arose from the territoriality of the patent laws as defined in 35 U.S.C. § 154 and § 271. *See id.* at 1072.

29. *Id.* at 1074.

30. *Id.*

31. *Id.* at 1083.

32. *Id.* at 1072-73.

33. *Id.* at 1074.

34. *Id.*

35. *Id.*

36. *Id.*

37. 29 Fed. Cl. 197, 242 (Fed. Cl. 1993).

volvement in Ariel 5's operation was limited to providing a communications link for the craft.³⁸ The spacecraft itself was launched from Africa and its movements controlled by Britain.³⁹ Had the U.S. actually originated and issued controlling commands, the Court of Claims indicated it would have found an infringing use.⁴⁰

Accordingly, courts have been willing to apply the patent laws to multinational systems provided that the system as a whole is operated or controlled from the United States. However, the courts are loathe to extend the reach of the patent laws on their own to wholly extraterritorial acts. In *Deepsouth*, no one made or used the patented invention until it arrived overseas.⁴¹ In this context, the Supreme Court required that Congress explicitly expand the statute.

Policy concerns often shape the way territorial patent scope is expanded or contracted. The Supreme Court developed the temporary presence doctrine in response to the need to retain international treaty-making powers in Congress. Further, the Supreme Court's decision in *Deepsouth* was based in part on a consideration of the United States' "historical antipathy to monopoly."⁴²

II. *NTP, INC. V. RESEARCH IN MOTION, LTD.*

The Federal Circuit confronted the territorial limits of the patent laws in deciding the dispute between NTP, Inc. and Canadian corporation Research in Motion ("RIM") over wireless e-mail technology. At least one element of RIM's accused BlackBerry system is located in Canada.⁴³ Relying on *Decca*, however, the Federal Circuit found that use of the system occurred in the U.S.⁴⁴ The Federal Circuit then distinguished between system and method claims, holding that while the location of a system as a whole could be defined for the purposes of the patent laws, there was no corresponding "whole operable assembly" of a process claim.⁴⁵ Accordingly, the Federal Circuit found that use of RIM's system "could not infringe NTP's method claims."⁴⁶

38. *Id.*

39. *Id.*

40. *Id.*

41. *See Deepsouth Packing Co. v. Laitram Corp.*, 406 U.S. 524, 518 (1972).

42. *Id.* at 530.

43. *NTP, Inc. v. Research in Motion, Ltd.*, 418 F.3d 1282, 1313 (Fed. Cir. 2005).

44. *Id.* at 1317 (stating that "it was proper for the jury to have found that use of NTP's asserted system claims occurred within the United States").

45. *Id.* at 1317-18.

46. *Id.* at 1318.

A. Background and Procedural History

In November 2001, NTP (whose initials stand for New Technologies Products)⁴⁷ filed suit against Research in Motion (RIM).⁴⁸ RIM recorded a net income of USD \$213 million during the fiscal year ending February 2005.⁴⁹ NTP has been called a “company in a file drawer,”⁵⁰ formed as a holding company by the late⁵¹ engineer Thomas J. Campana, Jr. and patent attorney Don Stout out of Stout’s home.⁵² Campana’s patents are the company’s principal assets.⁵³

NTP’s five patents at issue describe systems and methods for integrating traditional hardwired e-mail systems with radio frequency (RF) networks, including receiving an e-mail message on a mobile RF receiver.⁵⁴ RIM’s popular BlackBerry system includes a handheld RF receiver unit and e-mail redirector software.⁵⁵ The BlackBerry system allows users’ e-mail messages to be redirected from their desktop e-mail clients to their handheld BlackBerry units.⁵⁶ NTP alleged infringement of five patents, including U.S. Patent No. 5,436,960 (“the ’960 patent”).⁵⁷ The remaining four patents are continuations of the ’960 patent.⁵⁸

NTP obtained summary judgment of infringement as to four claims in the district court.⁵⁹ The case proceeded to trial in the U.S. District Court for the Eastern District of Virginia on fourteen remaining claims.⁶⁰ The trial judge instructed the jury that the Canadian location of one of the claimed elements—an interface switch—did not preclude infringement.⁶¹

47. Kim Isaac Eisler, *BlackBerry Blues*, WASHINGTONIAN MAG., Sept. 2005, at 41-48.

48. *NTP*, 418 F.3d at 1290-91.

49. FINANCIAL HIGHLIGHTS OF RESEARCH IN MOTION’S 2005 ANNUAL REPORT 18, <http://www.rim.com/investors/pdf/2005financials.pdf> (last visited Oct. 27, 2005).

50. See Eisler, *supra* note 47, at 41-48 (noting the mismatch between RIM and NTP by stating, “One was the billion-dollar sweetheart of Wall Street. The other was a file drawer. NTP produced nothing and had no employees, no building, and few resources.”).

51. Richard Shim, *Key Figure in BlackBerry case dies*, CNET NEWS.COM, June 17, 2004, http://news.com.com/Key+figure+in+BlackBerry+case+dies/2100-1041_3-5238198.html.

52. Eisler, *supra* note 47, at 41-48.

53. Eisler, *supra* note 47, at 41-48.

54. See *NTP*, 418 F.3d at 1289.

55. *Id.*

56. *Id.*

57. *Id.*

58. *Id.*

59. *Id.* at 1291.

60. *Id.*

61. *Id.* at 1314.

The jury subsequently found direct, induced, and contributory infringement by RIM on all fourteen claims.⁶² NTP was awarded damages exceeding \$53 million and granted a permanent injunction, stayed pending appeal to the Federal Circuit.⁶³ The subsequent Federal Circuit appeal focused on lingering claim construction issues and revisited whether the physical foreign location of certain BlackBerry components put RIM's infringing conduct outside the territorial scope of 35 U.S.C. § 271.⁶⁴

B. The Federal Circuit Decision

By holding RIM liable for contributory infringement and inducing infringement, the jury necessarily found that RIM's domestic customers were direct infringers of the claimed systems and methods.⁶⁵ RIM appealed whether its customers' use could be considered "within the United States" for purposes of § 271(a).⁶⁶ The Federal Circuit identified two complicating factors in analyzing the location of the infringing activity: (1) NTP's patented invention consists of systems having multiple components or methods having multiple steps and (2) the nature of those systems and methods allows their beneficial function to be physically separated from their physical location.⁶⁷ The Federal Circuit found the statutory language of § 271(a) unclear as to how the territoriality requirement limited direct infringement where the location of at least part of the patented invention was not the same as the location of the infringing act.⁶⁸ The court distinguished RIM's facts from *Deepsouth* by noting that in *Deepsouth* the infringing acts and patented invention considered were wholly located outside the U.S.⁶⁹ Instead, the Federal Circuit adopted *Decca* as a framework for analyzing the case,⁷⁰ and also proceeded to analyze the method claims differently from the system claims, citing *Minton v. National Association of Securities Dealers, Inc.* for the proposition that the nature of the invention itself may change the analysis.⁷¹

62. *Id.* at 1291.

63. *Id.* at 1292.

64. *Id.* at 1314-15.

65. *Id.* at 1314.

66. *Id.*

67. *Id.* at 1313.

68. *Id.* at 1315.

69. *Id.*

70. *Id.* at 1315-16 (citing *Decca Ltd. v. United States*, 544 F.2d 1070 (Ct. Cl. 1976)).

71. *Id.* at 1316 (citing *Minton v. Nat'l Ass'n of Sec. Dealers, Inc.*, 336 F.3d 1373, 1378 (Fed. Cir. 2003)).

The Federal Circuit first turned to the question of whether there was an infringing “use” of the patented system, defining use as “to put into action or service.”⁷² Viewed in light of *Decca*, the Federal Circuit held that the use of a claimed system occurs at “the place where control of the system is exercised and beneficial use of the system obtained.”⁷³ Noting that RIM’s customers were located in the U.S. and that they controlled the transmission of information and benefited from the information exchanged through the RIM system, the Federal Circuit upheld the district court and reiterated that the location of the system’s relay switch in Canada did not preclude infringement of NTP’s asserted system claims.⁷⁴ Turning to the method claims, however, the Federal Circuit overturned the district court’s finding of infringement and held that “a process cannot be used ‘within’ the United States unless each of the steps is performed in this country.”⁷⁵ Unlike the system claims, the Federal Circuit stated that for a method claim there is “no corresponding whole operable assembly of a process claim” to locate.⁷⁶

Since the Federal Circuit held that the method claims were not infringed through use, the Court next considered whether those method claims were infringed through a sale or offer to sell.⁷⁷ The Federal Circuit defined sale to include a transfer of property and stated that the application of this definition to the performance of method steps was difficult.⁷⁸ The Federal Circuit further noted that relevant legislative history surrounding the Process Patents Amendments Act of 1987 indicated that processes were only to be directly protected from the act of using the process, not selling or offering to sell the process.⁷⁹ Ultimately however, the Federal Circuit explicitly declined to hold that method claims may not be infringed under the “sell” and “offers to sell” prongs of § 271(a), stating that “we conclude only that RIM’s performance of at least some of the recited steps . . . as a service for its customers cannot be considered to be selling or offering to sell the invention”⁸⁰

The Federal Circuit then analyzed whether RIM infringed NTP’s method claims under § 271(f) and §271(g). The court held that RIM was

72. *Id.* at 1316-17.

73. *Id.* at 1317.

74. *Id.*

75. *Id.* at 1317-18.

76. *Id.*

77. *Id.* at 1318.

78. *Id.* at 1319.

79. *Id.* at 1319-21.

80. *Id.* at 1321.

not supplying steps of a patented process by supplying products, including BlackBerry handheld devices, to its customers in the United States, and therefore could not infringe under § 271(f).⁸¹ The Court also refused to find liability under § 271(g), holding § 271(g) inapplicable to the method claims at issue because “transmission of information” did not entail manufacturing a physical product.⁸²

The U.S. Patent and Trademark Office continues its re-examination of NTP’s asserted patents.⁸³ Meanwhile, the Supreme Court denied RIM’s petition for certiorari.⁸⁴ RIM and NTP settled on March 3, 2006, eliminating the need for further court proceedings.⁸⁵ RIM paid NTP \$612.5 million in settlement of all claims and a perpetual license going forward.⁸⁶ The settlement agreement also prohibits any related claims against RIM’s customers or partners in connection with RIM’s BlackBerry business.⁸⁷

III. ANALYSIS

In holding that the use of RIM’s communication system as a whole occurred in the United States, the Federal Circuit conflated the separate issues of: (1) defining the physical location of the system as a whole for the purposes of U.S. patent law; and (2) identifying and defining the location of an infringing use of that system. The Federal Circuit concluded that use of the system occurred in the United States because RIM’s U.S. customers controlled the transmission of information and benefited from its ex-

81. *Id.* at 1322.

82. *Id.* at 1323.

83. NTP v. RIM in Hands of District Court, Patently-O, http://patentlaw.typepad.com/patent/2005/10/ntp_v_rim_in_ha.html (Oct. 23, 2005). The U.S. patent office has issued initial rejections in the re-examination proceedings of all NTP patents in question. These rejections have yet to be made final. The district court has refused to stay proceedings pending the final result of the Patent Office’s re-examination. *See* BlackBerry Patent Settlement Found Unenforceable—Stay of Injunction Denied, Patently-O (Nov. 30, 2005), http://patentlaw.typepad.com/patent/2005/11/blackberry_pate.html.

84. *See* Supreme Court Denies RIM’s BlackBerry Appeal, Patently-O (Jan. 23, 2006), http://patentlaw.typepad.com/patent/2006/01/supreme_court_d.html.

85. Press Release, Research in Motion, Research in Motion and NTP Sign Definitive Settlement Agreement to End Litigation (Mar. 3, 2006), *available at* <http://biz.yahoo.com/bw/060303/20060303005557.html?v=1>.

86. *Id.*

87. *See* Antone Gonsalves et al., *RIM, NTP Reach \$612.5 Million Settlement*, INFORMATIONWEEK, Mar. 3, 2006, <http://www.informationweek.com/showArticle.jhtml;jsessionid=HPBUE4SKNWUYEQSNDBNCKHSCJUMKJVN?articleID=181500890>.

change.⁸⁸ A thorough framework for analyzing infringing uses of global systems includes construing § 271(a), defining the location of a multi-component system, defining the use of a multi-component system, and finally identifying any domestic acts of infringement. The outcome of this analysis agrees with the Federal Circuit's ultimate holding—RIM's domestic customers directly infringe NTP's system claims. However, the method below departs from the Federal Circuit's conclusions by concluding that RIM's system should be considered a Canadian system and that RIM's customers made infringing uses of both NTP's system and method claims.

A. Applying *Decca* to the Facts of *NTP* Results in a Canadian System and Is Inconclusive as to Infringement

The Federal Circuit applied *Decca* to find infringement by RIM's domestic customers.⁸⁹ However, while *Decca* found infringement based on an end user physically located outside the United States using a system having a control point within the United States,⁹⁰ *NTP* presents precisely the opposite case—domestic users of a foreign system. At most, *Decca* stands for the proposition that a system having components in multiple countries may nonetheless possess U.S. territoriality.⁹¹ By rejecting the floating island doctrine and fixing the territoriality of the Omega system as a whole, the Court of Claims in *Decca* based infringement on an end user physically located outside the United States using a system located within the United States. Properly applying *Decca* to the facts of *NTP* results in the conclusion that RIM's system as a whole is located in Canada, and *Decca* is silent on the domestic use of a foreign (Canadian) system.

The Federal Circuit in *NTP* failed to analyze where the BlackBerry system's control point was located – an analysis that *Decca* demands. The Federal Circuit concluded only that individual customers “controlled the

88. *NTP*, 418 F.3d at 1317 (“RIM's customers located within the United States controlled the transmission of the originated information and also benefited from such an exchange of information . . .”).

89. *Id.* at 1316.

90. *See Decca Ltd. v. United States*, 544 F.2d 1070 (Ct. Cl. 1976). The *Decca* court found that the system in question was located within the United States: “the whole Omega system must be deemed, at least for purposes of litigating the patent here involved, to be a unity, and the location of that unity must be deemed to be in United States territory.” *Id.* at 1075. The court found the location of use to be the location of the navigator, stating “a navigator employing signals from [the Norwegian] station is, in fact ‘using’ that station and such use occurs wherever the signals are received and used in the manner claimed.” *Id.* at 1083.

91. *See id.* at 1075.

transmission” of information.⁹² This conclusion, however, misinterprets what the *Decca* court meant by “control” of the patented invention. Webster defines “control” as “to exercise restraining or directing influence over; to have power over.”⁹³ The court in *Decca* held that the Omega system’s control point was in the United States because the foreign system components must be synchronized to the U.S. station for proper operation.⁹⁴ The foreign communication station and individual receivers were viewed as slave units.⁹⁵ In *NTP*, however, the Federal Circuit based its conclusion not on a master-slave relationship between system components but on the control exerted over a single system component (a BlackBerry handheld device) by an end user.⁹⁶

Properly applying *Decca*’s framework to the facts in *NTP* dictates that RIM’s system be considered a wholly Canadian system for the purposes of U.S. patent law. *NTP*’s patents are directed toward systems that integrate existing e-mail systems with RF wireless communications networks.⁹⁷ Claim 1 of the asserted ’960 patent reveals that the patented system contains three components—a gateway switch in an electronic mail system, an RF information network, and an interface switch.⁹⁸ The interface switch mediates communication between the e-mail system and the RF network.⁹⁹ In RIM’s system, e-mail redirector software is installed on a traditional mail server and routes e-mail messages to RIM’s Canadian relay component.¹⁰⁰ The relay component translates messages and routes them to a wireless network.¹⁰¹ Accordingly, insofar as *NTP*’s patented invention as a whole is one that provides for e-mail connectivity between a traditional e-mail network and a wireless network, the relay that directs and influences the connection between the e-mail and wireless networks is the control point. Individual handheld devices and wireline e-mail systems act as slaves to the master relay switch that receives and routes their messages.

92. *NTP*, 418 F.3d at 1317.

93. Control, MERRIAM-WEBSTER ONLINE DICTIONARY, <http://www.webster.com/cgi-bin/dictionary?book=Dictionary&va=control> (last visited Feb. 5, 2006).

94. *Decca*, 544 F.2d at 1074.

95. *Id.*

96. *NTP*, 418 F.3d at 1317 (“When RIM’s United States customers send and receive messages by manipulating the handheld devices in their possession in the United States, the location of the use of the communication system as a whole occurs in the United States.”).

97. *Id.* at 1289.

98. *Id.* at 1294; U.S. Patent No. 5,436,960, col. 49 ll. 2-38 (filed May 20, 1991).

99. *NTP*, 418 F.3d at 1294; U.S. Patent No. 5,436,960, col. 49 ll. 2-38 (filed May 20, 1991).

100. *NTP*, 418 F.3d at 1289-90.

101. *Id.*

In RIM's system, this relay is located in Canada. Thus, while individual users control the content, they have no control over the operation of the system as a whole.¹⁰² Accordingly, a proper application of *Decca* leads to a conclusion that for the purposes of U.S. patent law, RIM's system is located in Canada—the location of the interface relay, the system's control point. Unlike in *Decca*, a court cannot find direct infringement by virtue of the physical location of RIM's system. Accordingly, *Decca* cannot be the end of the analysis. Having located RIM's system as a whole in Canada for the purposes of U.S. patent law, the question now becomes under what circumstances, if at all, can a "use" of the Canadian system be found to occur "within the United States" under § 271(a).

B. Properly Construing § 271(a) Reveals That Actions, Not Inventions, Are Limited by the Territoriality Requirement

It is not immediately obvious whether a U.S. patent holder's right encompasses domestic uses of a foreign system. The danger in refusing to find infringement for the domestic use of a remote system is that offshore patent havens will quickly emerge, supplying cheaper access to software and networking inventions.¹⁰³ This result would render virtually useless any U.S. patent for an invention whose components can be located outside but still used inside the United States.

The statutory language is unclear as to whether the limitation "within the United States" in § 271(a) limits the location of the infringing act, the physical location of the patented invention, or both. The Federal Circuit found that the grammatical structure of § 271(a) indicated "within the United States" was a separate requirement from the infringing acts clause.¹⁰⁴ The requirements that infringement occur "within the United

102. See Combined Petition for Panel Rehearing and Rehearing En Banc at 11, NTP, Inc. v. Research in Motion, Ltd., No. 03-1615, 2005 U.S. App. LEXIS 23112 (Fed. Cir. Oct. 7, 2005) ("[A]n e-mail sent by anyone, anywhere through the regular e-mail system will *not* be received by a BlackBerry device unless the Network Control Center in Canada that monitors all e-mail through the system acts to forward the e-mail to that device.") (emphasis in original). An NTP expert testified that the control functions of the interface switch include a "security check" to control who receives e-mail and the use of location information to control which RF station transmits the e-mail. *Id.*; see also Petition for Certiorari at 28, NTP, Inc. v. Research in Motion, Ltd., No. 05-763, 2006 U.S. LEXIS 1053 (Jan. 23, 2006) ("A BlackBerry subscriber . . . exercises virtually no 'control' of the system when merely receiving email on a handheld wireless device [T]he subscriber may 'control' his or her *handheld device* . . . but certainly does not . . . control 'the communication system as a whole.'").

103. See Dan L. Burk, *Patents in Cyberspace: Territoriality and Infringement on Global Computer Networks*, 68 TUL. L. REV. 1, 48 (1993).

104. NTP, 418 F.3d at 1315.

States” and “during the term of the patent” are contained in a separate clause set apart by commas from the definition of infringement as making, using, or selling a patented invention.¹⁰⁵ Accordingly, the Federal Circuit found the statutory language unclear as to how the territoriality requirement “within the United States” limits direct infringement where a portion of the invention is in a different location than the infringing act.¹⁰⁶

Properly construed, the territoriality requirement of § 271(a) limits the location of the making, using, offering, or selling of the patented invention, not the location of the patented invention itself. The legislative history of § 271(a) counsels against placing too much weight on the particular grammatical structure of the section. Congress considered the Patent Act of 1952, which enacted § 271(a), simply to codify the existing patent laws.¹⁰⁷ Section 271(a) was considered a duplicative declaration of what constituted infringement, with the Senate Report accompanying the 1952 Patent Act stating that § 271 “is not actually necessary because the granting clause creates certain exclusive rights and infringement would be any violation of those rights.”¹⁰⁸ Accordingly, any analysis of the territorial scope of § 271(a) should begin with an analysis of the “granting clause”—the rights granted by § 154. The grammatical structure of § 154 does not set off the territorial requirement in a separate grammatical clause as it is set off in § 271(a).¹⁰⁹ Rather, § 154 provides patent holders with “the right

105. 35 U.S.C. § 271(a) reads: “Except as otherwise provided in this title, whoever without authority makes, uses, offers to sell, or sells any patented invention, within the United States or imports into the United States any patented invention during the term of the patent therefor, infringes the patent.” 35 U.S.C. § 271(a) (2000). Prior to the addition of the offer for sale and importation provision, 35 U.S.C. § 271(a) read: “Except as otherwise provided in this title, whoever without authority makes, uses or sells any patented invention, within the United States during the term of the patent therefor, infringes the patent.” 35 U.S.C. § 271(a) (1964).

106. *NTP*, 418 F.3d at 1315.

107. *See* S. REP. NO. 82-1979 (1952), *reprinted in* 1952 U.S.C.C.A.N. 2394, 2402. When § 271 was submitted to the Senate, Senator Saltonstall commented, “I am not a patent lawyer, but I know patents are a very technical subject. Does the bill change the law in any way or only codify the present patent laws.” Senator McCarran responded, “It codifies the present patent laws.” 98 CONG. REC. 9323 (1952).

108. S. REP. NO. 82-1979, *reprinted in* 1952 U.S.C.C.A.N. 2394, 2402.

109. Section 154 provides, “Every patent shall contain a short title of the invention and a grant to the patentee, his heirs or assigns, of the right to exclude others from making, using, offering for sale, or selling the invention throughout the United States or importing the invention into the United States.” 35 U.S.C. § 154(a)(1) (2000). The territorial limitation on the patent grant first appeared in the Patent Act of 1870 which provided a patentee “the exclusive right to make, use and vend the said invention or discovery throughout the United States.” Patent Act of 1870, ch. 230, § 22, *reprinted in* 9 DONALD S. CHISUM, CHISUM ON PATENTS app. 14, § 22 (2005).

to exclude others from making, using, offering for sale, or selling the invention throughout the United States.”¹¹⁰ A patent holder, therefore, has the right to exclude others from using the invention throughout the United States. An unauthorized domestic use of the invention, wherever the invention may be located, violates the patentee’s rights and thus constitutes direct infringement under § 271(a).

In many cases, it is irrelevant whether direct infringement depends on the location of the invention or on the location of the infringing act. A typical widget is physically present in the location where it is made or used, requiring no distinction between the physical location of the invention and the location of its use. With the rise of global communication networks, however, it is possible to separate the physical location of an invention from the physical location of its use. Indeed, the Federal Circuit recognized this conundrum in *NTP*.¹¹¹ If a system’s physical location is separate from the location of its use, proper application of § 271(a) dictates that infringement occurs if the patentee is deprived of the right to exclude others from using the invention throughout the United States. Accordingly, an unauthorized domestic use of a patented invention, regardless of where the invention is physically located, constitutes infringement.

C. Specific Actions Necessary to Use the Invention Must Be Identified and Must Take Place in the United States

How can courts determine what activities constitute an infringing domestic use of a remotely located patented invention? RIM’s customers in the United States use RIM’s system within the United States, even though the physical system as a whole is controlled from Canada. To conclude that RIM’s U.S. customers are direct infringers through use, however, a court must first define what actions constitute a use of the system and then analyze whether those actions took place in the United States. In the case of RIM’s customers, the activities necessary for use all occurred within the United States, thereby infringing NTP’s patents.

110. 35 U.S.C. § 154(a) (2000). Section 154(d) grants the owner of a published patent application the right to obtain a reasonable royalty from any person who “makes, uses, offers for sale, or sells in the United States the invention as claimed in the published patent application.” 35 U.S.C. § 154(d)(1)(A)(i) (2005). The territoriality clause of Section 154(d)(1)(A)(i) clearly limits the location of potentially infringing acts, not inventions.

111. *NTP*, 418 F.3d at 1313 (noting that “the nature of [the invention’s components] permits their function and use to be separated from their physical location”).

A use alone is sufficient to find direct infringement.¹¹² Congress left the term “use” open for judicial interpretation.¹¹³ Courts have seldom interpreted the term “use,”¹¹⁴ despite its longstanding presence in the patent statutes.¹¹⁵ The Supreme Court noted the simplicity of the term “use” in 1913, finding it to be a “comprehensive term” that “embraces within its meaning the right to put into service any given invention.”¹¹⁶ The Supreme Court defined the right to use as the right to use the mechanism described in the patent to produce the results described.¹¹⁷

The technology itself determines the specific acts constituting use. For example, farmers planting a patented seed make an infringing use of the seed.¹¹⁸ Engineers infringe a patent directed toward a transmitter/receiver system by tuning their receivers to the complementary transmitters.¹¹⁹

Consequently, RIM and RIM’s customers may be liable for infringement based on different specific acts. RIM, the service provider, may infringe NTP’s patent by operating (“using” or “placing into service”) the BlackBerry system. However, as described above, RIM exerts operational control over the BlackBerry system in Canada. To the extent that RIM’s use directly infringes NTP’s patented system through operation of its BlackBerry network, RIM’s use takes place in Canada beyond the scope of the U.S. patent laws. In contrast, RIM’s U.S. customers make use of the system by installing RIM’s software on their mail server for the purpose of communicating with RIM’s relay switch, sending messages at their

112. See *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 484 (1964) (“[I]t has often and clearly been held that unauthorized use, without more, constitutes infringement.”).

113. See *Paper Converting Machine Co. v. Magna-Graphics Corp.*, 745 F.2d 11, 16 (Fed. Cir. 1984) (“Congress has never deemed it necessary to define any of this triad of excludable activities, however, leaving instead the meaning of ‘make,’ ‘use,’ and ‘sell’ for judicial interpretation.”).

114. See 5 DONALD S. CHISUM, CHISUM ON PATENTS § 16.02(2)(4)(b) (2005) (“The question of what constitutes ‘use’ of the invention has rarely arisen”); see also Burk, *supra* note 103, at 40 (noting that the term use “is so very broad that there is little activity involving the patented item that would escape the term’s scope”).

115. The term was present in the Patent Act of 1790. See *Bauer & Cie v. O’Donnell*, 229 U.S. 1, 9 (1913) (quoting the Patent Act of 1790).

116. *Id.* at 10 (stating that Congress did not use “technical or occult phrases” to define the rights of a patentee, “but in simple terms gave an inventor the exclusive right to make, use and vend his invention”).

117. See *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502, 512 (1917).

118. *Monsanto Co. v. Swann*, 308 F. Supp. 2d 937, 941 (E.D. Mo. 2003) (“Planting and harvesting seed is a ‘use’ under section 271(a) . . .”).

119. *Armstrong v. Motorola*, 374 F.2d 764, 773 (7th Cir. 1967).

BlackBerry handhelds for transmission to RIM's relay switch, and receiving messages routed through RIM's relay switch at their BlackBerry handhelds.¹²⁰ These activities take place wholly on U.S. soil and together constitute a direct infringing use of NTP's patented system. Individual users within the United States who lack NTP's permission are using, to borrow the Supreme Court's language, "the mechanism described in the patent . . . to produce the results described."¹²¹ Thus, only RIM's U.S. BlackBerry subscribers infringe NTP's patented technology.

Following the above analysis, a court need not separately analyze a patent's system and method claims. Because the Federal Circuit instead relied on an application of *Decca* that fixed the location of RIM's system as a whole within the United States,¹²² the court in *NTP* did separately analyze the system and method claims.¹²³ The court concluded that a method 'as a whole' could not possess territoriality and declined to find infringement of NTP's method claims.¹²⁴ As discussed above, however, the application of *Decca* to the facts in *NTP* is inconclusive as to the infringement of either system or method claims. The proper question for method claims is whether a domestic use of the method has occurred. In considering the use of a method, the Federal Circuit cited *Roberts Dairy* for the proposition that "a patent for a method or process is not infringed unless all steps or stages of the claimed process are utilized."¹²⁵ This well-established proposition can be traced to two early Supreme Court decisions—*Goodyear Dental Vulcanite Co. v. Davis*¹²⁶ and *Royer v. Coupe*.¹²⁷ Both cases concern a close comparison between the claimed method steps and the methods performed by the defendants, ultimately concluding that at least one claimed step was never performed at all in the course of the defendants' conduct.¹²⁸ In sharp contrast, a jury found that RIM did perform all of NTP's claimed method steps.¹²⁹ Because there is no question

120. *NTP, Inc. v. Research in Motion, Ltd.*, 418 F.3d 1282, 1290 (Fed. Cir. 2005).

121. *See Motion Picture Patents Co.*, 243 U.S. at 512.

122. *See NTP*, 418 F.3d at 1317.

123. *See id.* at 1317-18.

124. *See id.*

125. *Id.* at 1318 (citing *Roberts Dairy Co. v. United States*, 208 Ct. Cl. 830 (1976)).

126. 102 U.S. 222 (1880).

127. 146 U.S. 524 (1892).

128. *See Royer*, 146 U.S. at 527-31 (finding plaintiff's claims limited to a process for treating rawhide including a sweating step, for which the defendants instead substituted a liming step); *Goodyear*, 102 U.S. at 230 (finding that defendant's use of celluloid in a dental plate did not infringe plaintiff's patent directed to the use of hard rubber in a dental plate).

129. *NTP*, 418 F.3d at 1291 (documenting a jury verdict of infringement as to at least method claims 32 and 34 of the '960 patent).

that all method steps were performed somewhere by someone, a court need only find that the method was used within the United States to find direct infringement.

The Federal Circuit's narrow conception of the use of a patented process as limited to the performance of each step within the United States¹³⁰ ignores early jurisprudence on the use of patented processes. Although process claims were "somewhat controversial in the Nineteenth Century,"¹³¹ the Supreme Court analyzed infringement of a process patent through use as early as the 1880s.¹³² In *Beedle v. Bennett*, the Court held that a farmer's use of a well infringed a patent directed to the method for forming the well, even though the farmer himself did not make the well.¹³³ The Court based its decision on a similar case in which a district court held that the act of drawing water out of a well put the "new principle" of the inventive well-forming method to "practical use."¹³⁴ The method of forming a well was directed toward the ends of "obtaining a copious, continuous, and unfailing supply of good water."¹³⁵ A farmer drawing water out of a well formed according to the patented process therefore made an infringing use of the patented process.¹³⁶ An infringing use of a patented method has therefore not always been restricted to the performance of each of the recited steps, let alone the performance of each of the recited steps within this country. The Supreme Court once understood infringing uses of patented processes to include actions that put the method to practical use.¹³⁷ Just as farmers drawing water from wells put the well-forming methods to practical use, so too do BlackBerry users transmitting messages put NTP's communication methods to practical use. By sending messages through a system that performs the inventive method, BlackBerry users make use, not just of the patented system, but also of the patented process.

Distinguishing between system and method claims for the purposes of infringement only encourages pedantic claim drafting to elicit one kind of protection over the other. Skillful practitioners can draft method claims that read like system claims, or vice versa. Early Supreme Court decisions

130. *Id.* at 1317-18.

131. *Id.* at 1319.

132. *See Beedle v. Bennett*, 122 U.S. 71, 78 (1887).

133. *Id.*

134. *Id.* (citing *Andrews v. Cross*, 8 F. 269, 277 (N.D.N.Y. 1881)).

135. *Andrews*, 8 F. at 277.

136. *Id.*

137. *See Beedle*, 122 U.S. at 78 (referring to *Andrews*, 8 F. at 269).

and a need for consistent claim enforcement across claim types call for a more substantive review of the infringing uses of a patented process.

IV. CONCLUSION

Construction of § 271(a) as well as judicial interpretations of territoriality and use dictate that domestic uses of global systems are infringing acts. The Federal Circuit properly found infringement by RIM's U.S. BlackBerry customers in *NTP v. RIM*. However, the Federal Circuit erred in conflating the issues of physical system location and usage location. Properly construed, the territoriality limitation of § 271(a) limits infringing acts to those occurring in the United States. Proper application of the Court of Claims' decision in *Decca* to RIM's system results in a finding that the system is Canadian. To support a finding of contributory infringement or induced infringement, direct infringement by RIM's users must be predicated on their domestic activities, which are sufficiently connected with the United States to constitute a domestic use of RIM's system. Finally, the Federal Circuit's distinction between system and method claims for the purposes of infringement is not true to historical interpretations of the use of patented processes.

MERCK KGAA v. INTEGRA LIFESCIENCES I, LTD.: JUDICIAL EXPANSION OF § 271(E)(1) SIGNALS A NEED FOR A BROAD STATUTORY EXPERIMENTAL USE EXEMPTION IN PATENT LAW

By Rebecca Lynn

In order to provide a narrow experimental use exemption for the regulatory approval of generic drugs, Congress enacted 35 U.S.C. § 271(e)(1) as part of the Patent Term Restoration Act of 1984, better known as the Hatch-Waxman Act.¹ The statutory exemption allows generic drug companies to begin the regulatory approval process for generic drugs before the brand name drug patent expires.² However, the scope of the exemption has been judicially expanded in a series of cases to encompass medical devices and activities far upstream from, and only tangentially related to, the FDA approval process.³

The latest example of the expansion of § 271(e)(1) occurred in *Merck KGaA v. Integra Lifesciences I, Ltd.*⁴ In *Merck*, the Supreme Court unanimously reversed the decision of the Federal Circuit and broadened the statutory experimental use exemption to include preclinical testing on patented products far upstream of FDA approval.⁵ The Court found that the use of patented inventions in preclinical research was exempt from infringement under the statute even when researchers did not submit their results to the FDA.⁶

Recognizing a need for a broad experimental use exemption in some instances, the Court has stretched § 271(e)(1) to cover issues that previously could have been addressed under the common law.⁷ *Merck* could not rely upon the common law experimental use exemption because the Federal Circuit eroded it in a series of cases until it was virtually non-existent.⁸ Additionally, while the court has expanded § 271(e)(1) in the

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1. Drug Price Competition and Patent Term Restoration Act of 1984, Pub. L. No. 98-417, 98 Stat. 1585 (codified at 15 U.S.C. §§ 68(b)-(c), 70(b) (1994); 21 U.S.C. §§ 301 n. 355, 360cc (1994); 28 U.S.C. § 2201 (1994); 35 U.S.C. §§ 156, 271, 282 (1994)).

2. *Eli Lilly & Co. v. Medtronic, Inc.*, 496 U.S. 661, 669-71 (1990).

3. *See infra* notes 47-60 and accompanying text.

4. 125 S. Ct. 2372 (2005).

5. *Id.* at 2384.

6. *Id.* at 2380.

7. *See infra* notes 45-59 and accompanying text.

8. *See infra* notes 15-32 and accompanying text.

areas of biotechnology and medical devices to reinstate the common law experimental use exemption to some extent, its full scope and application is uncertain. Thus, the Supreme Court's decision in *Merck* left pharmaceutical companies, researchers, and research tool companies with more questions than answers as to the boundaries of § 271(e)(1).

In response to the Supreme Court's continued broadening of the § 271(e)(1) experimental use exemption, this Note calls for an additional congressional enactment of a limited, but balanced, experimental use exemption in patent law. The recommendation is consistent with the common law experimental use exemption, the fair use doctrine in copyright, similar statutory enactments in the world's leading patent systems, and legislation already considered by Congress. Part I of this Note explores the background of the experimental use exemption including the history of the common law experimental use exemption and the introduction and judicial expansion of the § 271(e)(1) experimental use exemption. Part II of this Note delves into *Merck*, tracing the history of the decision from the district court through the Supreme Court. Part III of this Note provides an analysis of the Supreme Court's decision as well as a recommendation for a legislatively enacted experimental use exemption that applies across industries.

I. HISTORY OF THE EXPERIMENTAL USE EXEMPTION

This Part addresses the evolution of the common law and statutory experimental use exemptions. Section A covers the judicial creation of the common law exemption and explores its subsequent erosion in a number of Federal Circuit cases. Section B covers the creation of § 271(e)(1) and provides insight into the legislative history behind the exemption. Additionally, Section B details the subsequent judicial expansion of the exemption.

A. Common Law Experimental Use Exemption

In order to apply the proper analysis to the statutory experimental use exemption under § 271(e)(1), it is first necessary to explore the evolution of the experimental use exemption in the common law. Since 1813, a judicially-created common law experimental use defense has existed, although it finds little application in modern cases. In *Whittemore v. Cutter*,⁹ a jury trial for patent infringement, Justice Story explained that "it could never have been the intention of the legislature to punish a man, who constructed such a machine merely for philosophical experiments, or for the purpose of ascertaining the sufficiency of the machine to produce its described ef-

9. 29 F. Cas. 1120 (C.C.D. Mass. 1813).

fects.”¹⁰ Subsequently in *Sawin v. Guild*,¹¹ Justice Story cited *Whittemore* for having established that patent infringement must concern:

the making [of the invention] with an intent to use for profit, and not for the mere purpose of philosophical experiment, or to ascertain the verity and exactness of the specification. In other words, that the making must be with an intent to infringe on the patent-right, and deprive the owner of the lawful rewards of his discovery.¹²

Thus, the intent of the accused infringer became a key factor in determining liability. The meaning of the term “philosophical” has caused some confusion and debate, but at the time of the opinion philosophical meant scientific.¹³ Hence, scientific experiments that were not made with the intent to deprive a patent owner of his rights and benefits for having made an invention were exempt from infringement liability under the common law experimental use doctrine.¹⁴

While the experimental use doctrine was well-accepted law by the end of the nineteenth century, courts rarely applied the doctrine in favor of an accused infringer.¹⁵ Rather, courts generally limited the experimental use defense to cases where there was no commercial activity or profit motive.¹⁶ In 1984, the newly-formed Federal Circuit dealt with the experimental use exemption for the first time in *Roche Products, Inc. v. Bolar Pharmaceutical Co.*¹⁷ *Roche* proved to be the first in a series of cases in which the Federal Circuit chipped away at the foundation of the doctrine. The defendant in *Roche* wanted to market a generic version of a patented drug as soon as the patent expired.¹⁸ However, because FDA approval can take up to two years, the defendant obtained a quantity of the drug from a foreign source and began testing the drug approximately six months before the patent expired.¹⁹ The court held that the experimental use doctrine did

10. *Id.* at 1121.

11. 21 F. Cas. 554 (C.C.D. Mass. 1813).

12. *Id.* at 555 (citation omitted).

13. See Janice M. Mueller, *The Evanescent Experimental Use Exemption from United States Patent Infringement Liability: Implications for University and Nonprofit Research and Development*, 56 BAYLOR L. REV. 917, 929 (2004).

14. *Id.*

15. See *id.* at 929-30.

16. Janice M. Mueller, *No “Dilettante Affair”:* Rethinking the Experimental Use Exception to Patent Infringement for Biomedical Research Tools, 76. WASH. L. REV. 1, 21 (2001).

17. 733 F.2d 858 (Fed. Cir. 1984).

18. *Id.* at 860.

19. *Id.*

not protect "limited use of a patented drug for testing and investigation strictly related to FDA drug approval requirements during the last 6 months of the term of the patent."²⁰ The court further restricted the common law exception by characterizing it as "truly narrow" and determining that it did not extend to any use of a patented invention that was "in keeping with the legitimate business of" an alleged infringer.²¹ The court stated that "argument[s] that the experimental use rule deserve[d] a broad construction [were] not justified," and that any activity, experimental or not, that had a commercial purpose fell short of the experimental use exception.²²

In 2000, the Federal Circuit noted in *Embrex, Inc. v. Service Engineering Corp.*,²³ that the experimental use exemption is construed very narrowly and denied the defense where the use was "expressly for commercial purposes."²⁴ The facts of *Embrex* present what should have been a paradigm case for exempted experimental use: use of a patented invention to design around a patent.²⁵ However, the opinion is chiefly noted for Judge Rader's concurring opinion which denied the possibility that even scientific or philosophical testing is an exempt experimental use. Specifically, Rader stated that "neither the statute nor any past Supreme Court precedent gives any reason to excuse infringement because it was committed with a particular purpose or intent, such as for experimentation . . ."²⁶ He went on to say that "the slightest commercial implication will render the 'philosophical inquiry/experimental use' doctrine inapplicable."²⁷

In 2002, in *Madey v. Duke University*,²⁸ the Federal Circuit appeared to have put the final nail in the coffin for the experimental use exemption. In *Madey*, the court found that use of a patented laser by a university in

20. *Id.* at 861. After the decision, Congress quickly went into action to overrule the decision in the specific context of FDA approval of generic drugs by creating the 271(e)(1) experimental use exemption. Ruth E. Freeburg, *No Safe Harbor and No Experimental Use: Is It Time for Compulsory Licensing of Biotech Tools?*, 53 *BUFF. L. REV.* 351, 366 (2005).

21. *Id.* at 863 (quoting *Pitcairn v. United States*, 547 F.2d 1106, 1125-26 (Ct. Cl. 1976)).

22. *Id.*

23. 216 F.3d 1343 (Fed. Cir. 2000).

24. *Id.* at 1349.

25. Mueller, *supra* note 13, at 935.

26. *Embrex*, 216 F.3d. at 1353 (Rader, J., concurring).

27. *Id.* (Rader, J., concurring).

28. 307 F.3d 1351 (Fed.Cir. 2002), *cert. denied*, 539 U.S. 958 (2003).

experimental research was not protected under the experimental use exemption.²⁹ The court concluded that:

[R]egardless of whether a particular institution or entity is engaged in an endeavor for commercial gain, so long as the act is in furtherance of the alleged infringer's legitimate business and is not solely for amusement, to satisfy idle curiosity, or for strictly philosophical inquiry, the act does not qualify for the very narrow and strictly limited experimental use defense. Moreover, the profit or non-profit status of the user is not determinative.³⁰

Had the court focused on the narrow issue in the case—whether using a research tool research constituted infringement—the case would not be controversial.³¹ The scientists were using the patented laser inventions for their intended purpose as research tools rather than *experimenting on* the claimed inventions (e.g., improving the lasers or finding a new use for them).³² However, the court instead took the opportunity to apply the same limited role for the experimental use defense in the area of university and non-profit research institutions as for other business applications.³³

B. Creation of the Statutory Experimental Use Exemption

While the Federal Circuit's decision in *Roche* was almost certainly correct from a doctrinal and policy perspective,³⁴ Congress reacted quickly in reaction to pressure from the public and generic drug companies and overturned *Roche* by enacting the Drug Price Competition and Patent Term Restoration Act of 1984, also known as the Hatch-Waxman Act.³⁵ The Act provided two key provisions that dealt with unintended distortions at both ends of the seventeen year patent term due to the lengthy FDA approval process for pharmaceuticals.³⁶ At the beginning of the term, pharmaceutical companies were losing money because the FDA approval process consumed part of the patent term.³⁷ At the end of the term, pharmaceutical companies were enjoying an unintended extension after the

29. *See id.* at 1362.

30. *Id.*

31. *See* Mueller, *supra* note 13, at 941.

32. *Id.*

33. *Id.*

34. *Id.* at 933.

35. *See* Drug Price Competition and Patent Term Restoration Act of 1984, Pub. L. No. 98-417, 98 Stat. 1585 (codified at 15 U.S.C. §§ 68(b)-(c), 70(b) (1994); 21 U.S.C. §§ 301 n. 355, 360cc (1994); 28 U.S.C. § 2201 (1994); 35 U.S.C. §§ 156, 271, 282 (1994)).

36. *Id.*; *see* Eli Lilly & Co. v. Medtronic, Inc., 496 U.S. 661, 669 (1990).

37. *Medtronic*, 496 U.S. at 669-70.

expiration of their patent term because generic competitors could not begin the FDA approval process until the patent term expired.³⁸ Even though the two distorting effects were roughly offsetting, Congress chose to eliminate the distortions at both ends of the patent term.³⁹

Thus, the Hatch-Waxman Act satisfied both the pharmaceutical companies and generic manufacturers. First, pharmaceutical companies obtained an extension on the patent term to compensate them for time spent in the regulatory process.⁴⁰ Second, enacting an experimental use exemption allowed generic drug companies to begin the FDA approval process before the patent on the drug expired. This exemption, codified in 35 U.S.C. § 271(e)(1), states:

It shall not be an act of infringement to make, use, offer to sell, or sell within the United States or import into the United States a patented invention . . . solely for uses reasonably related to the development and submission of information under a Federal law which regulates the manufacture, use or sale of drugs

Thus, the statutory experimental use exemption was born, and generic drug companies could begin marketing their products as soon as the pioneer drug's patent expired.

However, beyond the specific context of FDA approval for generic drugs, the boundaries of the statutory experimental use exemption remain unclear. While the statute specifically addresses generic drugs, the court has expanded its scope to include medical devices. The following Sections investigate the legislative history of the statutory experimental use exemption in order to shed light on the congressional intent behind the Act and map out the subsequent judicial expansion of the exemption leading up to *Merck*.

1. *Legislative History of § 271(e)(1)*

Congress's purpose behind § 271(e)(1) was to allow a limited experimental use exemption for the regulatory approval of generic drugs.⁴¹ According to the House Committee on the Judiciary, the purpose of the Hatch-Waxman Act was to allow "a limited amount of testing so that generic manufacturers can establish the bioequivalency of a generic substi-

38. *Id.* at 669-71.

39. *Id.* at 672.

40. *Id.* at 669-71.

41. H.R. REP. NO. 98-857, pt. 1, at 15 (1984), *reprinted in* 1984 U.S.C.C.A.N. 2647, 2648.

tute” prior to expiration of the drug patent.⁴² In specific reference to the facts of *Roche*, the House Committee on Energy and Commerce reiterated that the purpose of the exemption was to allow experimentation on a patented drug in preparation for commercial use after expiration of the patent.⁴³ Because drug companies would not market the generic drug until after the initial patent expired, the House Committee assumed that the impact on patent rights would be minimal.⁴⁴

However, the House Committee on the Judiciary also made sweeping comments that are susceptible to an interpretation that allows the Act to be applied outside the scope of generic drug approval:

[T]he committee . . . balance[d] the need to stimulate innovation against the goal of furthering the public interest. Just as we have recognized the doctrine of fair use in copyright, it is appropriate to create a similar mechanism in the patent law. This is all this bill does.⁴⁵

This statement, standing alone, could be construed to allow a broad experimental use exemption outside the narrow application of generic drug approval. However, the context of the rest of the House Report makes clear that courts should apply the Act only to generic drug approval. In passing the Act, Congress intended to overturn *Roche* and create a specific statutory experimental use exemption for generic drug approval because the unique regulatory issue confronted in the industry required it.⁴⁶

2. *Judicial Expansion of the Hatch-Waxman Act*

Contrary to the legislative purpose of the Hatch-Waxman Act, the courts expanded the statutory provisions of § 271(e)(1) to apply beyond regulatory approval for generic drugs.⁴⁷ Courts interpreted the phrase “un-

42. H.R. REP. NO. 98-857, pt. 2, at 8, *reprinted in* 1984 U.S.C.C.A.N. 2647, 2692.

43. H.R. REP. NO. 98-857, pt. 1, at 45, *reprinted in* 1984 U.S.C.C.A.N. 2647, 2678.

44. H.R. REP. NO. 98-857, pt. 2, at 8, 30, *reprinted in* 1984 U.S.C.C.A.N. 2647, 2714, 2792 (The House Committee on the Judiciary noted that the “nature of the interference with the rights of the patent holder” would not be “substantial,” but would be “de minimus [sic.]”); *see also* H.R. REP. NO. 98-857, pt. 1, at 46, *reprinted in* 1984 U.S.C.C.A.N. 2647, 2679 (“It is the [House Committee on Energy and Commerce’s] view that experimental activity does not have any adverse economic impact on the patent owner’s exclusivity during the life of a patent, but prevention of such activity would extend the patent owner’s commercial exclusivity beyond the patent expiration date.”).

45. H.R. REP. NO. 98-857, pt.2, at 30, *reprinted in* 1984 U.S.C.C.A.N. 2647, 2714.

46. *Id.*

47. *See Merck KGaA v. Integra Lifesciences I, Ltd.*, 125 S. Ct. 2372 (2005); *Eli Lilly & Co. v. Medtronic, Inc.*, 496 U.S. 661 (1990); *Abtox, Inc. v. Exitron Corp.*, 122

der a Federal Act” to include not just drugs and medical devices but any product developed under federal guidelines.⁴⁸ Additionally, courts determined that the term “reasonably related” excluded infringing uses such as trade shows, demonstrations, and recruitment since these activities could be “reasonably related” to FDA approval.⁴⁹

In *Eli Lilly v. Medtronic, Inc.*,⁵⁰ the Court considered whether medical devices fell under the exemption. Although medical devices are not drugs, per the text of the exemption, they are subject to FDA regulation and approval under the Federal Food, Drug, and Cosmetic Act.⁵¹ The Federal Circuit ruled that the statutory exemption is not limited to drugs and extended it to medical devices that undergo the lengthy FDA approval process.⁵² The Supreme Court affirmed the decision, finding that “[t]he phrase ‘patented invention’ in § 271(e)(1) is defined to include all inventions, not drug-related inventions alone.”⁵³ The Court dismissed the next part of the statute, which used the word “drugs,” as ambiguous and incomprehensible.⁵⁴ The Court further rejected any interpretation based upon legislative history.⁵⁵

From *Medtronic*, the path of expansion continued.⁵⁶ In 1993 and 1997, the Federal Circuit granted safe harbor to all medical devices, even those that do not undergo lengthy FDA approval.⁵⁷ Thus, the original rationale behind the Hatch-Waxman Act—eliminating a de facto patent term extension while the competitor went through the FDA approval process—was no longer relevant. Another extension occurred in 1993, when the Federal Circuit found that data from foreign sales and U.S. trade shows was “rea-

F.3d 1019 (Fed. Cir. 1997); *Chartex Int’l v. M.D. Personal Prods. Corp.*, 5 F.3d 1505 (Fed. Cir. 1993) (unpublished table decision).

48. Freeburg, *supra* note 20, at 371 (citing *Abtox*, 122 F.3d at 1030).

49. *Id.* at 370.

50. 496 U.S. at 661.

51. *See Medtronic*, 872 F.2d at 406. The Federal Food, Drug, and Cosmetic Act is a Federal law that regulates the manufacture, use, or sale of drugs.

52. *Id.* (“No persuasive reason is suggested why Congress would create an exception with respect to those activities for drugs only, particularly as medical devices receive the benefit of the companion patent term restoration legislation.”).

53. *Medtronic*, 496 U.S. at 665.

54. *Id.* at 668-69. The statute reads “a Federal law which regulates the manufacture, use or sale of drugs.” 35 U.S.C. § 271(e)(1).

55. *Medtronic*, 496 U.S. at 669.

56. *See Merck KGaA v. Integra Lifesciences I, Ltd.*, 125 S. Ct. 2372 (2005); *Abtox, Inc. v. Exitron Corp.*, 122 F.3d 1019 (Fed. Cir. 1997); *Chartex Int’l v. M.D. Personal Products Corp.*, 5 F.3d 1505 (Fed. Cir. 1993) (unpublished table decision).

57. *See Abtox, Inc. v. Exitron Corp.*, 122 F.3d 1019 (Fed. Cir. 1997); *Chartex*, 5 F.3d at 1505 (unpublished table decision).

sonably related” to obtaining FDA approval for an implantable cardiac defibrillator even though premarket approval had not been obtained.⁵⁸ Thus, the exempted use no longer needed to be directly related to FDA approval. The latest expansion of the statutory exemption occurred in *Merck*. While the Federal Circuit declined to expand § 271(e)(1) in *Integra LifeSciences I, Ltd. v. Merck KGaA*,⁵⁹ the Supreme Court overturned the decision and applied § 271(e)(1) far upstream of any FDA approval process.⁶⁰

II. *MERCK KGAA V. INTEGRA LIFESCIENCES I, LTD.*

The *Merck* case provided the Federal Circuit and the Supreme Court an opportunity to clarify the boundaries of the statutory exemption. However, the ten-year saga of the *Merck* litigation left researchers, pharmaceutical companies, and research tool companies with more questions than answers.

A. Factual Background

Integra LifeSciences I, Ltd. (“Integra”) accused Merck KGaA (“Merck”) of infringing five of its patents covering short amino-acid sequences, known as peptides, which include the three amino-acid sequence “RGD,” and methods of using the peptides to regulate cellular adhesion.⁶¹ Although Integra’s predecessor, Telios, believed that the peptides’ ability to regulate cellular adhesion could be used therapeutically to stimulate wound healing, it was never able to develop the patented technology into a drug candidate suitable for clinical trials.⁶²

In 1988, Merck began funding the research of Dr. David Cheresh at the Scripps Research Institute (“Scripps”).⁶³ Dr. Cheresh had previously discovered that inhibition of cellular adhesion can suppress angiogenesis, the process of generating new blood vessels.⁶⁴ Scientists believed that inhibition of angiogenesis has applications in cancer therapy because re-

58. *Intermedics, Inc. v. Ventrics Co.*, 991 F.2d 808 (Fed. Cir. 1993) (unpublished table opinion), *cert denied*, 513 U.S. 876 (1994).

59. 331 F.3d 860 (Fed. Cir. 2003) [hereinafter *Integra*].

60. *Merck*, 125 S. Ct. at 2380-83.

61. “RGD” refers to a three amino-acid peptide having the sequence arginine-glycine-aspartic acid. The patents are U.S. Patent Nos. 4,789,734; 4,879,237; 4,988,621; 5,695,997; and 4,792,525. *Integra*, 331 F.3d at 862.

62. *Id.* at 873.

63. *Merck*, 125 S. Ct. at 2377.

64. *Integra*, 331 F.3d at 863.

stricted blood supply inhibits tumor growth.⁶⁵ From 1995 to 1998, Dr. Cheresh tested a library of RGD peptides that Merck provided as potential drug candidates for inhibiting angiogenesis.⁶⁶ These tests measured the efficacy, specificity, and toxicity of the particular peptides as angiogenesis inhibitors and evaluated their mechanism and pharmacokinetics in animals.⁶⁷ From this research, Scripps decided in 1997 that the peptide, EMD 121974, was the most promising candidate for testing in humans and filed an investigational new drug application (IND) in 1998.⁶⁸

In 1996, Integra filed a patent infringement suit against Merck.⁶⁹ Integra alleged that Merck willfully infringed and induced others to infringe its patents by supplying the RGD peptide to Scripps.⁷⁰ In its answer, Merck responded that its actions did not infringe Integra's RGD peptide patents and that they were protected both by the common-law research exemption and the safe harbor provision of 35 U.S.C. § 271(e)(1).⁷¹ The jury found that Merck infringed several of Integra's patents, and the district court concluded that the § 271(e)(1) did not cover the work performed for Merck at Scripps.⁷² The jury awarded Integra a reasonable royalty of \$15 million.⁷³

B. The Federal Circuit's Analysis

Merck appealed to the Federal Circuit where a divided panel of the Court of Appeals upheld the District Court's decision that § 271(e)(1) did not apply to the work Scripps performed for Merck.⁷⁴

1. *The Majority Opinion*

According to the court, the exemption was not applicable because "the Scripps work sponsored by Merck was not clinical testing to supply information to the FDA, but only general biomedical research to identify new pharmaceutical compounds."⁷⁵ The court focused on the text of the statute, particularly the phrase "solely for uses reasonably related to the

65. See George Fox, *Integra v. Merck: Limiting the Scope of the § 271(e)(1) Exception to Patent Infringement*, 19 BERKELEY TECH. L.J. 193, 200-02 (2004).

66. *Merck*, 125 S. Ct. at 2378.

67. *Id.*

68. *Id.* at 2379.

69. *Id.*

70. *Id.*

71. *Id.*

72. *Id.* at 2380.

73. *Id.*

74. *Integra*, 331 F.3d at 868.

75. *Id.* at 866.

development and submission of information' to the FDA."⁷⁶ It found that uses, such as Merck's, which merely identify a compound as a good candidate for clinical trials fall outside the scope of § 271(e)(1).⁷⁷

In exploring the legislative history of § 271(e)(1), the court determined that the express objective of § 271(e)(1) was to allow for the immediate entry of generic drugs into the market when the pioneer drug patent expired and that it was narrowly tailored to have only a de minimis impact on the patentee's right to exclude.⁷⁸ The court held that extending the safe harbor to include Merck's activities would not confine the exemption to a de minimis impact on the patentee's rights.⁷⁹ Additionally, the court noted that extending the exemption would effectively abolish biotechnology research tool patents,⁸⁰ and this was not the intent of § 271(e)(1).⁸¹ The Federal Circuit did not address the common law experimental use exception.⁸² Although Merck raised the common law experimental use defense at the district court level, it did not pursue the defense at the Federal Circuit, relying only on the statutory exemption of § 271(e)(1).⁸³

2. Judge Newman's Dissent

Judge Newman's dissent expressed concern that the majority decision effectively eliminated the common law research exemption.⁸⁴ In her view, either the common law research exemption or the § 271(e)(1) statutory experimental use defense covered Merck's activities.⁸⁵

Regarding the common law experimental use exemption, Judge Newman pointed out that the "subject matter of patents may be studied in order to understand it, or to improve upon it, or to find a new use for it, or to modify or 'design around' it."⁸⁶ Thus, prohibiting research upon a patent

76. *Id.*

77. *Id.* at 867.

78. *Id.*

79. *Id.*

80. *Id.* at 872 n.4. According to the National Institutes of Health (NIH), research tools are defined to be "tools that scientists use in the laboratory, including cell lines, monoclonal antibodies, reagents, animal models, growth factors, combinational chemistry and DNA libraries, clones and cloning tools (such as PCR), methods, laboratory equipment and machines." *Id.* (citing Biomedical Research Resources: Principles and Guidelines for Recipients of NIH Research Grants and Contracts, 64 Fed. Reg. 72090, 72092 n.1 (Dec. 23, 1999)).

81. *Id.* at 867.

82. *Id.* at 864 n.2.

83. *Id.*

84. *Id.* at 872-73 (Newman, J., dissenting).

85. *Id.* at 874.

86. *Id.* at 875.

would impede technological advancement and would run counter to the framework of patent law.⁸⁷ Additionally, patent law implicitly allows for experimental use, because there would be little value in requiring public disclosure of an invention if the invention could not be experimented upon until the patent expired.⁸⁸ Judge Newman acknowledged that there is a limit on the common law exemption and proposed that the boundary may lie in the distinction between “research” and “development.”⁸⁹ She proposed that courts apply the exemption to research conducted to understand, improve upon, or modify the patented subject matter, even if the ultimate goal is profit.⁹⁰ She also agreed with the majority that the § 271(e)(1) exemption does not “reach back down the chain of experimentation to embrace development and identification of new drugs” but asserted that it simply picks up where the experimental use defense leaves off.⁹¹

In addressing the issue of research tools, Judge Newman determined that a common law research exemption would not eliminate research tool patents because the “[u]se of an existing tool in one’s research is quite different from study of the tool itself.”⁹² Thus, the court must distinguish between *research on* patented things, which has always been permitted, versus *research using* patented things, which has never been permitted.⁹³

C. The Supreme Court’s Decision

The Supreme Court reversed the decision of the Federal Circuit and delivered a unanimous opinion holding that: (1) the exemption set forth by § 271(e)(1) includes preclinical studies of patented compounds that are appropriate for submission to the FDA in the regulatory process; (2) the exemption is not limited only to preclinical data pertaining to safety of drugs in humans; and (3) the exemption does not categorically exclude either experimentation on drugs that are not ultimately the subject of an FDA submission or the use of patented compounds in experiments that are not ultimately submitted to the FDA.⁹⁴

The Court vacated and remanded the decision of the Federal Circuit with instructions that the evidence presented at trial was to be reviewed

87. *Id.*

88. *Id.*

89. *Id.* at 876.

90. *Id.*

91. *Id.* at 877 (citing the majority opinion at 845-55).

92. *Id.* at 878 (Newman, J., dissenting).

93. *Id.* at 878 & n.10.

94. *Merck KGaA v. Integra Lifesciences I, Ltd.*, 125 S. Ct. 2372, 2380-83 (2005).

under the standards set forth in the jury instruction, which the Court believed to be consistent with the construction of § 271(e)(1) that the Court adopted.⁹⁵

In the opinion written by Justice Scalia, the Supreme Court broadened the § 271(e)(1) experimental use exemption and proclaimed that the statutory text “provides a wide berth” for using patented drugs in activities related to the federal regulatory process.⁹⁶ The Court framed the issue as “whether uses of patented inventions in preclinical research, the results of which are not ultimately included in a submission to the [FDA], are exempted from infringement by 35 U.S.C. § 271(e)(1).”⁹⁷ In resolving the matter, the Court did not consider the legislative intent behind the statute. Instead, the Court scrutinized the statutory text and then evaluated the reality of the drug development process.

First, the Court found that “§ 271(e)(1)’s exemption from infringement extends to all uses of patented inventions that are reasonably related to the development and submission of *any* information under the [Federal Food, Drug and Cosmetic Act].”⁹⁸ The court determined that this exemption includes the following activities:

Clinical and preclinical studies of patented compounds that are appropriate for submission to the FDA in the regulatory process;
Preclinical studies of the pharmacological, toxicological, pharmacokinetic, and biological qualities of the drug in animals;
Preclinical studies that provide information to the FDA so that the investigator can make a “risk-benefit assessment of the appropriateness of the proposed [clinical] trial”; and

95. *Id.* at 2384. The district court gave the following jury instruction regarding the § 271(e)(1) safe harbor exemption: “To prevail on this defense, [Merck] must prove by a preponderance of the evidence that it would be objectively reasonable for a party in [Merck’s] and Scripps’[s] situation to believe that there was a decent prospect that the accused activities would contribute, relatively directly, to the generation of the kinds of information that are likely to be relevant in the processes by which the FDA would decide whether to approve the product in question. Each of the accused activities must be evaluated separately to determine whether the exemption applies. [Merck] does not need to show that the information gathered from a particular activity was actually submitted to the FDA.” *Id.* at 2379.

96. *Merck*, 125 S. Ct. at 2380.

97. *Id.* at 2376.

98. *Id.* at 2380 (emphasis added).

Safety-related experiments even when not conducted under good laboratory practices and not suitable for submission to the FDA in an investigational new drug application.⁹⁹

Next, the Court considered the unpredictability of the trial-and-error process of drug development. Because there is no way to predict which drugs will make it to the FDA process, the Court concluded that Congress could not have intended to limit § 271(e)(1)'s safe harbor to information developed for submission to the FDA.¹⁰⁰ In its broader reading of § 271(e)(1), the Court determined that if a drug manufacturer has a "reasonable basis" for believing that a patented compound may work to produce a particular effect, and it uses the compound in research that would be appropriate to submit to the FDA, then § 271(e)(1) protects the use.¹⁰¹ Additionally, the Court determined on similar grounds that the use of a patented compound in experiments that are not themselves included in a submission of information to the FDA does not make the use infringing.¹⁰²

The Court did not address two important issues: the common law experimental use exception and the impact of § 271(e)(1) on "research tools." In fact, the Court explicitly stated in a footnote that it was not expressing an opinion as to whether § 271(e)(1) exempts "research tools" from infringement in the development of information for the regulatory process.¹⁰³

III. ANALYSIS

This Note calls for a congressional enactment of a new limited, but balanced, experimental use exemption in patent law. It is necessary not only in the field of biotechnology, but across all areas of industry. Section A analyzes the Supreme Court's decision in *Merck*. Section B recommends a broad statutory experimental use exemption, analogizes such an exemption to those found in many of the world's leading patent systems and the fair use doctrine in copyright law, and addresses the concerns of research tool companies.

99. *Id.* at 2380-82.

100. *Id.* at 2383.

101. *Id.*

102. *Id.*

103. *Id.* at 2382 n.7.

A. The Supreme Court was Correct in Drawing a Far Upstream Boundary for § 271(e)(1) Because of the Uncertainty that Exists in Pharmaceutical Development

The Court's interpretation of § 271(e)(1) in *Merck* is appropriate because it leaves adequate space for experimentation and failure on the road to regulatory approval. The Court reasoned that this broad exemption was necessary because "even at late stages in the development of a new drug, scientific testing is a process of trial and error,"¹⁰⁴ and "Congress did not limit § 271(e)(1)'s safe harbor to the development of information for inclusion in a submission to the FDA."¹⁰⁵ The Court emphasized the reach of the upstream boundary and explained that:

[I]t does not follow . . . that § 271(e)(1)'s exemption from infringement categorically excludes either (1) experimentation on drugs that are not ultimately the subject of an FDA submission or (2) use of patented compounds in experiments that are not ultimately submitted to the FDA. Under certain conditions, we think the exemption is sufficiently broad to protect the use of patented compounds in both situations.¹⁰⁶

Thus, the drug manufacturer must simply have a "reasonable basis" for believing that a patented compound may produce a particular effect and conduct research on the compound that could be submitted to the FDA.¹⁰⁷ However, the Court cautioned that it also agreed with the Federal Circuit in that the safe harbor "does not globally embrace all experimental activity that at some point, however attenuated, may lead to an FDA approval process."¹⁰⁸

According to Judge Newman, the statutory exemption should apply where the common law exemption stops.¹⁰⁹ However, the common law exemption is on shaky ground after *Madey* and *Embrex*, and some wonder if it even still exists.¹¹⁰ With the uncertain footing of the common law experimental use exemption, allowing the statute to reach back as far as its text permits gives pharmaceutical companies some certainty in how to proceed.

104. *Id.* at 2382-83.

105. *Id.* at 2383.

106. *Id.* at 2382.

107. *Id.* at 2383 (quoting 35 U.S.C. § 271(e)(1) (2000)).

108. *Id.* at 2382 (quoting *Integra LifeSciences I, Ltd. v. Merck KGaA*, 331 F.3d 860 (Fed. Cir. 2003)).

109. *Integra*, 331 F.3d at 876 (Newman, J., dissenting).

110. See *supra* notes 23-33 and accompanying text.

Merck appeared to be an ideal case for the common law experimental use exemption. *Integra*, the first patentee, owned patent rights to a genus of "RGD peptide."¹¹¹ *Merck*, the second patentee, created specific RGD peptides, that while novel and unobvious with regards to the peptides specifically disclosed in the *Integra* patent, infringed because they were within the genus the first patent covered.¹¹² Additionally, the utility of *Integra*'s patents was to promote wound healing whereas the utility of *Merck*'s patent was to provide a cancer treatment.¹¹³ *Merck* had no intention of selling the drug commercially until *Integra*'s patents expired.¹¹⁴ Thus, "Merck had a seemingly perfect case under the experimental use defense as its tests of the RGD peptides were to *study* and develop new RGD peptides and test their efficacy and otherwise determine which candidate RGD should be selected for clinical trials."¹¹⁵ However, perhaps in light of the dicta in *Embrex* and *Madey*, *Merck*'s new counsel for the Federal Circuit case expressly abandoned the experimental use defense and relied entirely on the statutory safe harbor of § 271(e)(1).¹¹⁶

Unfortunately, *Merck* does not provide adequate guidance on the boundaries of the experimental use defense for pharmaceutical companies or research tool companies, nor does it provide protection for experimental use outside of the areas of biotechnology and medical devices. Given the inability of the courts to clearly define an experimental use exemption, and their attempt to stretch the current statutory exemption for generic drugs far beyond its intended purpose, it is time for Congress to enact a broad experimental use defense.

B. Congress Should Enact a Well-Defined Experimental Use Exemption

Several commentators advocate a more robust experimental use doctrine.¹¹⁷ Additionally, in *Madey*, the Solicitor General submitted an amicus

111. Harold C. Wegner, *Post-Merck Experimental Use and the "Safe Harbor"*, 15 FED. CIR. B.J. 1, 19 (citing *Merck*, 125 S. Ct. at 2377).

112. *Id.* (citing *Merck*, 125 S. Ct. at 2378).

113. *Id.* (citing *Integra*, 331 F.3d at 862-63).

114. *Integra*, 331 F.3d at 863.

115. Wegner, *supra* note 111, at 21.

116. *Id.* (citing *Integra*, 331 F.3d at 860).

117. See Mueller, *supra* note 13, at 919 (calling for the congressional enactment of a limited but balanced experimental use exemption in patent law); Katherine J. Strandburg, *What Does the Public Get? Experimental Use and the Patent Bargain*, 2004 WIS. L. REV. 81, 146 (2004) (proposing that experimenting on a patented invention should be broadly permitted without regard to commercial intent, but that experimenting with a patented invention (as in the case of research tools) should be subject to a two-tiered compulsory

curiae brief arguing that the policy concerns were more suited to legislative rather than judicial consideration because the courts are not suited to engage in the kind of nuanced policy balancing necessary to craft a meaningful experimental use defense.¹¹⁸ Given the inability of the courts to articulate a well-defined experimental use exemption, a legislative solution is in order.

A broad experimental use doctrine is in harmony with the goals of the patent system. According to Thomas Jefferson, the primary purpose of granting patent monopolies is to benefit the public, not to reward labor.¹¹⁹ The Court has traditionally upheld this vision, holding that “[t]he primary objective of [intellectual property] is not to reward the labor . . . but [t]o promote the Progress of Science and the useful Arts.”¹²⁰ The patent system benefits the public by encouraging inventors to disclose their inventions, not by ensuring a profitable monopoly for the inventor. A limited but meaningful experimental use exemption would further the constitutionally mandated goal of the patent system by permitting the dissemination of information.¹²¹ Because innovation builds upon what came before, use of earlier innovations for experimental purposes enhances the process of creating new and improved inventions.¹²² The publication of issued patents is of little use to society if no one can experiment on the subject matter of the patent for the patent term.¹²³ Of course, an experimental use exemption must be carefully defined and judiciously applied so that it does not compromise incentives for innovation.¹²⁴

The right to experiment on a patented invention to create new inventions and to design around the patented invention is well established.¹²⁵

licensing scheme in which compulsory licenses would be available only after a limited period of patentee exclusivity).

118. Brief for the United States as Amicus Curiae at 15-16, *Duke Univ. v. Madey*, 538 U.S. 959 (2003) (No. 02-1007), available at <http://www.usdoj.gov/osg/briefs/2002/2pet/6invt/2002-1007.pet.ami.inv.html>.

119. *Graham v. Deere Co. of Kansas City*, 383 U.S. 1, 9 (1966).

120. *Feist Publ'ns Inc. v. Rural Tel. Serv. Co.*, 499 U.S. 340, 349 (1991) (quoting U.S. CONST. art. I, § 8, cl. 8); accord *Graham*, 383 U.S. at 7-8; *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 480 (1974); *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 429 (1984).

121. See Mueller, *supra* note 13, at 921.

122. *Id.*

123. *Id.*

124. *Id.* at 922.

125. 3 MARTIN J. ADELMAN ET AL., PATENT LAW PERSPECTIVES § 3.6[2], at 3-78(2)-(3); accord *Westvaco Corp. v. Int'l Paper Co.*, 991 F.2d 735 (Fed. Cir. 1993); *Slimfold Mfg. Co. v. Kinkead Indust., Inc.*, 932 F.2d 1453, 1457 (Fed. Cir. 1991).

This Note considers three scenarios in this context.¹²⁶ The first is the use of a patented product to try to find new uses for the product.¹²⁷ Second, this Note considers the situation in which a patent covers a genus and experimentation is done to find the best species.¹²⁸ A third scenario this Note considers is where a patent product is used in order to design around the existing patent such that the new product does not infringe the patent.¹²⁹ Infringement occurs when the line is crossed from using the patented invention to satisfy idle curiosity to using the patented invention for commercial gain.¹³⁰

1. A Broad Common Law Experimental Use Exemption Finds Precedent in European and Japanese Patent Law As Well As in the Fair Use Doctrine in Copyright

While there is concern that a broad experimental use exemption will decrease the rate of innovation, most of the world's leading patent systems have codified a general experimental use exemption to patent infringement.¹³¹ Germany, which has the most progressive courts in Europe in regards to experimental use, has an experimental use exemption in its patent law that states that "[t]he rights conferred by the Patent shall not extend to the acts done for experimental purposes relating to the subject matter of the patented invention."¹³² Additionally, the German Supreme Court expanded this exemption to include the right to test inventions regardless of whether or not commercial purposes motivated the testing.¹³³ Similarly, the United Kingdom's patent law provides that "[a]n act which, apart from this subsection, would constitute an infringement of a patent for an invention shall not do so if (a) it is done privately and for purposes which are not commercial; [or] (b) it is done for experimental purposes relating to

126. 3 ADELMAN ET AL., *supra* note 125, § 3.6[2], at 3-78(2) (describing the three scenarios).

127. *Id.*

128. *Id.*

129. *Id.* at 3-78(2), (3).

130. Rochelle Dreyfuss, *Protecting the Public Domain of Science: Has the Time for an Experimental Use Defense Arrived?*, 46 ARIZ. L. REV. 457, 458 (2004) ("[T]o early jurists, a clear distinction could be made between using patented material to learn about the patented invention and using patented material for business or for commerce—between using the patent to satisfy curiosity or using it to turn a profit.").

131. Mueller, *supra* note 13, at 969-70 & n.243 (noting that rather than following the United States on the experimental use issue, many nations "seem to be going the other direction").

132. Wegner, *supra* note 111, at 28 (citation omitted).

133. *Id.* at 28-29.

the subject matter of the invention.”¹³⁴ The Japanese have a clear-cut statutory experimental use exemption that states: “The effects of the patent right shall not extend to the working of the patent right for the purpose of experimentation or research.”¹³⁵

The experimental use exemption can also be analogized to the fair use doctrine in copyright, which allows unlicensed use of a copyrighted work provided the use meets a multi-factored standard.¹³⁶ The fair use doctrine, added to the copyright statute in 1976, finds its roots in the nineteenth century decisions of Justice Story.¹³⁷ While Justice Story also suggested a similar principal in patent law, an experimental use exemption in patent law has not yet taken hold.¹³⁸ According to Professor Janice Mueller, most scholars believe that the fair use doctrine affords a useful and important safety valve against over-inclusive application of copyright rights.¹³⁹ Maureen O’Rourke suggests that a similar system should be introduced in patent law to curb overly-broad patent rights.¹⁴⁰ Such a system should safeguard incentives to invent while providing an important safety valve to insure that innovation is not impeded.¹⁴¹

2. *A Legislative Proposal for a Broad Statutory Experimental Use Exemption*

Arguments for legislation of an experimental use exemption in patent law lie in its comparison with the fair use exemption in copyright, the judicial expansion of the narrow § 271(e)(1) exemption, and similar statutory enactments in the world’s leading patent systems. A broad experimental use defense must not be too narrow as to stifle research and restrict the ability to validate and build upon new knowledge. On the other hand, too broad a defense could cause companies to hesitate to invest in biotechnology research or rely on secrecy in lieu of patent protection.¹⁴² The strongest case for the experimental use defense is in designing around, or

134. Patents Act, 1977, c. 37, § 60(5) (Eng.), available at http://www.wipo.int/clea/docs_new/en/gb/gb001en.html.

135. Wegner, *supra* note 111, at 30 (citation omitted).

136. 17 U.S.C. § 107 (2000).

137. Mueller, *supra* note 13, at 926-27.

138. *Id.* at 927 (citation omitted).

139. *Id.* at 926 (citation omitted).

140. See generally Maureen A. O’Rourke, *Toward a Doctrine of Fair Use in Patent Law*, 100 COLUM. L. REV. 1177 (2000).

141. *Id.*

142. Rebecca S. Eisenberg, *Proprietary Rights and the Norms of Science in Biotechnology Research*, 97 YALE L.J. 177, 224 (1987).

developing alternatives to, a patented invention.¹⁴³ In this instance, the interests of the researcher are in line with the interest of the public.¹⁴⁴ The weakest case for the experimental use defense is when the researcher is using a patented invention in unrelated research effort, as is the case with research tools.¹⁴⁵

The House of Representatives proposed a highly plausible solution for the dilemma of what the experimental use exemption should be in the Patent Competitiveness and Technological Innovation Act of 1990.¹⁴⁶ The Act stipulates that the exemption should cover all patented inventions, provided that the use of the patented invention or process is done for the purpose of experimentation or research.¹⁴⁷ The House Report provides that:

the making or using of a patented invention solely for research or experimentation shall not be an act of patent infringement unless the patented invention has a primary purpose of research or experimentation. The exemption does not apply once a decision is made to commercialize the fruits of the research or experimentation. If the patented invention has a primary purpose of research or experimentation . . . it shall not be an act of infringement to manufacture or use one of these inventions to study, evaluate, or characterize it or to create a product outside the scope of the patent covering the particular invention.¹⁴⁸

The House Report justifies the Act on the grounds of public policy, the initial intent of patent law, and the realities of scientific research. In addressing the public policy concern and the intent behind patent rights, the Act states that:

It is a central tenet of American patent law that there is a right to use scientific information to create new and better inventions in competition with the patented invention . . . The framers of the Constitution clearly could not have envisioned shutting the door to further research for the long period of the patent grant.¹⁴⁹

The Act also takes research tools into consideration and ensures that they would not be swallowed up by the experimental use exemption. The Act

143. *Id.*

144. *Id.* at 225.

145. *Id.*

146. H.R. REP. NO. 101-960, pt. 1 (1990).

147. *Id.* at 2.

148. *Id.* at 41.

149. *Id.* (citations omitted).

carves out research tools by distinguishing between *experimentation on* a patented invention and *experimentation using* a patented invention as Judge Newman proposed in her dissent in *Integra*, and which has been widely accepted by commentators as an important factor in assessing experimental use.¹⁵⁰ Further, the Act excludes specific activities that would be exempted from patent infringement. According to the House Report:

The easiest method of limiting and describing the “experimental use of research exception” is to differentiate between *experimentation on* a patented invention and *experimentation using* a patented invention in order to accomplish another purpose, the former type of experimentation constituting the scope of the exception. Under this approach the following acts would not constitute patent infringement:

- (1) testing an invention to determine its sufficiency or to compare it to prior art;
- (2) tests to determine how the patented invention works;
- (3) experimentation on a patented invention for the purpose of improving on it or developing a further patentable invention;
- (4) experimentation for the purpose of “designing around” a patented invention;
- (5) testing to determine whether the invention meets the tester’s purposes in anticipation of requesting a license; and
- (6) academic instructional experimentation with the invention.

Business testing is clearly not an experimental use, and would not be authorized by Title IV.¹⁵¹

Had the court applied the *experimenting on* versus *with* distinction to the facts of *Merck*, the experimental use exemption would have resulted in the same outcome that the Supreme Court reached, and Judge Newman advocated.¹⁵² In *Merck*, Dr. Cheresch was *experimenting on* the patented RGD peptides in order to discover a new use for the peptides.¹⁵³ By contrast, in *Madey*, Duke researchers were *experimenting with* the patented lasers to conduct physics research; they were not trying to find a new use for the laser, or attempting to modify, improve or design around the laser.¹⁵⁴ Thus, the use in *Madey* was infringing while the use in *Integra* was not.¹⁵⁵

150. Mueller, *supra* note 13, at 956-57 (citations omitted).

151. H.R. REP. NO. 101-960, pt. 1, at 44-45 (1990).

152. Mueller, *supra* note 13, at 956-57 (citations omitted).

153. *Id.*

154. *Id.*

155. *Id.* at 957-58.

3. *Concerns of Research Tool Companies*

The most commonly stated objection to a broad experimental use doctrine is the possibility that it would reduce incentives for invention of new research tools.¹⁵⁶ Although an expanded experimental use exemption may result in some reduction of the development of research tools, it is just as likely that the lessening of the probability of royalty stacking problems will promote development of new products.¹⁵⁷ While the *experimenting on* versus *with* distinction carves out research tools, it may be difficult to apply at the margin. For example, a difficult problem may lie in the case of antibodies where the product is both a tool and a drug. In these cases, an inquiry will have to determine how the product was used. However, under an appropriately constructed *experimenting on* versus *experimenting with* distinction, research tools may effectively be carved out and protected.

IV. CONCLUSION

Given the uncertainty in the experimental use exemption, and the court's inability to craft an appropriately nuanced standard through judicial decision, it is time for Congress to enact a limited, but balanced, experimental use exemption similar to exemptions that exist in other patent systems and the fair use provision in copyright. While many companies will still choose to seek licenses *ex ante* in order to avoid the risk of an *ex post* hold up,¹⁵⁸ such an exemption would add certainty to the experimental use defense when issues arise. It is for the legislature, not the judiciary, to form the nuanced policy that must encompass a broad experimental use exemption. Given the diverse interests in Congress, it may be difficult to reach consensus, but the result is preferable to allowing the judiciary to incrementally expand the narrow foothold granted under § 271(e)(1) while at the same time dismissing the common law experimental use exemption.

156. Mueller, *supra* note 16, at 41 (citations omitted).

157. *Id.*

158. PETER S. MENELL & SUZANNE SCOTCHMER, *Intellectual Property*, in *HANDBOOK OF LAW & ECONOMICS* (forthcoming 2006) (manuscript at 31, on file with authors).

PHILLIPS V. AWH CORP.: NO MIRACLES IN CLAIM CONSTRUCTION

By David Sanker

In 2004, the Federal Circuit agreed to hear *Phillips v. AWH Corp.* en banc and declared that it would address claim construction.¹ Given the critical role of patent claims and the problem created by the Federal Circuit's divergent views on the role of dictionaries in claim construction reflected in *Vitronics Corp. v. Conceptronic, Inc.*² and *Texas Digital Systems, Inc. v. Telegenix, Inc.*,³ *Phillips* presented a good opportunity to clarify claim construction because the technology at issue was simple and the case centered on a single disputed claim term.⁴

However, the *Phillips* opinion was anti-climactic. The court receded from the *Texas Digital* line of cases, which had elevated dictionaries to primary importance in claim construction.⁵ The court affirmed its holding in *Vitronics*, reiterating the primacy of intrinsic evidence over extrinsic evidence,⁶ and expanded on the hierarchy of claim construction sources.⁷ However, the court did not explain how to read claims in light of the specification without importing limitations from the specification into the claims did not adequately address the canons of claim construction, and did not address the issue of deference to trial courts.⁸

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The author hereby permits the reproduction of this Note subject to the Creative Commons Attribution 2.5 License, the full terms of which can be accessed at <http://creativecommons.org/licenses/by/2.5/legalcode>, and provided that the following notice be preserved: "This note was first published by the Regents of the University of California in the Berkeley Technology Law Journal's Annual Review of Law and Technology." 1. 376 F.3d 1382, 1382-83 (Fed. Cir. 2004) (en banc) [hereinafter *Phillips IV*].

2. 90 F.3d 1576 (Fed. Cir. 1996).

3. 308 F.3d 1193 (Fed. Cir. 2002).

4. The disputed claim term was "baffles." *Id.* at 1309-10.

5. See *Phillips v. AWH Corp.*, 415 F.3d 1303, 1319-22 (Fed. Cir. 2005) (en banc) [hereinafter *Phillips V*].

6. *Id.* at 1312-19.

7. *Id.* at 1317-19. In *Vitronics*, the court described the use of the claims themselves, the specification, and the patent prosecution history. See *Vitronics Corp. v. Conceptronic, Inc.*, 90 F.3d 1576, 1582-83 (Fed. Cir. 1996). The court's analysis of extrinsic evidence was not as extensive, but the court did state that expert testimony was less objective and reliable than other extrinsic sources. See *id.* at 1584-85.

8. See *Phillips V*, 415 F.3d at 1328 ("We have decided not to address that issue at this time.").

Part I of this Note provides historical background for claim construction, including the *Markman v. Westview Instruments, Inc.*⁹ decision in 1995. Part II of this Note provides a summary of the en banc *Phillips* decision. Part III analyzes *Phillips*, including the use of dictionaries, and the dilemma of how to read claims in light of the specification without importing limitations from the specification into the claims. Building on that discussion, Part IV addresses the high reversal rate for claim construction at the Federal Circuit.

I. LEGAL BACKGROUND

This Part begins by tracing the use of explicit claims to define patent scope. Next, this Part discusses *Markman v. Westview Instruments, Inc.*, in which the Supreme Court determined that claim construction is a matter of law.¹⁰ Finally, this Part examines two cases where the Federal Circuit articulated the hierarchy of evidentiary sources that courts may use to construe claims.

A. The Emergence of Patent Claims¹¹

The Patent Act of 1793 did not require patent applicants to write claims.¹² The Act only required patent applicants to provide a full explanation of the invention.¹³ In fact, a patentee was the first person to use “claim” as a verb to specifically denote the scope of his invention in a patent application.¹⁴ Congress introduced patent claims with the Act of 1836 and formalized the claim requirement in 1870.¹⁵ Claims continue to be required today.¹⁶

9. 52 F.3d 967 (Fed. Cir. 1995) (en banc) [hereinafter *Markman I*], *aff'd* 517 U.S. 370 (1996) [hereinafter *Markman II*].

10. *Markman II*, 517 U.S. at 372.

11. For a thorough review of the history of claim construction from 1790 to 1936, see Karl B. Lutz, *Evolution of the Claims of U.S. Patents*, 20 J. PAT. OFF. SOC'Y 134 (1938).

12. *Id.* at 134-35.

13. *Id.* at 135.

14. *Id.* at 135-36. On November 20, 1807, Isaiah Jennings received a patent, and he concluded the specification with the paragraph:

[s]uch is my invention and I claim the benefit and application of it to every mode of forming thimbles by its instrumentality, whether the machine be worked by the foot of the operator upon a treadle, by his hand through a winch, by a wheel turned by hand labour, or by any mechanism set in motion by water, or by any other power.

Id.

15. See 3 DONALD S. CHISUM, CHISUM ON PATENTS § 8.02 (2004).

16. See 35 U.S.C. § 112 (2000).

B. Claim Construction is a Matter of Law

Winans v. Denmead established that claim construction was a question of law.¹⁷ *Winans* designed an efficient railroad car for carrying coal.¹⁸ The shape was a vertical cylinder with an inverted cone at the bottom, enabling it to carry more coal than a typical rectangular railroad car.¹⁹ The defendants copied the design but created a car with an octagonal cross-section.²⁰ The trial court²¹ concluded that an octagon was not circular, so the defendant's railroad cars did not infringe.²² The Supreme Court reversed.²³

The Court's language in *Winans v. Denmead* foreshadows *Markman* by approximately 140 years.²⁴ The *Winans* Court pointed out that there are two questions in a patent trial: "What is the thing patented?" and "Has that thing been constructed, used, or sold by the defendants?"²⁵ The court then stated that the former is a question of law, to be determined by the court, and the latter is a question of fact, to be submitted to a jury.²⁶ Next, the Court reviewed the trial court's claim construction. The Court focused on whether the patentee had limited his claims to the embodiments in the specification.²⁷ Thus, only a few years after claims were first allowed in patents, the Supreme Court addressed how to read claims in light of the specification without importing limitations from the specification. In *Winans*, the Court chose to construe specifications liberally²⁸ unless an embodiment and the invention were inseparable.²⁹ Noting that no railroad car could be exactly circular, the Court concluded that any form sufficiently close to a circle would be covered by the patent if it achieved the same kind of result.³⁰

17. 56 U.S. 330, 338 (1854). This appears to be the first case to address whether claim construction was an issue of law or fact.

18. *Id.* at 339.

19. *Id.* at 339-40.

20. *Id.* at 340.

21. At the time of this case, federal trial courts were called "Circuit Courts." *See id.* at 338.

22. *See id.* at 340.

23. *Id.*

24. *Compare id.* at 338, with *Markman II*, 517 U.S. 370, 384 (1996).

25. *Winans*, 56 U.S. at 338.

26. *Id.*

27. *Id.* at 341.

28. *Id.*

29. *Id.* at 343.

30. *Id.* at 343-44.

More than 140 years later, the Supreme Court reaffirmed claim construction as a matter of law in *Markman*.³¹ There, the patentee invented an inventory system for dry-cleaning establishments.³² The dispute centered on whether “inventory” referred to articles of clothing or to monetary transactions and whether the judge or the jury should make that determination.³³ The Supreme Court held that judges should make that determination because claim construction involves interpreting legal documents, a task for which judges are particularly well-suited.³⁴ Because of the long history of judges interpreting contracts and other legal documents, the Court also held that its ruling was consistent with the Seventh Amendment’s guarantee of jury trials.³⁵

Although claim construction is a matter of law, some subsequent decisions by the Federal Circuit held that appellate courts should defer to trial courts on “factual matters” underlying claim construction.³⁶ The Federal Circuit accepted *Cybor Corp. v. FAS Technologies, Inc.* en banc to resolve this issue.³⁷ The second paragraph of the en banc opinion tersely disposed of the deference question.³⁸ Because the Supreme Court in *Markman* had unanimously affirmed that claim construction is a pure issue of law, the *Cybor* court interpreted this affirmation to fully support de novo review on appeal.³⁹ The Federal Circuit held that it would not defer to district courts on any “allegedly” underlying factual issues,⁴⁰ or even admit that there are any underlying factual issues.⁴¹

C. Claim Construction Evidence

To construe patent claims, a court uses the specification, prosecution history, dictionaries, and other sources of evidence, but not all sources have equal weight. Federal Circuit panels have addressed the issue of claim construction evidence and ultimately developed two competing

31. See *Markman II*, 517 U.S. 370, 372 (1996).

32. *Id.* at 971.

33. *Id.* at 970-71, 973.

34. See *Markman II*, 517 U.S. at 388.

35. *Id.* at 384.

36. See *Eastman Kodak Co. v. Goodyear Tire & Rubber Co.*, 114 F.3d 1547, 1555-56 (Fed. Cir. 1997); *Serrano v. Telular Corp.*, 111 F.3d 1578, 1586 (Fed. Cir. 1997) (Mayer, J., concurring); *Wiener v. NEC Elecs., Inc.*, 102 F.3d 534, 539 (Fed. Cir. 1996); *Metaullics Sys. Co. v. Cooper*, 100 F.3d 938, 939 (Fed. Cir. 1996).

37. 138 F.3d 1448 (Fed. Cir. 1998) (en banc).

38. *Id.* at 1451.

39. *Id.*

40. *Id.* at 1456.

41. *Id.* at 1455-56.

methodologies.⁴² The *Vitronics* court emphasized the probative weight of intrinsic evidence, including the specification, and noted that extrinsic evidence, such as expert testimony, is less valuable.⁴³ In *Texas Digital*, the court designated dictionaries, an extrinsic source, as the primary source of claim construction evidence.⁴⁴

1. *Intrinsic vs. Extrinsic Evidence*

In 1996, in *Vitronics*, the Federal Circuit consolidated claim construction methodology from several previous opinions.⁴⁵ The patent at issue claimed a method for soldering printed circuit boards on an assembly line.⁴⁶ The specification distinguished between the temperature at which the solder began to melt and the temperature yielding optimal solder flow, and the distinction was necessary for the patent claims to cover the preferred embodiment.⁴⁷ However, relying primarily on expert testimony, the district court accepted Conceptronic's argument that the two temperatures were identical.⁴⁸

On appeal, the Federal Circuit called into question the reliance by the district court on expert testimony to contradict clear evidence in the specification.⁴⁹ As the court noted, the public relies on the intrinsic record consisting of the patent specification and file history.⁵⁰ Citing *Markman*, the court emphasized the importance of competitors' ability to view the public records of patents and to determine the scope of the patents based on es-

42. See *Vitronics Corp. v. Conceptronic, Inc.*, 90 F.3d 1576 (Fed. Cir. 1996); *Texas Digital Sys., Inc. v. Telegenix, Inc.*, 308 F.3d 1193 (Fed. Cir. 2002). Judges Michel, Lourie, and Friedman were on the *Vitronics* panel, and judges Michel, Schall, and Linn were on the *Texas Digital* panel. *Vitronics*, 90 F.3d at 1576; *Texas Digital*, 308 F.3d at 1193. All of the aforementioned judges, with the exception of Judge Friedman, were part of the Phillips en banc majority. *Phillips V*, 415 F.3d 1303 (Fed. Cir. 2005) (en banc).

43. *Vitronics*, 90 F.3d at 1582-83.

44. *Texas Digital*, 308 F.3d at 1202-03.

45. 90 F.3d at 1576 (citing *Markman I*, 52 F.3d 967, 979-80 (Fed. Cir. 1995), *Bell Commc'ns Research, Inc. v. Vitalink Commc'ns Corp.*, 55 F.3d 615, 620 (Fed. Cir. 1995), *Graham v. John Deere & Co.*, 383 U.S. 1, 33 (1965), and *Pall Corp. v. Micron Separations, Inc.*, 66 F.3d 1211, 1216 (Fed. Cir. 1995)).

46. *Id.* at 1579.

47. *Id.*

48. *Id.* at 1581.

49. See *id.* at 1583.

50. Extrinsic evidence encompasses all other forms of evidence that bear on claim construction. See, e.g., *id.* at 1582-84.

established rules of claim construction.⁵¹ Competitors do not have access to expert testimony that will be created in future litigation.⁵²

Furthermore, the court ranked the types of intrinsic evidence and held a court should begin with the language of the disputed claims.⁵³ A court may consider even the language of claims that are not asserted because the language appearing in non-asserted claims may help to establish the meaning of terms that appear in disputed claims.⁵⁴ Next, a court must look to the specification because "it is the single best guide to the meaning of a disputed term."⁵⁵ Finally, the court may turn to the prosecution history of the patent if it is in evidence.⁵⁶ Expressing a somewhat optimistic view, the court declared that reviewing the intrinsic sources is generally adequate to "resolve any ambiguity in a disputed claim term."⁵⁷

Perhaps because of the court's assertion that extrinsic evidence is generally unnecessary to construe claim terms, the court did little to explain the relative ranking of types of extrinsic evidence outside of admonishing a court from using extrinsic evidence to contradict the meaning established by the intrinsic evidence.⁵⁸ Only when the meaning of a disputed claim term is ambiguous after consulting all of the intrinsic evidence may a court resort to consideration of extrinsic evidence.⁵⁹

2. *Dictionaries, First and Foremost*

In spite of the *Vitronics* precedent, the Federal Circuit proposed an alternative claim construction methodology in *Texas Digital Systems, Inc. v. Telegenix, Inc.*⁶⁰ The court focused on how to construe claims terms in light of the specification without reading limitations into the claims based

51. See *Markman I*, 52 F.3d 967, 978-79 (Fed. Cir. 1995) (en banc), *aff'd* 517 U.S. 370 (1996).

52. See *Vitronics*, 90 F.3d at 1584.

53. *Id.*

54. *Id.*; see also *Rexnord Corp. v. Laitram Corp.*, 274 F.3d 1336, 1342 (Fed. Cir. 2001). Although the *Vitronics* court indicated that "we look to the words of the claims themselves, both asserted and nonasserted," the opinion in *Rexnord* explained the reasoning by noting that "claim terms found in different claims should be interpreted consistently." *Vitronics*, 90 F.3d at 1582; *Rexnord*, 274 F.3d at 1342.

55. See *Vitronics*, 90 F.3d at 1582.

56. *Id.* at 1582-83.

57. *Id.* at 1583.

58. *Id.* at 1584-85. The only clear ranking is that expert testimony is at the bottom. "[P]rior art documents and dictionaries, although to a lesser extent, are more objective and reliable guides. Unlike expert testimony, these sources are accessible to the public in advance of litigation." *Id.*

59. *Id.*

60. See 308 F.3d 1193, 1204-05 (Fed. Cir. 2002).

on sample or preferred embodiments.⁶¹ District courts have found this dual set of admonishments difficult to apply objectively⁶² because the Federal Circuit essentially asked district court judges to read the specification into the claims without going too far.

The *Texas Digital* court resolved this dilemma by elevating the role of dictionaries.⁶³ In the *Texas Digital* panel's view, dictionaries are preferable to intrinsic evidence because they are prepared by objective third parties not affiliated with any of the parties in litigation, and they fix the meaning of a word at a particular time contemporaneous with the patent application date.⁶⁴ The court viewed dictionary definitions as presumptively correct definitions, whereas the intrinsic evidence from the specification and file history could only be used to rebut the presumptive definition.⁶⁵ The two most common cases of rebuttal are (1) where the patentee acts as his own lexicographer or (2) where the patentee makes an explicit disclaimer in the specification or file history.⁶⁶

However, the *Texas Digital* approach to claim construction was inconsistent with the *Vitronics* approach. According to the *Vitronics* court, dictionaries are part of the extrinsic evidence, so a court should refrain from using dictionaries in claim construction unless claim terms are ambiguous after consulting the intrinsic evidence.⁶⁷ But in *Texas Digital*, the roles are reversed, with dictionaries taking precedence over all other evidence, including intrinsic evidence.⁶⁸ It was only a matter of time before the Federal Circuit would have to resolve these conflicting approaches to claim construction.

II. CASE SUMMARY: PHILLIPS V. AWH CORP.

The *Vitronics* and *Texas Digital* methodologies for claim construction could not coexist. In order to fulfill its role of providing a uniform body of patent law,⁶⁹ the Federal Circuit had to establish a uniform standard for claim construction.

61. *Id.*

62. *Id.* at 1204 (citing, for example, *Generation II Orthotics Inc. v. Med. Tech. Inc.*, 263 F.3d 1356, 1367 (Fed. Cir. 2001) and *Loctite Corp. v. Ultraseal Ltd.*, 781 F.2d 861, 867 (Fed. Cir. 1985)).

63. *Id.* at 1205.

64. *Id.* at 1202-03.

65. *See id.* at 1206.

66. *See Phillips V*, 415 F.3d 1303, 1319 (Fed. Cir. 2005) (en banc).

67. *See Vitronics Corp. v. Conceptor, Inc.*, 90 F.3d 1576, 1584 (Fed. Cir. 1996).

68. *See Texas Digital*, 308 F.3d at 1205-06.

69. *See S. REP. NO. 97-275*, at 4 (1981).

A. Prelude to the En Banc Federal Circuit Opinion

Phillips held a U.S. patent for modular steel-shell panels.⁷⁰ The panels described in the patent are well-suited for prisons because they resist vandalism, insulate against fire and noise, and are able to bear substantial loads.⁷¹ The panels consist of exterior steel shells and interior steel baffles.⁷² Phillips licensed his patent to the defendant.⁷³ However, after termination of the license agreement, the defendant continued to manufacture modular panels.⁷⁴ Phillips alleged that the defendant's panels infringed his patent.⁷⁵

In order to determine whether AWH infringed the patent, the court had to construe claim language regarding the orientation of the steel baffles.⁷⁶ The claims referred to "internal steel baffles extending inwardly from the steel shell walls."⁷⁷ The embodiments depicted in the specification all illustrated the internal steel baffles at acute angles with the steel shell walls.⁷⁸ In addition, the specification repeatedly referred to the ability of the panels to deflect projectiles.⁷⁹ The district court judge reasoned that such deflection would not occur if the baffles were disposed at ninety degree angles.⁸⁰ Thus, based upon the specification, the judge concluded that the patent claims did not encompass baffles at ninety degree angles with the steel shell walls.⁸¹ Consequently, the defendant's product which located the baffles perpendicular to the walls did not fall within the scope of the patent.⁸²

On appeal, the Federal Circuit held that the language in the specification required a restrictive interpretation of the claims.⁸³ The majority affirmed the trial court's claim construction, which excluded baffles perpen-

70. U.S. Patent No. 4,677,798 (filed Apr. 14, 1986).

71. See *Phillips v. AWH Corp.*, No. 97-MK-212 (CBS), 2002 U.S. Dist. LEXIS 27298, at *3-*4 (D. Colo. Nov. 22, 2002) [hereinafter *Phillips I*].

72. *Id.* at *5.

73. *Phillips V*, 415 F.3d 1303, 1309 (Fed. Cir. 2005) (en banc).

74. *Id.*

75. *Id.*

76. See *Phillips I*, 2002 U.S. Dist. LEXIS 27298 at *8.

77. *Id.* at *31.

78. *Id.* at *49.

79. *Id.* at *21-*23.

80. *Id.* at *51-*52.

81. *Id.*

82. *Phillips v. AWH Corp.*, No. 97-MK-212 (CBS), 2003 U.S. Dist. LEXIS 25199 (D. Colo. Jan. 22, 2003) [hereinafter *Phillips II*].

83. *Phillips v. AWH Corp.*, 363 F.3d 1207, 1213 (Fed. Cir. 2004) [hereinafter *Phillips III*].

dicular to the walls.⁸⁴ Judge Dyk dissented, arguing that the panel's construction of the term "baffles" was contrary to the plain meaning of the term.⁸⁵ He argued that the court should adopt the general dictionary definition of a baffle as "something for deflecting, checking, or otherwise regulating flow."⁸⁶ According to Judge Dyk, the court should not impose limitations on the claims based on the preferred embodiment.⁸⁷

B. The En Banc Federal Circuit Opinion

In 2004, the court vacated the original panel's decision and granted a petition for the case to be heard en banc.⁸⁸ At that time, the court invited additional parties to submit briefs,⁸⁹ and indicated the court would address the relative roles of the specification, prosecution history, dictionaries (technical and general), and expert testimony.⁹⁰ The court also asked parties to address the notion of narrowing claims solely to preserve validity and the issue of deference to trial courts on any aspects of claim construction.⁹¹

1. The Majority Opinion

The *Phillips* opinion explicitly affirmed the claim construction methodology from *Vitronics*,⁹² and slightly expanded the *Vitronics* analysis. The majority acknowledged the objective of not importing limitations from the specification into the claims, but concluded that dictionaries should not have the primary role in claim construction.⁹³ The court also distinguished between using a dictionary or treatise in order to understand the underlying technology of a patent and using a dictionary or treatise to construe the meaning of claim terms.⁹⁴ Courts may employ the former usage,⁹⁵ but they may not use dictionaries to contradict the definitions "ascertained by reading the patent documents."⁹⁶

The court articulated six sources of evidence for claim construction and assigned relative weights to each. The sources, in order of importance,

84. *Id.* at 1214.

85. *Id.* at 1217 (Dyk, J., dissenting).

86. *Id.* at 1216-17 (Dyk, J., dissenting).

87. *Id.* at 1218 (Dyk, J., dissenting).

88. *Phillips IV*, 376 F.3d 1382, 1382 (Fed. Cir. 2004) (en banc).

89. *Id.* at 1383-84.

90. *Id.* at 1383.

91. *Id.*

92. *Phillips V*, 415 F.3d 1303, 1312 (Fed. Cir. 2005) (en banc).

93. *See id.* at 1320, 1323.

94. *Id.* at 1320-22.

95. *Id.* at 1322.

96. *Id.* at 1323.

are: (1) the claims themselves; (2) the written specification; (3) the file (prosecution) history; (4) technical dictionaries and "learned" treatises; (5) general dictionaries; and (6) expert testimony.⁹⁷ The first three are intrinsic; the last three are extrinsic. In addition, the court stated that extrinsic evidence cannot be used to contradict intrinsic evidence.⁹⁸

Phillips held that courts should begin claim construction by focusing on the language of the claims themselves.⁹⁹ A court must construe the individual words of a claim within the context of other words in the claim and consistently with the usage of the same terms in other claims of the same patent.¹⁰⁰ The court emphasized the importance of the specification, stating that it "is always highly relevant to the claim construction analysis. Usually, it is dispositive; it is the single best guide to the meaning of a disputed term."¹⁰¹ When available, courts should review the prosecution history because it demonstrates "how the PTO and inventor understood the patent."¹⁰² However, the court noted that prosecution history is less valuable than the specification because it is an "ongoing negotiation between the PTO and the applicant," and therefore often lacks the clarity of a final document.¹⁰³

The court held that technical dictionaries and learned treatises top the list of extrinsic evidence.¹⁰⁴ It reasoned that because claim construction aims to determine how those skilled in the art would have understood the claims at the time the patent application was filed, technical publications represent that knowledge and skill better than general publications.¹⁰⁵ The court also noted that general dictionaries, by their very nature, are written for broad audiences and therefore may not capture the proper meaning in specialized technical fields.¹⁰⁶ Consequently, it found general dictionaries are less valuable in claim construction than technical dictionaries and treatises.¹⁰⁷ Finally, expert testimony rounds out the acceptable sources of extrinsic evidence.¹⁰⁸ The court distinguished between using expert testi-

97. *Id.* at 1314-18.

98. *Id.* at 1320-23.

99. *Id.* at 1314.

100. *Id.*

101. *Id.* at 1315 (quoting *Vitronics Corp. v. Conceptronic, Inc.*, 90 F.3d 1576, 1582 (Fed. Cir. 1996)).

102. *Id.* at 1317.

103. *Id.*

104. *Id.* at 1318.

105. *Id.*

106. *Id.* at 1321.

107. *See id.* at 1318.

108. *See id.*

mony to provide background information about a technology and using expert testimony to construe the claims.¹⁰⁹ Although providing background is valuable to a court, the court held that such testimony should not be a major factor in the construction of the claims.¹¹⁰ Courts should treat expert testimony skeptically because litigants “generate” it at the time of litigation for a specific purpose.¹¹¹

Thus, the majority opinion resolved any conflict between *Vitronics* and *Texas Digital* regarding claim construction evidence in favor of *Vitronics*.¹¹² It is noteworthy that all three judges who were on the *Texas Digital* panel were in the majority in the *Phillips* en banc decision.¹¹³

To construe the term “baffles,” however, the court did not refer to its discussion of claim construction, instead relying primarily on the canon of claim differentiation and the doctrine that claims in a patent need not serve all of the function recited in the specification.¹¹⁴ Since dependent claim 2 of the patent required baffles “disposed at angles for deflecting projectiles,” and independent claim 1 did not state the same requirement, the court reasoned that there should be no limitation on the angles of the baffles in claim 1.¹¹⁵

2. Judge Lourie’s Dissent

Judge Lourie fully supported the majority’s opinion on the relative weights of claim construction evidence.¹¹⁶ He also agreed with the majority that claims should not “necessarily be limited to specific or preferred embodiments in the specification.”¹¹⁷ However, employing the claim construction methodology espoused in the en banc majority opinion, Judge Lourie reached the opposite conclusion about the meaning of the term

109. *See id.*

110. *Id.*

111. *Id.*

112. *Compare id.* at 1318-19 (listing the drawbacks to relying too much on extrinsic evidence), and *Vitronics Corp. v. Conceptoronic, Inc.*, 90 F.3d 1576, 1583 (Fed. Cir. 1996) (“In those cases where the [intrinsic evidence] unambiguously describes the scope of the patented invention, reliance on any extrinsic evidence is improper.”), with *Texas Digital Sys. v. Telegenix, Inc.*, 308 F.3d 1193, 1202 (Fed. Cir. 2002) (“Dictionaries are always available to the court to aid in the task of determining meanings that would have been attributed by those of skill in the relevant art to any disputed terms.”).

113. The three judges were Judge Michel, Judge Schall, and Judge Linn. *See Texas Digital*, 308 F.3d at 1193 (Fed. Cir. 2002); *Phillips V*, 415 F.3d at 1303.

114. *Phillips V*, 415 F.3d at 1324-27.

115. *Id.*

116. *Id.* at 1328 (Lourie, J., dissenting in part).

117. *Id.*

“baffles.”¹¹⁸ He noted, in particular, that all of the references to baffles in the specification were to angled baffles and that the “constantly stated objective of deflection of bullets is dependent upon such an angle.”¹¹⁹ Finally, while not advocating a strictly deferential standard, Judge Lourie thought that the court should “lean toward affirmance” of a trial court’s claim construction when there was no strong conviction of error.¹²⁰

3. *Judge Mayer’s Dissent*

Judge Mayer’s dissent reiterated his previously stated opinions on claim construction, arguing that factual issues underlie claim construction.¹²¹ Consequently, he argued that the Federal Circuit must exercise deferential review of a trial court’s determination of those facts.¹²² Comparing the majority’s discussion of claim construction to “rearranging the deck chairs on the Titanic . . . [as it heads] for Davey Jones’ Locker,” Judge Mayer asserted that the court should instead reconsider its refusal to defer to factual findings in claim construction.¹²³

First, Judge Mayer pointed out that factual issues inherently underlie claim construction. The court must focus its analysis on a determination of who qualifies as one of ordinary skill in the art and what constituted the state of the art at the time of the invention.¹²⁴ To demonstrate the factual nature of these issues, Judge Mayer noted that parties use extensive testimony and documentary evidence rather than case law during *Markman* hearings to support their views on claim construction.¹²⁵ District courts must analyze volumes of evidence to determine what a patent term would mean to one of ordinary skill in the art, which dictionary a skilled artisan would use, what the appropriate scope of specialized terms should be, what problem a patent aimed to solve, what is related or pertinent art, and whether a construction was disallowed during prosecution.¹²⁶ Second, whereas issues of law can be generalized, and thus, clarified in appellate

118. *Id.* at 1329.

119. *Id.*

120. *Id.* at 1330.

121. *Id.* at 1330-34 (Mayer, J., dissenting); see *Markman v. Westview Instruments, Inc.*, 52 F.3d 967, 989 (Fed. Cir. 1995) (en banc) (Mayer, J., concurring); *Cybor Corp. v. FAS Technologies, Inc.*, 138 F.3d 1448, 1464-65 (Fed. Cir. 1998) (en banc) (Mayer, J., concurring in the judgment); *Phillips IV*, 376 F.3d 1382, 1384 (Fed. Cir. 2004) (en banc) (Mayer, J., dissenting).

122. *Phillips V*, 415 F.3d 1303, 1331-32 (Fed. Cir. 2005) (en banc) (Mayer, J., dissenting).

123. *Id.* at 1334-35.

124. *Id.* at 1332.

125. *Id.*

126. *Id.*

courts, the meaning of a claim term in a patent has no bearing on other patents, even if the same claim term appears in another patent.¹²⁷ Subsidiary determinations in claim construction are “specific, multifarious, and not susceptible to generalization” and, therefore, have little bearing on other cases because the underlying factual contexts would be different.¹²⁸

Third, Judge Mayer drew an analogy between claim construction and determination of obviousness in infringement litigation.¹²⁹ As the Supreme Court stated in *Graham v. John Deere Co.*,¹³⁰ although patent validity is ultimately a question of law, it lends itself to several basic factual inquiries: the scope and content of the prior art, the differences between the prior art and the claims at issue, and the level of ordinary skill in the art.¹³¹ And, in *Graver Tank & Manufacturing Co. v. Linde Air Products Co.*, the Supreme Court held that those factual determinations are entitled to deference.¹³² Judge Mayer explained that these same inquiries are necessary to a substantial extent in claim construction.¹³³

Finally, Judge Mayer emphasized that the Federal Circuit should follow other appellate courts.¹³⁴ Other courts developed the rule of deferential review based on two centuries of experience.¹³⁵ In particular, “[d]etermining the weight and credibility of the evidence is the special province of the trier of fact.”¹³⁶ Because trial judges are more experienced in fact-finding than appellate judges, trial judges are better positioned and less likely to err in evaluating facts.¹³⁷ Thus, claim construction should be reviewed in accordance with Federal Rule of Civil Procedure 52(a), which states that “findings of fact . . . shall not be put aside unless clearly erroneous.”¹³⁸ Also, according to Judge Mayer, de novo review of factual issues in claim construction has led to increased litigation costs, inefficient use of judicial resources, greater uncertainty, and “diminished respect for the court.”¹³⁹

127. *Id.* at 1332-33.

128. *Id.* at 1332.

129. *Id.* at 1333.

130. 383 U.S. 1 (1966).

131. *Phillips V*, 415 F.3d at 1333 (Mayer, J., dissenting).

132. 339 U.S. 605 (1950).

133. *Phillips V*, 415 F.3d at 1333 (Mayer, J., dissenting).

134. *Id.* at 1334.

135. *Id.*

136. *Id.* (quoting *Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844, 856 (1982)).

137. *Id.*

138. *Id.* at 1331.

139. *Id.*

III. ANALYSIS

Although the Federal Circuit resolved the conflict between *Vitronics* and *Texas Digital*, the court failed to resolve crucial aspects of claim construction. Section III.A argues that the court failed to follow its own methodology, leaving open the possibility of further disputes about the appropriate sources of evidence in claim construction. Section III.B acknowledges that the court's decision regarding dictionaries best serves the public notice function of patents. Section III.C discusses the court's failure to provide needed guidance on how to construe claims without reading in limitations from specific embodiments in the specification.

A. Applying the Methodology to the Facts in *Phillips*

Despite the considerable exposition concerning claim construction, the majority did not follow its own guidelines to determine the meaning of the term "baffles." First, despite its arguments confirming the primacy of intrinsic evidence, the court accepted the dictionary definition of baffles as objects that "check, impede, or obstruct the flow of something."¹⁴⁰ Second, the court relied heavily on the canon of claim differentiation.¹⁴¹ Dependent claim 2 of the patent added specific language about baffles orientated at angles for deflecting projectiles, so the court concluded that independent claim 1 did not have the angular limitation.¹⁴² Finally, the court concluded that the baffles created "internal compartments" and, therefore, impeded the flow of material from one compartment to another.¹⁴³ Based on claim differentiation and reasoning that not all claims of a patent must embody all functions recited in the specification, the court rationally concluded that claim 1 did not limit the orientation of the baffles.¹⁴⁴ However, to accommodate the stipulated definition of baffles, the court concluded that the baffles were impeding the flow of material between compartments.¹⁴⁵

The majority could have reached the same construction of the term baffles more persuasively by following the methodology appearing earlier in the opinion. The specification emphasized the load-bearing capability created by the baffles, as indicated by the phrase "internally directed load supporting baffles" in the first sentence of the patent's disclosure, and baf-

140. *Id.* at 1324.

141. *See id.*

142. *Id.*

143. *Id.* at 1325-26 ("When material is placed into the wall during installation, the baffles obstruct the flow of material from one compartment to another . . .").

144. *Id.* at 1324-27.

145. *See id.* at 1326.

fles oriented at any angle would enhance the load-bearing capacity of the panels.¹⁴⁶

The lack of consistency between the majority's discussion of claim construction and the application of claim construction to the facts in *Phillips* perpetuates uncertainty about claim construction.

B. The Role of Dictionaries

Although the *Phillips* opinion may have been deficient in other respects,¹⁴⁷ the court clearly addressed the usage of dictionaries. Whether one argues for or against the use of dictionaries in claim construction, both sides of the debate acknowledge that the scope of the claims must be clear to the public.¹⁴⁸

Those in favor of employing dictionaries in claim construction argue that (1) they provide a simple, objective standard for determining the ordinary meaning of claim terms, (2) they are particularly well-suited for providing the meaning of terms, since that is their primary function, and (3) their use would discourage claim drafters from writing vague claims.¹⁴⁹ However, dictionaries fail to provide a simple objective standard.¹⁵⁰ For example, within the last nine years, the Federal Circuit turned to twenty-four different dictionaries to elucidate claim terminology.¹⁵¹ With hundreds of dictionaries to choose from and multiple definitions in each dictionary entry, one cannot find a single objective definition for a given claim term.¹⁵² In fact, the number of dictionary choices leads to the same

146. U.S. Patent No. 4,677,798 col.1 l.65-col.2 l.1 (filed Apr. 14, 1986).

147. See *infra* Section III.C and Part IV.

148. See Brief for Amici Curiae Intel Corp., IBM Corp., Google Inc., Micron Technology, Inc., and Microsoft Corp. at 7, *Phillips V*, 415 F.3d 1303 (Fed. Cir. 2005) (en banc) (No. 03-1269, -1286) [hereinafter Brief for Amici Curiae Intel Corp. et al.] ("Excessive reliance by courts on dictionaries can effectively strip the claims of their notice function."); Brief of Amicus Curiae Patent Law Professors R. Polk Wagner & Joseph Scott Miller at 13, *Phillips V*, 415 F.3d 1303 (Fed. Cir. 2005) (en banc) (No. 03-1269, -1286) [hereinafter Brief of Wagner & Miller] ("We again start with the public notice function of patent claims . . . dictionaries . . . are an excellent . . . reference for the ordinary meaning of language.").

149. See Brief of Wagner & Miller, *supra* note 148, at 5-10; Brief of the American Bar Association as Amicus Curiae Supporting Neither Party at 4-6, *Phillips V*, 415 F.3d 1303 (Fed. Cir. 2005) (en banc) (No. 03-1269, -1286) [hereinafter Brief of the American Bar Association].

150. See Brief for Amici Curiae Intel Corp. et al., *supra* note 148, at 7.

151. Joseph Scott Miller & James A. Hilsenteger, *The Proven Key: Roles and Rules for Dictionaries in the Patent Office and the Court*, 54 AM. U. L. REV. 829, 913-14 (2005).

152. See Brief for Amici Curiae Intel Corp. et al., *supra* note 148, at 7.

problem created by other extrinsic evidence: litigators shop for the best definition to support their goals.¹⁵³ In addition, reliance on dictionaries can lead to meanings that are vastly different from what a patentee wrote or intended.¹⁵⁴ As the PTO expressed in its amicus brief,¹⁵⁵ a patent is a fully integrated legal document. To understand what a patent means, a person must read that document.¹⁵⁶

Furthermore, dictionaries fail to provide guidance for construing phrases. For example, in *Callicrate v. Wadsworth Manufacturing, Inc.*, one of the disputed terms was a “lever for deforming a grommet.”¹⁵⁷ Although each of these words appears in dictionaries, the combination does not, and the combination matters. However, the use of intrinsic evidence addresses this issue. Section 112 requires the specification to support the claims;¹⁵⁸ therefore, either the specification provides enough information to understand what a “lever for deforming a grommet” is or else the claim is indefinite. Either way, the specification is dispositive.

Therefore, whether construing the meaning of a single word or a phrase, the Federal Circuit correctly recognized that public notice is best served by relying on intrinsic evidence that is available to everyone rather than relying on dictionaries.

C. The Claim Construction Dilemma

Perhaps the most difficult issue that judges face in claim construction is how to “read the claims in light of the specification”¹⁵⁹ without commit-

153. *See id.*; *see also* *Phillips v. AWH Corp.*, 415 F.3d 1303, 1318 (Fed. Cir. 2005) (en banc).

154. *See Phillips V*, 415 F.3d at 1322 (“Indiscriminate reliance on definitions found in dictionaries can often produce absurd results.”); Brief of Amicus Curiae Federal Circuit Bar Association at 3, *Phillips V*, 415 F.3d 1303 (Fed. Cir. 2005) (en banc) (No. 03-1269, -1286) (“Another undesirable consequence of the dictionary-centered approach is that it can result in terms being given meanings far removed from what the inventor had in mind at the time the application was filed.”).

155. Brief for the United States as Amicus Curiae at 15, *Phillips V*, 415 F.3d 1303 (Fed. Cir. 2005) (en banc) (No. 03-1269, -1286).

156. *Id.*

157. 427 F.3d 1361 (Fed. Cir. 2005).

158. The specification shall contain a written description of the invention . . . in such full, clear, concise, and exact terms as to enable any person . . . to make and use the same.

The specification shall conclude with one or more claims particularly pointing out and distinctly claiming the subject matter which the applicant regards as his invention.

35 U.S.C. § 112 (2000).

159. *Phillips V*, 415 F.3d at 1315.

ting “one of the cardinal sins of patent law—reading a limitation from the written description into the claims.”¹⁶⁰ The *Phillips* court stated that, by focusing on how a person of ordinary skill in the art would understand the claim terms, frequently “it will become clear” whether the specification is providing example embodiments or describing the entire invention.¹⁶¹ Unfortunately, the distinction is often not so “clear”¹⁶² to district court judges.¹⁶³ The failure to address this issue and provide guidance to district courts will perpetuate the high reversal rate of district court decisions by the Federal Circuit.¹⁶⁴

Despite the Federal Circuit’s instruction to construe claims based on intrinsic evidence, the court failed to explain how to distinguish between a description of an embodiment and a description of the invention itself.¹⁶⁵ Although the Federal Circuit claimed that such issues will become clear, even Federal Circuit judges have found this task difficult: Judge Dyk, in his dissent in the first *Phillips* panel, argued that the angled baffles in the specification were just an embodiment and that limiting the claims to this embodiment would constitute a “major and unfortunate change in our recent claim construction jurisprudence.”¹⁶⁶ In contrast, Judge Lourie pointed out that angled baffles were fundamental to the invention itself.¹⁶⁷

160. *SciMed Life Sys. v. Advanced Cardiovascular Sys.*, 242 F.3d 1337, 1340 (Fed. Cir. 2001).

161. *See Phillips V*, 415 F.3d at 1323.

162. [O]bviously; certainly; clearly; undeniably. It has become an ironic joke among lawyers that when an opponent—or for that matter, frequently, a judge—uses one of these words, the statement that follows is likely to be false, unreasonable, or fraught with doubt. This skepticism has grown from the widespread abuse of the terms. Reserve them for what is truly obvious, certain, clear, or undeniable. When they are used merely to buttress arguments, they take on the character of weasel words: they weaken the arguments.

See Bryan A. Garner, *The Elements of Legal Style* 129-30 (2d ed. 2002).

163. If it were clear, the reversal rate should be somewhat lower than 34.5%. *See* Kimberly A. Moore, *Markman Eight Years Later: Is Claim Construction More Predictable?*, 9 LEWIS & CLARK L. REV. 231, 238 (2005).

164. *See id.* In contrast, the reversal rate in federal courts of appeals for all other types of cases is less than 10 %. *See* ADMIN. OFFICE OF THE U.S. COURTS, FEDERAL JUDICIAL CASELOAD STATISTICS, at 28 tbl. B-5 (2002), <http://www.uscourts.gov/caseload-2002/tables/b05mar02.pdf>.

165. *See* HERBERT F. SCHWARTZ, *PATENT LAW AND PRACTICE* 129-31 (4th ed. 2003). Professor Schwartz lists the second canon of claim construction as “ordinarily, claims are not limited to the preferred embodiment in the specification.” *Id.* at 130.

166. *See Phillips III*, 363 F.3d 1207, 1216-17 (Fed. Cir. 2004) (Dyk, J., dissenting).

167. *See Phillips V*, 415 F.3d at 1328-29 (Lourie, J., dissenting).

This dispute concerning whether angled baffles were an embodiment or fundamental to the invention illustrates why *Phillips* was an ideal case for the Federal Circuit to provide guidance on how to make the distinction. The claim language “further means disposed inside the shell for increasing its load bearing capacity comprising internal steel baffles extending inwardly from the steel shell walls” taken in isolation does not impose any limitation on the angle of the baffles.¹⁶⁸ In addition, the many references in the patent to the load-bearing capacity of the panels indicate the importance of this quality and load-bearing capacity would not require angled baffles.¹⁶⁹

However, an alternative analysis supports the view that the baffles must be angled. The short abstract references impact resistance and bullet deflection as inherent to the invention four times, but has no references to load-bearing capacity.¹⁷⁰ For example, the abstract states that “three steel panel pieces are formed into a module, each being partly *triangular in cross section . . .* which thereby form the internal baffles at angles for deflecting bullets.”¹⁷¹ Further, in the “Disclosure of the Invention” section, the second sentence clarifies the construction by stating that “the modules comprise three steel plate wall panel sections of partially triangular cross section shape positioned to provide the internally directed baffles.”¹⁷² The triangular cross section requirement would not allow the baffles to be perpendicular to the walls.

Nevertheless, rather than explaining how to make the distinction, the court simply stated that “the manner in which the patentee uses the term within the specification and claims usually will make the distinction apparent.”¹⁷³ In this respect, *Phillips* was a lost opportunity for clarification.

IV. THE FUNDAMENTAL PROBLEM: HIGH REVERSAL RATE FOR CLAIM CONSTRUCTION

The Federal Circuit’s practice of reversing a significant percentage of all district court claim constructions creates undesirable results. First, it encourages district court judges to limit the amount of time they spend on claim construction. Since the Federal Circuit will likely discard their constructions on appeal, district court judges have little incentive to do other-

168. See U.S. Patent No. 4,677,798 col.6 ll.32-34 (filed Apr. 14, 1986).

169. See *id.* at col.1 ll.18-20, col.2 l.1, col.3 ll.16-25, col.4 ll.11-14, col.4 l.25.

170. See *id.*

171. *Id.* (emphasis added).

172. *Id.* at col.2 ll.2-4.

173. See *Phillips V*, 415 F.3d 1303, 1323 (Fed. Cir. 2005) (en banc).

wise.¹⁷⁴ Second, the uncertainty created by the high reversal rate reduces the incentive for parties to settle.¹⁷⁵ Quite the opposite, parties become more likely to seek review in the Federal Circuit, increasing both the time and the expense of patent litigation.¹⁷⁶

One potential solution is to provide clearer guidelines and training so that district courts uniformly produce high quality claim constructions. The *Phillips* court attempted to provide such guidance by clarifying the role of dictionaries,¹⁷⁷ reaffirming the distinction between intrinsic and extrinsic evidence,¹⁷⁸ and establishing a clear hierarchy for the different types of evidence courts use in claim construction.¹⁷⁹ However, the Federal Circuit failed to advise courts on how they should discern an embodiment from a description of the invention itself. In addition, the *Phillips* court tiptoed around the canons of claim construction. There are at least ten canons of claim construction,¹⁸⁰ and the Federal Circuit has referred to these canons frequently in recent opinions.¹⁸¹ In *Phillips*, the Federal Circuit provided a hierarchical framework for evaluating evidence, but did not explain how the canons of claim construction fit into this framework. Without clearer guidance on these matters, the Federal Circuit will likely continue to reverse "incorrect" claim constructions.

Another way to reduce the high reversal rate of district court claim constructions would be to simply change the standard of appellate review so as to give district court claim constructions greater deference. As *Fromson v. Anitec Printing Plates, Inc.*¹⁸² illustrates, claim construction often involves significant questions of fact, suggesting that such deference may be appropriate. In *Fromson*, the patent at issue was a process for anodizing aluminum.¹⁸³ Based on extensive testimony, the trial judge concluded that "in 1973 no reasonable practitioner of this process would have had the opinion that a non-porous non-adherent oxide coating, as thin as the 5 nanometer coating found naturally in the environment, of post-phosphoric oxide, constituted an anodized surface."¹⁸⁴ This conclusion led the trial

174. See Brief of the American Bar Association, *supra* note 149, at 18.

175. See Kimberly A. Moore, *Are District Court Judges Equipped to Resolve Patent Cases?*, 12 FED. CIR. B.J. 1, 22-23 (2002).

176. See *id.*

177. See *Phillips V*, 415 F.3d at 1319-23.

178. *Id.* at 1314-19.

179. *Id.*

180. See Schwartz, *supra* note 165, at 129-31.

181. *Id.* Professor Schwartz provides extensive references for the ten canons. *Id.*

182. 132 F.3d 1437 (Fed. Cir. 1997).

183. See *id.* at 1439.

184. *Id.* at 1444-45.

judge to a narrow construction of the term “anodized.”¹⁸⁵ The Federal Circuit panel affirmed the claim construction of “anodized.”¹⁸⁶ Because the construction required extensive testimony, the panel reasoned that it was appropriate to defer to the credibility determinations of the trial judge.¹⁸⁷

A significant practical problem would be determining what constitutes an underlying factual issue. For example, Judge Mayer would designate who qualifies as one of ordinary skill in the art and what the meaning of patent terms are to such people as factual inquiries.¹⁸⁸ But, if district courts were to treat both of these questions as factual inquiries, then claim construction would no longer be a matter of law—the answers to these extremely broad questions would dictate completely the meaning of claim terms. Accordingly, either a narrower definition of factual inquiries is required, or else the Supreme Court will need to overturn *Markman*.¹⁸⁹

In addition, Federal Rule of Civil Procedure 52(a) requires that “findings of fact . . . shall not be set aside unless clearly erroneous.”¹⁹⁰ Should claim construction be regarded as a factual inquiry, Rule 52(a) would be irreconcilable with *Cybor*, which calls for *de novo* review of claim construction.¹⁹¹ Having recently denied AWH’s bid for certiorari on the continued validity of *Cybor*,¹⁹² the Supreme Court appears extremely unlikely to resolve this conflict in favor of greater deference to trial courts.

As a third alternative, Congress could address the reversal rate problem through the establishment of specialty courts or specially designated patent judges that hear patent cases. Because patent cases represent only about one percent of a typical judge’s case load, an average judge conducts only one patent trial every seven years.¹⁹³ Not only do district court judges have limited exposure to patent cases, but also most of the cases they do try are “complex, difficult, time-consuming, and expensive.”¹⁹⁴

185. *Id.* at 1444-49.

186. *Id.*

187. *Id.*

188. *Id.*

189. The Supreme Court affirmed *Markman* unanimously, so the Court is unlikely to overturn the decision. *Markman II*, 517 U.S. 370 (1996).

190. FED. R. CIV. P. 52(a) (2003).

191. *Cybor Corp. v. FAS Techs., Inc.*, 138 F.3d 1448, 1451 (Fed. Cir. 1998) (en banc).

192. *Phillips v. AWH Corp.*, No. 05-602, 2006 U.S. LEXIS 1154 (Feb. 21, 2006).

193. Improving Federal Court Adjudication of Patent Cases: Hearings Before the Subcomm. on Courts, the Internet, and Intellectual Property of the H. Comm. on the Judiciary, 109th Cong. 5 (2005) (testimony of John B. Pegram), available at <http://judiciary.house.gov/media/pdfs/peggram100605.pdf>.

194. See Improving Federal Court Adjudication of Patent Cases: Hearings Before the Subcomm. on Courts, the Internet, and Intellectual Property of the H. Comm. on the Ju-

For these reasons, even if the Federal Circuit were to provide complete and clear guidance on patent claim construction, the results from district court judges would still be inadequate.

Professor Moore proposes that only particular judges in each district hear patent cases.¹⁹⁵ She argues that if all patent cases were assigned to one or more designated trial court judges, those designated judges would develop the necessary expertise.¹⁹⁶ Patent litigator Pegram and District Judge Holderman agree with Professor Moore's key points, but propose instead that the Court of International Trade (CIT) hear patent cases.¹⁹⁷ According to Pegram, the CIT already has nationwide jurisdiction under the supervision of the Federal Circuit, and the CIT judges appear to have available time.¹⁹⁸ Although the CIT judges do not currently have patent expertise, they are Article III judges and would quickly gain experience if assigned a substantial number of patent cases.¹⁹⁹ Although Congress should be cautious when making changes to the court system, specialized patent courts or judges may be the only viable option to reduce the high reversal rate.

V. CONCLUSION

The *Phillips* decision limited the role of dictionaries and expanded on the claim construction evidence hierarchy from *Vitronics*, including the distinction between intrinsic and extrinsic evidence. The court's emphasis on claim differentiation suggests that patent drafters should write more dependent claims in order to get maximum protection on independent claims. However, as a case expected to clarify claim construction methodology, *Phillips* missed the mark. The court specified what evidence to use, and the relative weights of the evidence, but failed to guide district courts in how to *use* the evidence. Perhaps a future Federal Circuit opinion will explain how to resolve the riddle of "construing the claims in light of the

diciary, 109th Cong. 5 (2005) (testimony of Kimberly A. Moore, Professor of Law, George Mason University School of Law), available at <http://judiciary.house.gov/OversightTestimony.aspx?ID=470>.

195. *Id.*

196. *Id.*

197. *Id.*; see also Judge James F. Holderman, *Judicial Patent Specialization: A View From the Trial Bench*, 2002 U. ILL. J.L. TECH. & POL'Y 425 (2002).

198. See Neil E. Graham, SPECIALIZED PATENT TRIAL COURT, JUDGES, DEBATED AT HOUSE HEARING ON PATENT REFORM, 70 PAT. TRADEMARK & COPYRIGHT J. (BNA) 657 (2005).

199. *Id.*

specification without importing limitations from the specification.”²⁰⁰ That would be a miracle in claim construction.

200. *Texas Digital Sys., Inc. v. Telegenix, Inc.*, 308 F.3d 1193, 1204-05 (Fed. Cir. 2002).

IN RE FISHER: RAISING THE UTILITY HURDLE FOR EXPRESS SEQUENCE TAGS

By Tashica T. Williams

The Federal Circuit's *In re Fisher* decision signaled a return to a more stringent statutory interpretation of utility¹ and provided the first judicial recognition of the United States Patent and Trademark Office's (PTO) 2001 Utility Guidelines.² In *Fisher*, the Federal Circuit affirmed the decision of the Board of Patent Appeals and Interferences (BPAI), denying a patent application claiming five express sequence tags (ESTs)³ of the maize plant.⁴ The court dismissed Fisher's contention that the BPAI applied a heightened standard in evaluating the utility of the claimed ESTs,⁵ thus reiterating the utility test outlined in *Brenner v. Manson*.⁶ Furthermore, the court found Fisher provided no evidence that the claimed ESTs correlated to a gene with a known function.⁷

Fisher presented the Federal Circuit with its first opportunity to rule on the circumstances under which ESTs satisfy the utility requirement of 35 U.S.C. § 101. Unfortunately, the Federal Circuit declined to provide the biotechnology community with much substantive guidance on this issue.⁸ Instead, the court simply held that Fisher's seven proposed uses for ESTs did not satisfy the statutory utility requirement.⁹ Presenting no bright-line rules, the *Fisher* decision provided little more than a rough framework for analyzing whether a proposed use for an EST satisfies the statutory utility requirement.

This Note explores the EST utility standard and suggests that the invention's patentability under the utility analysis can be best conceptualized as a timeline tracking the invention's "ripeness." Part I outlines the

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1. 421 F.3d 1365, 1372 (Fed. Cir. 2005) (2-1 decision).

2. Utility Examination Guidelines, 66 Fed. Reg. 1092 (Jan. 2, 2001) [hereinafter 2001 Utility Guidelines].

3. ESTs are short sequences of DNA that encode structurally and functionally undefined proteins or fragments thereof. See National Center for Biotechnology Information, ESTs: Gene Discovery Made Easier, <http://www.ncbi.nlm.nih.gov/About/primer/est.html> (last visited Feb. 17, 2006).

4. *Fisher*, 421 F.3d at 1379.

5. *Id.* at 1372.

6. 383 U.S. 519 (1966).

7. *Fisher*, 421 F.3d at 1373.

8. See *id.*

9. *Id.* at 1374.

evolution of the modern utility standard in both the courts and the PTO. Part II provides a scientific primer and Part III summarizes the *In re Fisher* decision. Finally, Part IV argues that by serving as a “timing device,” the utility requirement assesses not only the “ripeness” of an invention but also the height of the utility barrier as well.

I. EVOLUTION OF THE MODERN UTILITY STANDARD

A. Judicial and Statutory Development

The U.S. Constitution charges Congress “to promote the Progress of Science and useful Arts”¹⁰ The constitutional limits imposed by the Patent and Copyright Clause are reflected in several statutory hurdles to patentability. Thus, the PTO grants limited patent monopolies for inventions that are within the ambit of patentable subject matter,¹¹ useful,¹² non-obvious,¹³ novel,¹⁴ and adequately disclosed.¹⁵ Section 101 codifies the utility prong of these patentability requirements: “Whoever invents or discovers any new or *useful* process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor”¹⁶

Generally, a finding of usefulness requires that an invention be more than “a mere curiosity, a scientific process exciting wonder yet not producing physical results”;¹⁷ the invention must be capable of providing some benefit to society. More specifically, an invention must have both a “specific” and “substantial” utility¹⁸—it has to be capable of some practical purpose.¹⁹

10. U.S. CONST. art. I, § 8, cl. 8.

11. 35 U.S.C. § 101 (2000).

12. *Id.*

13. *Id.* § 103.

14. *Id.* § 102.

15. *Id.* § 112; see also Byron V. Olsen, *The Biotechnology Balancing Act: Patents for Gene Fragments, and Licensing “Useful Arts”*, 7 ALB. L.J. SCI. & TECH. 295, 312-13 (1997).

16. 35 U.S.C. § 101 (emphasis added).

17. See 1 DONALD CHISUM, CHISUM ON PATENTS § 4.02 (2005) (citation omitted).

18. See *Brenner v. Manson*, 383 U.S. 519, 534-35 (1966).

19. See *id.*; see also *Nelson v. Bowler*, 626 F.2d 853, 856 (C.C.P.A. 1980) (“‘Practical utility’ is a shorthand way of attributing ‘real-world’ value to claimed subject matter [O]ne skilled in the art can use a claimed discovery in a manner which provides some immediate benefit to the public.”).

1. Early Judicial Interpretation of Utility

Justice Story provided the first judicial interpretation of the statutory utility standard in *Lowell v. Lewis*.²⁰ In *Lowell*, the plaintiff alleged infringement of his patent that claimed an improvement of construction pumps.²¹ In countering the defendant's contention that the plaintiff's pump should have a general utility that exceeds the common one, Justice Story declared:

[I]f the invention steers wide of . . . objections, whether it be more or less usefu[l] is a circumstance very material to the interests of the patentee, but of no importance to the public. If it be not extensively useful, it will silently sink into contempt and disregard.²²

Justice Story continued to elucidate his definition of "useful" in *Bedford v. Hunt*, which involved a method patent for making boots and shoes.²³ In finding for the defendants, Justice Story stated that the use had to be beneficial, but cautioned that the law did not require a specific degree of utility.²⁴ Thus, according to Justice Story, at the time of patent application, an invention need not perform better than similar available means or demonstrate commercial viability.²⁵

In sum, early interpretation of the statutory utility requirement provided quite a low threshold. As long as the invention was not "frivolous or injurious to the well-being, good policy, or sound morals of society,"²⁶ it complied with the statute.

2. Utility in the Chemical Arts

Prior to 1950, following Justice Story's interpretation, patents issued for chemical compounds with no specific utility.²⁷ The Court of Customs

20. 15 F. Cas. 1018 (C.C. Mass. 1817).

21. *Id.* at 1019.

22. *Id.*

23. 3 F. Cas. 37 (C.C. Mass. 1817); see CHISUM, *supra* note 17, § 4.02[1].

24. *Bedford*, 3 F. Cas. at 37.

25. CHISUM, *supra* note 17, § 4.02[1] ("[U]tility . . . refers rather to *utility of purpose* than a utility of means.") (citation omitted) (internal quotations omitted); cf. *Custom Accessories, Inc. v. Jeffrey-Allan Indus., Inc.*, 807 F.2d 955, 960 n.12 (Fed. Cir. 1986) ("Finding that an invention is an 'improvement' is not a prerequisite to patentability. It is possible for an invention to be less effective than existing devices but nevertheless meet the statutory criteria for patentability.").

26. *Lowell*, 15 F. Cas. at 1019.

27. CHISUM, *supra* note 17, § 4.02[2]. One court allowed satisfaction of the utility requirement by allowing the inventor to simply describe the characteristics of the inven-

and Patent Appeals (CCPA) eventually raised the utility standard in *In re Bremner*, which involved a claim for a product, polydihydropyran, and the process for making it.²⁸ The patent application did not disclose the chemical's utility.²⁹ The court affirmed the decision of the patent examiner in denying the patent, stating that "the law requires that there be in the application an assertion of utility and an indication of the use or uses intended."³⁰

A decade later, the CCPA relaxed the *Bremner* standard in *In re Nelson*.³¹ In *Nelson*, the applicant claimed new steroid compounds, alleging that they could be used as intermediates to produce new therapeutic compounds.³² The applicant failed to disclose, however, a method to convert his intermediate compounds.³³ The court held that the use disclosed was adequate because "[w]hen actual utility exists, its degree is unimportant."³⁴ In fact, the *Nelson* court pointed out that other steroid researchers could use the applicant's compounds.³⁵

In *Brenner v. Manson*, the Supreme Court established the utility standard that continues to serve as the controlling interpretation of the utility requirement.³⁶ Manson filed a patent application for a process of making a

tion. *Potter v. Tone*, No. 666, 1911 U.S. App. LEXIS 5561 (D.C. Cir. 1911) (involving a silicon monoxide compound that was able to reduce other compounds in other chemical reactions) (unpublished). Another court allowed satisfaction of the utility requirement when the inventor simply listed chemical compounds, but did not specify any uses for them. *Ex parte Watt*, 63 U.S.P.Q. (BNA) 163 (Pat. Off. Bd. App. 1942).

28. 182 F.2d 216 (C.C.P.A. 1950).

29. *Id.*

30. *Id.*

31. 280 F.2d 172 (C.C.P.A. 1960).

32. *Id.* at 175.

33. *Id.* at 176.

34. *Id.* at 179 (quoting ROBINSON ON PATENTS § 341 (1890)). The court stated that: [t]he Patent Office position seems to have been that there must be a presently existing "practical" usefulness to some undefined class of persons. We have never received a clear answer to the question. "Useful to whom and for what?" Surely a new group of steroid intermediates is useful to chemists doing research on steroids, and in a "practical" sense too. Such intermediates are "useful" under section 101. . . . Refusal to protect them at this stage would inhibit their wide dissemination, together with the knowledge of them which a patent disclosure conveys, which disclosure the potential protection encourages. This would tend to retard rather than promote progress.

Id. at 180-81.

35. *See id.* at 180.

36. 383 U.S. 519 (1966).

particular steroid.³⁷ He requested an interference when he learned of the existence of a previously issued patent on the process.³⁸ Subsequently, his application was denied because he failed to disclose a utility for the compound.³⁹ Manson argued that the compound possessed utility because, at the time of his application, a recent scientific paper suggested that the steroid class, to which the contested compound belonged, had possible tumor-inhibiting effects in mice.⁴⁰ Additionally, a structural homologue of Manson's compound had given rise to such an effect.⁴¹ The CCPA reversed, reasoning that it was unnecessary for Manson to show utility because the claimed process produced a known product and that product was not "detrimental to the public interest."⁴²

The Supreme Court reversed the CCPA's decision, noting that the idea that "adjacent homologues [possessed] the same utility [had] been challenged in the steroid field because of a greater known unpredictability of [the] compounds"⁴³ The Court narrowed Justice Story's definition of utility stating that "[t]here are . . . many things in this world which may not be considered 'useful' but which, nevertheless, are totally without a capacity for harm."⁴⁴ After dismissing this broad notion of utility, the Court relied on constitutional principles to establish a heightened utility standard:

The basic *quid pro quo* contemplated by the Constitution and the Congress for granting a patent monopoly is the benefit derived by the public from an invention with *substantial utility*. Unless and until a process is refined and developed to this point—where *specific benefit* exists in currently available form—there is insufficient justification for permitting an applicant to engross what may prove to be a broad field.⁴⁵

While recognizing the importance of scientific research and thus implicitly acknowledging Manson's chemical contribution, the Court declared, nonetheless, that a "patent is not a hunting license" but instead serves as "compensation for [the] successful conclusion [of research]."⁴⁶ An invention,

37. *Manson*, 383 U.S. at 520-21.

38. *Id.* at 521.

39. *Id.*

40. *Id.* at 522.

41. *Id.*

42. *Id.*

43. *Id.* at 532 (internal quotation omitted).

44. *Id.* at 533.

45. *Id.* at 534-35 (emphasis added).

46. *Id.* at 536.

therefore, must go beyond the realm of mere scientific interest; it must possess specific and substantial utility to constitute a patentable entity.

After *Manson*, the CCPA applied this heightened standard of utility.⁴⁷ For example, *In re Kirk* involved the patentability of several steroid compounds.⁴⁸ The applicants argued that one skilled in the art could delineate actual uses for the compounds.⁴⁹ They asserted that the disputed compounds were structurally similar to compounds that possessed "biological activity,"⁵⁰ and alleged that the compounds were useful as intermediaries in the synthesis of other biologically active compounds.⁵¹ The CCPA declared that the production of intermediates that give rise to a class of compounds with no known use fails to satisfy the utility standard under § 101.⁵²

In its most recent utility interpretation in *In re Brana*, the Federal Circuit applied *Manson* more liberally.⁵³ In *Brana*, the Federal Circuit, reversing a decision of the BPAI, held that a rejected patent application proffered sufficient utility for the anti-tumor compounds claimed therein.⁵⁴ Although *Brana* concerned compliance with § 112, an evaluation of the invention's practical utility was at the core of the decision.⁵⁵

The BPAI affirmed the patent examiner's rejection of the application on two grounds: (1) the lack of disclosure of a specific disease to target the claimed compounds and (2) the failure to show that the compounds were useful.⁵⁶ Distinguishing *Kirk* on the first ground of rejection, the Federal Circuit held that the applicants' specification targeted a specific disease because the derived cell lines were from mice afflicted with a particular type of leukemia.⁵⁷ Furthermore, the applicants' explicit reference to prior art in comparing their compounds implied that the claimed compounds

47. See, e.g., *In re Kirk*, 376 F.2d 936 (C.C.P.A. 1967); see also *In re Joly*, 376 F.2d 906 (C.C.P.A. 1967). But see *In re Brana*, 51 F.3d 1560 (Fed. Cir. 1995).

48. *Kirk*, 376 F.2d at 937.

49. *Id.* at 939.

50. *Id.*

51. *Id.*

52. *Id.* at 945 ("It is not enough that the specification disclose that the intermediate exists and that it works, reacts, or can be used to produce some intended product of no known use.") (internal citation omitted); see also *Joly*, 376 F.2d at 906 (holding that a claimed compound with a disclosed utility of serving as an intermediate to produce other compounds with unknown utility did not satisfy § 101).

53. 51 F.3d 1560 (Fed. Cir. 1995).

54. *Id.* at 1562.

55. See *id.* at 1564 & n.12 (stating that a rejection of lack of utility can be sustained under both § 101 and § 112).

56. *Id.* at 1565-66.

57. *Id.* at 1565.

targeted the same tumor models.⁵⁸ As to the second ground for rejection, the Federal Circuit found that persons of ordinary skill in the art would not doubt the utility asserted by the applicants and noted that the compounds were structurally similar to potent chemotherapeutic compounds cited in the references proffered by the BPAI.⁵⁹

Although the CCPA required a showing of “specific” and “substantial” utility in *Kirk*, and thus adhered to the more stringent standard of utility outlined in *Manson* in the context of chemical inventions, the contemporary Federal Circuit appeared to back away from the strict *Manson* utility standard in *Brana*. In reconciling its determination with the current judicial standard of § 101 utility, the Federal Circuit relied on acceptable general principles in the scientific community regarding the behavior of particular classes of chemical compounds. In *Kirk*, there was a general consensus regarding the variable potency of structurally similar steroid compounds.⁶⁰ Conversely, in *Brana*, the applicants enjoyed greater leeway because the prior art contained compounds structurally similar to those claimed in the disputed application and the effectiveness of the prior art compounds were comparable against a *variety* of tumor models.⁶¹ Thus, the Federal Circuit’s interpretation of the utility requirement appeared to lie somewhere on a spectrum bookmarked by the strict *Manson* standard and the less exacting *Brana* standard.

B. PTO Utility Guidelines

The *Manson* Court failed to clearly define “specific” and “substantial” utility.⁶² The CCPA and, later, the Federal Circuit attempted to fill this legal vacuum by shaping the contours of “substantial” and “specific” utilities,⁶³ but the standard remained in need of further clarification. To ameliorate this situation, the PTO attempted to provide guidance for its examiners by publishing utility guidelines and training materials.⁶⁴ While the guidelines do not carry the weight of judicial authority, they do aid patent

58. *Id.*

59. *Id.* at 1566; *see also In re Jolles*, 628 F.2d 1322 (C.C.P.A. 1980) (reversing the BPAI’s utility rejection of claimed but untested compounds that were structurally similar to other claimed but tested compounds *in vivo*).

60. *Cf. Brenner v. Manson*, 383 U.S. 519, 532 (1966).

61. *See Brana*, 51 F.3d at 1566.

62. *See Manson*, 383 U.S. at 534-35.

63. *See Fisher*, 421 F.3d at 1371.

64. Guidelines for Examination of Applications for Compliance with the Utility Requirement, 60 Fed. Reg. 36263, 36264 (July 14, 1995) [hereinafter Compliance with the Utility Requirement 1995]; 2001 Utility Examination Guidelines, 66 Fed. Reg. 1092, 1092 (Jan. 2, 2001).

examiners in addressing the patentability of ESTs and other DNA compositions.⁶⁵ They also represent the PTO's attempt to ensure compliance with precedent.⁶⁶

After issuing its first set of guidelines in 1995,⁶⁷ the PTO eventually replaced them with the 2001 Utility Examination Guidelines.⁶⁸ These guidelines require that a patent applicant present either a "well-established" utility⁶⁹ or a "practical" utility (i.e., a "specific" and "substantial" utility) that would be credible to a person skilled in the art.⁷⁰ While it appears that the Guidelines set out two alternative tests, if an invention lacks specific, substantial, and credible utility, it fails under both the practical utility and the well-established utility tests.⁷¹ These tests, while not formulated by the courts, govern the PTO's initial determination of utility.⁷²

65. Joshua C. Benson, Note, *Resuscitating the Patent Utility Requirement, Again: A Return to Brenner v. Manson*, 36 U.C. DAVIS L. REV. 267, 284 (2002).

66. *Id.*

67. The 1995 Guidelines stated that § 101 required an inventor to provide a single utility that was both "specific" and "credible," omitting the *Manson* standard of "substantial" utility. See Compliance with the Utility Requirement 1995, 60 Fed. Reg. at 36264; Donald L. Zuhn, Jr., Comment, *DNA Patentability: Shutting the Door to the Utility Requirement*, 34 J. MARSHALL L. REV. 973, 992 (2001). This omission led to the filing of numerous patent applications to bare genetic information (i.e., DNA sequence information). Mary Breen Smith, Comment, *An End to Gene Patents? The Human Genome Project versus the United States Patent and Trademark Office's 1999 Utility Guidelines*, 73 U. COLO. L. REV. 747, 768 (2002). This weakened standard provoked an outcry that prompted the PTO to release a revision of the guidelines in 1999. Benson, *supra* note 65, at 286. The revised guidelines restored the "substantial" utility standard adopted by the *Manson* Court. *Id.*

68. 2001 Utility Guidelines, 66 Fed. Reg. at 1092.

69. The Guidelines define a "well-established" utility as the following:

(1) if a person of ordinary skill in the art would immediately appreciate why the invention is useful based on the characteristics of the invention . . . and (2) the utility is specific, substantial and credible.

Id. at 1098 (emphasis added). "Credible utility" is whether "a person of ordinary skill in the art would accept that the recited or disclosed invention is currently available for such use." U.S. PATENT & TRADEMARK OFFICE, REVISED INTERIM UTILITY GUIDELINES TRAINING MATERIALS 5 (1999), available at <http://www.uspto.gov/web/menu/utility.pdf> [hereinafter TRAINING MATERIALS]. "Specific utility" is specific to the subject matter claimed. *Id.* at 5. "Substantial utility" requires "real world" use. *Id.* at 6.

70. 2001 Utility Guidelines, 66 Fed. Reg. at 1098.

71. *See id.*

72. *See* TRAINING MATERIALS, *supra* note 69; *see also* Timothy A. Worrall, Note, *The 2001 PTO Utility Examination Guidelines and DNA Patents*, 16 BERKELEY TECH. L.J. 123, 141-42 (2001). Example nine of the materials provides an example of an application for numerous DNA sequences for use as probes to procure an unknown, full-length

II. SCIENTIFIC BACKGROUND

To garner a full appreciation of the legal complexities that surround the issue of gene patenting, it is necessary to elucidate basic principles of molecular biology. The human body consists of cells with differential functions that communicate by way of a complex system of interactions.⁷³ The gene is the functional hereditary unit and is composed of deoxyribonucleic acid (DNA). DNA is a linear polymer that contains two complementary strands and is comprised of four bases or “nucleotides”: adenine (“A”), guanine (“G”), cytosine (“C”), and thymine (“T”).⁷⁴ The complementary strand of the molecule is linked (i.e., “hybridized”) to the other by hydrogen bonds, thus forming the familiar double helix.⁷⁵ An arrangement of these bases in a specific sequence serves as a “biological message” that delineates a particular gene.⁷⁶ The biochemical and genetic make-up of most cells is fundamentally similar: the nucleus houses chromosomes that contain most of the cell’s genetic material.⁷⁷

gene. TRAINING MATERIALS, *supra* note 69, at 50-53. The PTO states that there is no “specific utility” in this application for the claimed sequences because the “utility” of the probes exists for the class of molecules and is not unique to any particular claimed probe. *Id.* at 51. It goes further to note that no “substantial” utility exists because the function of the targeted gene remains unknown. *Id.* On the other hand, Example ten of the materials provides a situation where the patent application was for a DNA fragment that encoded an open-reading frame, which had significant homology (i.e., a common DNA sequence) to a known class of protein and as such the application provided a “specific” and “substantial” utility for the claimed DNA fragment. *Id.* at 53-54. An open-reading frame is a sequence that encodes a protein. WILLIAM S. KLUG & MICHAEL R. CUMMINGS, GENETICS: A MOLECULAR PERSPECTIVE 182 (2003).

73. BRUCE ALBERTS ET AL., MOLECULAR BIOLOGY OF THE CELL 3, 36 (3d ed. 1994).

74. *Id.* at 98. Adenine pairs with thymine and guanine pairs with cytosine. *Id.*

75. *Id.*

76. *See id.* at 102. Chemically related, ribonucleic acid (RNA) is similar to DNA in that it has three bases, A, C, and G that are the same; however, it contains uracil (“U”) as opposed to T as its fourth subunit; this unit still pairs with adenine. *Id.* RNA is usually present as a single strand in contrast to the double helix of DNA. KLUG & CUMMINGS, *supra* note 72, at 8.

77. KLUG & CUMMINGS, *supra* note 72, at 6. In its capacity as an informational unit, DNA serves as a template for the eventual assembly of a particular protein. *Id.* at 8. Through an interplay involving various molecules, the information of DNA is transcribed to single-stranded messenger RNA (“mRNA”). *Id.* Upon the release of the mRNA from the cell nucleus, the mRNA associates with ribosomes located in the cytoplasm of the cell and the information stored in the mRNA is translated into proteins. *Id.* The diversity in function of proteins is what influences the “biochemical identity of cells.” *Id.* at 7. A protein is a linear polymer that consists of chemical subunits called amino acids; there are 20 different types of amino acids. *Id.* at 8. It is the translation of the specific triplet nucleotides present in mRNA that determines the sequence of amino acids. *Id.*

During the life of a cell, only a few genes are expressed at any given time.⁷⁸ The transcripts (i.e., mRNA) can be extracted, converted to cDNA, and sequenced.⁷⁹ ESTs are simply short sequences of cDNA that represent the small fraction of genes expressed at the time of collection.⁸⁰ ESTs can be utilized as intermediaries to isolate the full gene, as markers to locate a particular gene on a chromosomal map, or to explore gene expression and regulation and therefore constitute important research tools.⁸¹

III. CASE SUMMARY

Dane Fisher and Raghunath Lalgudi (collectively "Fisher") appealed a decision from the BPAI on the only claim of their patent application for five ESTs from the maize plant, which was rejected due to lack of utility and enablement.⁸² The Federal Circuit affirmed the decision of the BPAI.⁸³

A. Facts and Procedural History

Fisher⁸⁴ applied for a patent on five ESTs from an unknown gene in the maize plant, disclosing seven uses for the molecules.⁸⁵ The examiner

78. See KLUG & CUMMINGS, *supra* note 72, at 432; CAS Registry, Sequence Tags, http://www.cas.org/express/help/601/blast/topics/seq_tags.htm. (last visited Oct. 27, 2005).

79. cDNA is "complementary DNA." ALBERTS ET AL., *supra* note 73, at 310. It can be produced by reverse transcribing mRNA transcripts. *Id.*

80. CAS Registry, Sequence Tags, http://www.cas.org/express/help/601/blast/topics/seq_tags.htm. (last visited Oct. 27, 2005).

81. National Center for Biotechnology Information, ESTs Factsheet, <http://www.ncbi.nlm.nih.gov/About/primer/est.html> (last visited Nov. 23, 2005).

82. *In re Fisher*, 421 F.3d 1365, 1366 (Fed. Cir. 2005).

83. *Id.*

84. The actual party in interest was Monsanto Co., a downstream user of research tools. *Fisher*, 421 F.3d. at 1366 n.1; see also Harold C. Wegner, Patent Developments, Address Before the Connecticut Intellectual Property Law Association (Nov. 9, 2004) (paper on file with the author), http://www.cipla.net/calendar/november_presentation.pdf.

85. The seven disclosed uses were the following:

- (1) serving as a molecular marker for mapping the entire maize genome, . . .
- (2) measuring the level of mRNA in a tissue sample via microarray technology to provide information about gene expression;
- (3) providing a source for primers for use in the polymerase chain reaction ("PCR") process to enable rapid and inexpensive duplication of specific genes;
- (4) identifying the presence or absence of a polymorphism;
- (5) isolating promoters via chromosome walking;
- (6) controlling protein expression; and
- (7) locating genetic molecules of other plants and organisms.

Fisher, 421 F.3d at 1368.

rejected Fisher's claim on § 101 grounds because it failed to disclose a "specific and substantial utility" for the claimed molecules.⁸⁶ The examiner determined that the invention lacked a specific utility because Fisher's delineated uses were not specific to any claimed EST but were generally applicable to any EST molecule.⁸⁷ Additionally, the claimed ESTs lacked substantial utility because the resulting protein products did not have a known use.⁸⁸

Fisher appealed to the BPAI.⁸⁹ Although the Board considered all seven uses, the appeal focused on only two: (1) the use of the ESTs for the identification of polymorphisms⁹⁰ (genetic variations in a DNA sequence) and (2) the use of the molecules as probes or as a primer source.⁹¹ The BPAI declared that the scant disclosure of the patent application failed to show how the ESTs would be useful in the detection of polymorphisms.⁹² Moreover, the BPAI declared that "without knowing any further information in regard to the gene represented by an EST . . . detection of the presence or absence of a polymorphism provides the barest information in regard to genetic heritage."⁹³ The BPAI went further, dismissing Fisher's substantial utility offerings for using the ESTs as probes, concluding that using the claimed ESTs to probe functionally nebulous genes of other organisms also did not constitute a "substantial utility."⁹⁴ The Board considered the remaining uses, focusing on the use of the molecules to monitor gene expression and as molecular markers. Because the gene data obtained would not provide any clear teachings to a learned artisan, the Board

86. *Id.*

87. *Id.*

88. *Id.* The examiner also rejected the application under the first paragraph of § 112 because she believed that a skilled artisan would not possess the requisite knowledge to utilize the claimed ESTs *because* of the lack of a specific and substantial utility of the molecules. *Id.*

89. *Id.*

90. *Id.* A polymorphism is defined as "a variation in the DNA that is too common to be due merely to new mutation. A polymorphism must have a frequency of at least 1% in the population." Polymorphism, MEDICINET.COM, <http://www.medterms.com/script/main/art.asp?articlekey=4992> (last visited Jan. 26, 2006).

91. Primers are "short preexisting [DNA] chain[s] to which new [nucleotides] can be added by DNA polymerase." Primer, HUMAN GENOME PROJECT INFORMATION: GENOME GLOSSARY, http://www.ornl.gov/sci/techresources/Human_Genome/glossary/glossary_p.shtml (last visited Feb. 19, 2006).

92. *Fisher*, 421 F.3d at 1368.

93. *Id.* (quoting *Ex parte Fisher*, 72 U.S.P.Q.2d 1020 (Bd. Pat. App. & Int'fs. 2004)).

94. *Id.*

stated that using ESTs to monitor gene expression and as molecular markers were insufficient to establish substantial utility.⁹⁵

B. The Federal Circuit's Analysis

On appeal, Fisher argued that § 101 requires simply that an invention be not "frivolous, injurious to the well-being, good policy, or good morals of society"—a contention the Federal Circuit firmly rejected in affirming the BPAI determination.⁹⁶ The court stated that for an invention to have a "substantial utility," it must evince a presently significant benefit to the public.⁹⁷ Moreover, in addition to possessing a "substantial utility," the court stated that an invention had to have a "specific utility"—a well-defined use with a particular benefit to the public.⁹⁸ Hence, the court declared that an invention had to be useful, not in the future or after additional research, but at the time of the patent application.⁹⁹ Furthermore, the court found that merely appending the terms "biological activity or biological properties" or "useful for technical and pharmaceutical purposes" does not provide the specific details necessary to establish sufficient utility.¹⁰⁰ While indicating that it was not bound by the Utility Guidelines provided by the PTO, the court did agree that the guidelines "comport[ed] with [the] court's interpretation of the utility requirement of § 101."¹⁰¹ In light of the judicial acknowledgement of the PTO's guidelines, the court quickly dismantled Fisher's legal argument that the BPAI applied a heightened standard in evaluating the utility of the invention.¹⁰²

In assessing Fisher's proffered utilities, the Federal Circuit noted that the claimed ESTs served as research tools that could enable scientists to isolate particular genes and perform further research on those genes.¹⁰³ The Federal Circuit stated, however, that the "overall goal of such experimentation is presumably to understand the maize genome [, hence determining] the functions of the underlying genes . . ." and thus there is no invention per se.¹⁰⁴

95. *Id.* at 1369. The Board also affirmed the examiner's enablement rejection. *Id.*

96. *Id.* at 1366, 1371 (citation omitted).

97. *Id.* at 1371.

98. *Id.*

99. *Id.*

100. *Id.*

101. *Id.* at 1372.

102. *Id.*

103. *Cf. id.* at 1373. Fisher admitted that, as of the patent application, the gene target to which the ESTs were directed had no known function. *Id.*

104. *Id.*

Fisher also argued that ESTs could be analogized to other molecular research tools like the microscope.¹⁰⁵ Rejecting this argument, the court explained that while a microscope—by magnifying an object to reveal its structure—provided a “specific benefit,” the ESTs performed no such function and simply detected a similarly structured molecule without providing additional information.¹⁰⁶ The court also noted that Fisher advanced no concrete examples of polymorphic or promoter uses.¹⁰⁷ Because Fisher provided no examples of the seven proposed uses, the court concluded that there existed no “substantial utility.”¹⁰⁸ Additionally, the seven means failed to offer “specific utility” because any transcribed EST could perform the disclosed uses and none were unique to the claimed molecules.¹⁰⁹ Analogizing to *Manson*, the court firmly stated that since the claimed ESTs did not correlate to a gene with a known function, they did not satisfy the statutory utility requirement.¹¹⁰

The Federal Circuit stated that to allow the patenting of the contentious ESTs would have been to grant Fisher “a hunting license [because] the claimed ESTs [were] only tools to be used along the way in search for a practical utility”¹¹¹ The court thus concluded that the claimed ESTs

105. *Id.*

106. *Id.*

107. *Id.* 1373-74. The court also noted that Fisher disclosed no evidence to substantiate the remaining asserted uses. *Id.* at 1374.

108. *Id.* at 1374. The court dismissed Fisher’s attempt to analogize the claimed ESTs to the pharmaceutical inventions in *In re Jolles*, 628 F.2d 1322 (C.C.P.A. 1980), *Nelson v. Bowler*, 626 F.2d 853 (C.C.P.A. 1980), and *Cross v. Iizuka*, 753 F.2d 1040 (Fed. Cir. 1985). In those cases, the court noted that the proposed uses for the pharmaceutical compounds were substantiated by experimental evidence. *Fisher*, 421 F.3d at 1377. Fisher also attempted to provide evidence of utility by pointing to the commercial success of general EST databases. *Id.* While acknowledging that commercial success could support an invention’s utility, the court stated that *Fisher* provided no evidence that there was any commercial interest in Fisher’s claimed ESTs. *Id.* (citation omitted).

109. *Id.*; see *In re Kirk*, 376 F.2d 936, 936 (C.C.P.A. 1967) (affirming the BPAI’s decision to reject an application on utility grounds because the steroid compounds were useful for simply their “biological activity” and that the compounds could be used only as intermediates in the preparation of unknown steroid compounds); see also *In re Joly*, 376 F.2d 906, 906 (C.C.P.A. 1967) (affirming the BPAI’s rejection on utility grounds for an application for intermediary steroidal compounds that were structurally similar to known pharmacologically active compounds). The *Fisher* court also noted that although the analogized cases involved chemical as opposed to biological molecules, the same line of reasoning was applicable. *Fisher*, 421 F.3d at 1375.

110. *Fisher*, 421 F.3d at 1374.

111. *Id.* at 1376. The court also affirmed the BPAI’s enablement decision because of the utility requirement in § 112. *Id.* at 1378. Therefore, the court stated that since the five claimed ESTs were found to lack utility, they were non-enabled as well. *Id.* at 1379.

failed to meet the § 101 utility requirement because they did not delineate the function of the underlying gene.¹¹²

In his dissent, Judge Rader argued that the claimed ESTs did possess statutory utility as research tools.¹¹³ He stated that research tools generally were valuable and possessed utility, conceding that their use was limited to a laboratory setting.¹¹⁴ Judge Rader stated that the ESTs were analogous to the microscope and hence beneficial to society because “both take a researcher one step closer to identifying and understanding a previously unknown and invisible structure.”¹¹⁵ Furthermore, the utility standard, Judge Rader argued, is not the proper standard to survey the prior art and assess what constitutes a substantive scientific advance.¹¹⁶

IV. DISCUSSION

“No recompense can properly be made to one from whom the community receives no consideration”¹¹⁷ The *quid pro quo* of the patent system requires, in exchange for the grant of exclusive rights to the patentee, disclosure to the public of an invention that possesses “substantial” utility in its current form. To be patentable, the invention must be appropriately “ripe” on its developmental timeline.¹¹⁸ By denying the application for the disputed ESTs in *Fisher*, the Federal Circuit provided the biotechnology community with a clearer picture regarding the time at which ESTs are appropriately “ripe” for patent purposes.

112. *Id.* at 1376 (“Absent [the] identification [of the underlying gene] . . . the claimed ESTs have not been researched and understood to the point of providing an immediate, well-defined, real world benefit to the public meriting the grant of a patent.”).

113. *Id.* at 1379.

114. *Id.* (“Many research tools such as gas chromatographs, screening assays, and nucleotide sequencing techniques have a clear, specific and unquestionable utility (e.g., they are useful in analyzing compounds).”) (quoting U.S. PATENT & TRADEMARK OFFICE, MANUAL OF PATENT EXAMINING PROCEDURE (MPEP) § 2107.01, at 2100-33 (8th ed. 2001, rev. Feb. 2003)).

115. *Id.* at 1380-81 (“Each step, even if small in isolation, is nonetheless a benefit to society sufficient to give a viable research tool ‘utility’ under § 101. In fact, experiments that fail still serve to eliminate some possibilities and provide information to the research process.”).

116. *See id.* at 1382. Judge Rader stated that § 103 is the proper standard to use in assessing how much an invention contributes to a particular art. *Id.* Utilizing the “obvious” standard, however, was unavailable because of the precedent of the Federal Circuit. *Id.* (citing *In re Deuel*, 51 F.3d 1552 (Fed. Cir. 1995)).

117. CHISUM, *supra* note 17, § 4.01 n.2 (quoting 1 W. ROBINSON, TREATISE ON THE LAW FOR USEFUL INVENTIONS 462-63 (1890)).

118. *See* CHISUM, *supra* note 17, § 4.02; *cf. Fisher*, 421 F.3d at 1371 & n.4 (citing *Nelson v. Bowler*, 626 F.2d 853, 856 (C.C.P.A. 1980)).

A. *Fisher* Heightens the Utility Hurdle for ESTs by Delaying Patentability

The nature of the art dictates the point on the developmental timeline at which an invention complies with the utility requirement and thus becomes “ripe” for patenting.¹¹⁹ Inventions in fields such as the mechanical arts, where inventors usually have a specific purpose in mind before commencing work, tend to satisfy the utility requirement early on the developmental timeline.¹²⁰ On the other hand, inventions in the chemical and biological arts often satisfy the utility requirement much later on the timeline because the creation of novel chemical compounds or processes frequently occurs long before the discovery of any specific utility.¹²¹

At what point on an invention’s developmental timeline should patent rights vest to ensure that the public receives a benefit? If the rights vest too early, a significant impediment in the progress and development of a field could result. Conversely, if the granting of rights is delayed significantly, patent-sensitive industries, like biotechnology, would lack incentive to engage in costly research because of the potentially poor return on the investment.¹²² The PTO and, ultimately, the courts will have to determine the appropriate point on the timeline for each industry to avoid these extremes.¹²³

Rejecting the CCPA’s utility standard in *Manson*, the Supreme Court avoided a bottleneck in the inventive stream for a utility-deficient product.¹²⁴ Because *Manson* provided no proof of *any* utility for the product that resulted from his claimed process, the Court’s analysis implicitly focused on the early stage in the invention’s development, finding that *Manson*’s invention was not sufficiently “ripe” to merit patenting.¹²⁵

Application of the *Manson* utility standard to ESTs requires that the molecules have a nexus to a *known* gene or protein—even those physiologically detrimental.¹²⁶ In *Fisher*, the applicants put forth seven *possible*

119. Cf. Julian David Forman, Comment, *A Timing Perspective on the Utility Requirement in Biotechnology Patent Applications*, 12 ALB. L.J. SCI. & TECH. 647, 662 (2002) (stating that the utility requirement serves as a “timing device” that assesses the “ripeness” of a particular invention).

120. See Rebecca S. Eisenberg, *Analyze This: A Law and Economics Agenda for the Patent System*, 53 VAND. L. REV. 2081, 2085-86 (2000).

121. *Id.* at 2085.

122. See Forman, *supra* note 119, at 649.

123. See Forman, *supra* note 119, at 649.

124. See *Brenner v. Manson*, 383 U.S. 519, 532-33 (1966).

125. Cf. *id.* at 532.

126. See *In re Fisher*, 421 F.3d 1365, 1373 (Fed. Cir. 2005).

uses for the claimed ESTs but did not provide any supplementary experimental evidence that supported any of the uses proposed.¹²⁷ The rapid advances in molecular biology allow scientists to obtain or isolate genetic material more readily, and thus it is the nature of the DNA art that delays the patenting of ESTs at Fisher's stage of development. By demanding evidence demonstrating a nexus between an EST and its target gene, the court propelled the inventive process forward. Scientists will not expend time and energy attempting to uncover, sequence, and patent as many ESTs as possible, regardless of their utility. Instead, they will probe deeper into the complexities of understanding the various systems that spring from a particular genetic base in order to identify ESTs with specific and substantial utility.

Some Federal Circuit judges appear to champion the position that in unpredictable arts, such as chemistry, the compounds created have inherent utility, rendering showing of additional utility unnecessary.¹²⁸ Judge Rich, in his vigorous dissent in *Kirk*, insisted that:

[c]learly it is against public policy to so establish the dynamics of the patent system that they operate to cause scarce scientific and inventive brainpower to waste its time concocting "legal utilities" merely for the purpose of satisfying the Patent Office, . . . instead of promoting honest disclosures which simply state that compounds are useful as "intermediates" and are intended merely to be supplied to another research group as the raw materials for further research. Such fantastic "law" is never indulged in with respect to other scientific "tools" of a mechanical or optical or electronic sort, such as a new laboratory balance, electron microscope, oscilloscope, or spectrophotometer, for example, yet they have no use whatever except to provide information and make research possible.¹²⁹

Judge Rader articulated a similar position in his dissent in *Fisher*.¹³⁰ He argued that the ESTs possessed inherent utility as research tools, aiding in the study of other molecules.¹³¹

The overly broad conception of utility adopted by Judge Rich and Judge Rader creates considerable potential for abuse. This possibility explains precisely why the *Fisher* court properly disallowed the premature

127. *Id.*

128. *See In re Kirk*, 376 F.2d 936, 961 (C.C.P.A. 1967) (Rich, J., dissenting); *see also Fisher*, 421 F.3d at 1379 (Rader, J., dissenting).

129. *See Kirk*, 376 F.2d at 961.

130. *See Fisher*, 421 F.3d at 1380.

131. *Id.* at 1379.

vesting of patent rights for ESTs on the research timeline with nominal disclosures of utility. If permitted, early patenting of ESTs would cause a scientific “upstream clogging” and provide the public—even if limited to the scientific public—with little benefit of the EST “inventions” in their current form.¹³² Thus, it is the inherent nature of ESTs that dictates the requirement of further development of the “invention” and not some burdensome requirement of “concocting” additional utilities.

B. The *Fisher* Decision and Anticommons Concerns

Exclusive rights in a scarce resource can give rise to a “tragedy of the anticommons.”¹³³ An anticommons problem may arise when multiple owners of a scarce resource possess the right to exclude others.¹³⁴ In the biotechnology sector, an anticommons problem can arise if a high number of exclusive “upstream” rights preclude “downstream” uses.¹³⁵ This imbalance would lead to increased transaction costs for the “downstream” users desiring to improve upon earlier discoveries.¹³⁶

While *Fisher* provided no examples of utility for the five ESTs and no information regarding the function of the underlying gene, *Fisher* did present the Federal Circuit with an opportunity to identify the proper point at which patent rights should vest for EST “research tools”—an opportunity for judicial clarification conspicuously avoided by the court.¹³⁷ Although the court declined to address the issue of patenting EST research tools, it appeared implicitly sensitive to the possibility that a tragedy of the anticommons could result, and thus the court required a higher degree of utility for ESTs.¹³⁸

132. Cf. Karen F. Lech, Note, *Human Genes Without Functions: Biotechnology Tests the Patent Utility Standard*, 27 SUFFOLK U. L. REV. 1631 (1993).

133. See Michael A. Heller & Rebecca S. Eisenberg, *Can Patents Deter Innovation? The Anticommons in Biomedical Research*, 280 SCI. 698 (1998).

134. *Id.* at 698.

135. *Id.*

136. *Id.* at 700.

137. See Wegner, *supra* note 84, at 48; see also *In re Fisher*, 421 F.3d 1365, 1368 (Fed. Cir. 2005).

138. Cf. *Fisher*, 421 F.3d at 1375-76. The court stated:

[u]ntil the process claim has been reduced to production of a product shown to be useful, the metes and bounds of that monopoly are not capable of precise delineation. It may engross a vast, unknown, and perhaps unknowable area. Such a patent may confer power to block off whole areas of scientific development, without compensating benefit to the public.

Id. (citing *Brenner v. Manson*, 383 U.S. 519, 535-36 (1966)).

While the general debate regarding the patenting of research tools continues,¹³⁹ the Federal Circuit can turn to the successful patenting of other research tools for guidance in its future contemplation of the patentability of EST research tools. This history reveals that patenting research tools need not spur the development of an anticommons problem when rights vest only when technologies are sufficiently “ripe.” Two examples of such technologies are the recombinant DNA technology and the polymerase chain reaction (PCR) technology.

In 1973, Stanley Cohen and Herbert Boyer pioneered a remarkable technology using a restriction enzyme to cut DNA from both a virus and bacteria, eventually creating an antibiotic-resistant plasmid.¹⁴⁰ This plasmid was then “spliced” into the genome of bacteria, thus creating the first recombinant organism. In 1980, Dr. Cohen and Dr. Boyer first patented this technology,¹⁴¹ which subsequently generated millions of dollars in licensing revenue.¹⁴² Here, patenting rights of the research tool vested at the appropriate time. This technological innovation not only dramatically facilitated the study of gene organization and expression, Cohen and Boyer’s technology propelled an entire industry.¹⁴³ Moreover, at the time

139. See, e.g., Heather Hamme Ramirez, Comment, *Defending the Privatization of Research Tools: An Examination of the “Tragedy of the Anticommons” in Biotechnology Research and Development*, 53 EMORY L.J. 359 (2004).

140. See About Biotech, Expanding the Boundaries of DNA Research, <http://www.accessexcellence.org/RC/AB/BC/1953-1976.html> (last visited Jan. 25, 2006). A plasmid is a circular piece of double-stranded DNA. ALBERTS ET AL., *supra* note 73, at 308. Restriction enzymes are “biochemical scissors” that recognize a specific sequence of DNA and cut the DNA at that site. See MedicineNet.com, Definition of a Restriction Enzyme, <http://www.medterms.com/script/main/art.asp?articlekey=5337> (last visited Jan. 26, 2006). Bacteria that contain the “antibiotic resistant” plasmid will survive exposure to antibiotics, while those that do not contain the plasmid will die. See An Introduction to Recombinant DNA, <http://www.rpi.edu/dept/chem-eng/Biotech-Environ/Projects00/rdna/rdna.html> (last visited Nov. 22, 2005). Thus the selection technique allows a researcher to recover specific bacteria containing the “foreign” circular DNA. *Id.*

141. See Rebecca Eisenberg, *Case Studies, in 5 INTELLECTUAL PROPERTY RIGHTS AND RESEARCH TOOLS IN MOLECULAR BIOLOGY 40-56 (1997)*, available at <http://www.nap.edu/readingroom/books/property/2.html>. Three patents on this technology issued. Ronald I. Eisenstein & David S. Resnick, *Going for the Big One: Blockbuster Patents Enrich University Coffers, but Can Also Affect Future Patenting and Research Decisions*, 19 NATURE BIOTECHNOLOGY 881 (2001), available at <http://biotech.nature.com> (subscription required).

142. Eisenberg, *supra* note 141, at 41.

143. *Id.*; see also KLUG & CUMMINGS, *supra* note 72, at 493 (discussing how recombinant DNA technology techniques supplied the “foundation” for the biotechnology industry).

of patenting the invention, alternative technologies were nonexistent.¹⁴⁴ Thus, steady progression of the art would occur notwithstanding the allowance of patenting the recombinant technology.

Another example of a research tool that was “ripe” for patenting was the Polymerase Chain Reaction technology. PCR allows for specific and rapid amplification of targeted DNA sequences using *Taq* polymerase, a heat-stable DNA polymerase enzyme.¹⁴⁵ This technology had a remarkable effect on basic research because it enabled the study of DNA extracted from varied sources (e.g., amplifying small quantities of DNA for forensic analysis or in medical diagnostics). Moreover, the elegant simplicity of the system provided an alternative to the sometimes labor-intensive use of recombinant technology.¹⁴⁶ Devised at the Cetus Corporation by Dr. Kary Mullis in 1984, PCR technology revolutionized biotechnology and now serves as a standard technique utilized in most molecular biology laboratories.¹⁴⁷ Its use was directed specifically and substantially to the amplification of nucleic acid sequences, hence acquiring patent protection at the appropriate point in the developmental timeline. In part because alternative technologies existed, the patenting of this research tool did not hinder, but rather aided scientific progression.¹⁴⁸

Summarily, the patenting of the recombinant DNA and the PCR research tools were successful for two reasons. First, both technologies were disseminated widely and thus were publicly accessible. Second, at the time, the art could withstand patenting of these research tools because other tools were available to researchers. The availability of these other tools allowed progression of the art.

In stark contrast to the research tools discussed in this section, if the *Fisher* court allowed the patenting of bare ESTs, the genetic “gold rush” would create a complex structure of overlapping patent rights.¹⁴⁹ Because there are no gene “alternatives,” the patenting of an EST would temporar-

144. Eisenberg, *supra* note 141, at 41.

145. An enzyme is a protein molecule that catalyzes—speeds up—chemical reactions. LUBERT STRYER, *BIOCHEMISTRY* 181 (4th ed. 1995). Polymerase is a type of enzyme that aids in the molecular “construction” of a DNA molecule. *Id.* at 89.

146. See KLUG & CUMMINGS, *supra* note 72, at 429.

147. Eisenberg, *supra* note 141, at 43.

148. See KLUG & CUMMINGS, *supra* note 72, at 429.

149. See Andrew T. Kight, Note, *Pregnant with Ambiguity: Credibility and the PTO Utility Guidelines in Light of Brenner*, 73 *IND. L.J.* 997, 997 (1998); cf. Shanshan Zhang, *Proposing Resolutions to the Insufficient Gene Patent System*, 20 *SANTA CLARA COMPUTER & HIGH TECH. L.J.* 1139, 1156 (2004) (arguing that because of the complex genetic interplay of various diseases, allowing DNA patenting would result in a complicated licensing picture).

ily remove it from the public domain. In addition, allowing patents on ESTs would focus inventive efforts in sequencing ESTs rather than in delineating the function of the target genes, and thus would impede scientific development in the field as a whole.

Although *Fisher* was a poor test case for establishing the proper utility standard for ESTs, the Federal Circuit demonstrated that it was not necessarily adverse to patenting these molecules.¹⁵⁰ Nevertheless, the court is sensitive to the possibility of “upstream clogging” because it implicitly demands a *higher* degree of utility for ESTs (i.e., allowing compliance with the statutory utility requirement later on the timeline).¹⁵¹ Unlike the research tools previously discussed, none of the ESTs in *Fisher* could provide additional information either about the identity of the gene or its secondary structure or function, hence providing only a nominal degree of utility. Furthermore, the techniques utilized in the generation of the ESTs themselves did not involve novel techniques.¹⁵²

It is difficult to predict whether the Federal Circuit, in future contemplations of the patentability of ESTs, will adhere to the utility stricture of *Manson* or settle into the more relaxed *Brana* standard. Additionally, it remains unclear whether the implicit degree requirement of *Fisher* will be applied narrowly to genetically-based inventions or to research tools generally.

150. *In re Fisher*, 421 F.3d 1365, 1378 (Fed. Cir. 2005). After outlining the government and the amici’s concerns regarding patenting ESTs without proof of utility, the court stated:

The concerns of the government and the amici, which may or may not be valid, are not ones that should be considered in deciding whether the application for the claimed ESTs meets the utility requirement of § 101 They are public policy considerations which are more appropriately directed to Congress as the legislative branch of government [W]hen Congress enacted § 101, it indicated that ‘anything under the sun that is made by man’ constitutes potential subject matter for a patent.

Id. (citation omitted).

151. *But see* *Bedford v. Hunt*, 3 F. Cas. 37, 37 (C.C. Mass. 1817) (“The law, however, does not look to the degree of utility; it simply requires, that [the invention] shall be capable of use”); *see also In re Kirk*, 376 F.2d 936, 954 (C.C.P.A. 1967) (“[T]he case law [has shown] that any degree of utility to anybody [is] legal utility.”) (Rich, J., dissenting) (internal quotation omitted).

152. *See* Leslie G. Restaino, Stephen E. Halpern & Dr. Eric L. Tang, *Patenting DNA-Related Inventions in the European Union, United States, and Japan: A Trilateral Approach or a Study in Contrast?*, 2002 UCLA J.L. & TECH. 2 (2003).

C. Implications of *Fisher* for Other Technologies

While the *Fisher* court decided that appropriate “ripeness” of patenting EST research tools will occur later in the invention’s developmental timeline, the case is not broadly illustrative of the utility evaluation that will occur in delineating the patentability of other research tools.

For example, DNA microarrays (“chips”) often are designed to serve as research tools.¹⁵³ These chips generally allow for the efficient gathering of genomic information.¹⁵⁴ These DNA chips can hold thousands of isolated, synthetic or reversed transcribed DNA molecules in discreet locations.¹⁵⁵ Under conditions favorable to hybridization, application of an unknown DNA sample to a chip and subsequent analysis can reveal the expression level of numerous genes contained in the sample.¹⁵⁶ DNA microarrays are thus powerful research tools in monitoring disease progression, as a clinical diagnostic, or in drug development.¹⁵⁷

Under a literal reading of *Fisher*, if the sequences contained on the chip lack utility, then the entire chip may not be useful.¹⁵⁸ However, finding a “specific” and “substantial” utility for a particular chip probably would be more facile than attempting to find a utility for a bare EST. A

153. Andrew Wang, Supervisory Patent Examiner, United States Patent and Trademark Office, Tech. Center 1600 Symposium (Oct. 2005), <http://www.sdipla.org/files/MicroarrayIssue.pdf>.

154. A microarray is “[a] tool used to sift through and analyze the information contained within a genome. A microarray consists of different nucleic acid probes that are chemically attached to a substrate, which can be a microchip, a glass slide or a microsphere-sized bead.” National Center for Toxicogenomics, Glossary of Terms, <http://www.niehs.nih.gov/nct/glossary.htm> (last visited Nov. 23, 2005).

155. Andrew Chin, Artful Prior Art and the Quality of DNA Patents 47 (Oct. 2005) (unpublished manuscript, on file with author), <http://www.unclaw.com/chin/scholarship/priorart.pdf>. Affymetrix, who filed an amicus brief in the *Fisher* case, is said to own chips that can hold up to 400,000 genes as nucleotide probes! See Randall Osborne, *Affymetrix Venture Raises \$100M to Exploit Wafers for Genomics*, BIOWORLD TODAY, Apr. 4, 2001.

156. Chin, *supra* note 155, at 48.

157. See National Center for Biotechnology Information, Microarrays Factsheet, <http://www.ncbi.nlm.nih.gov/About/primer/microarrays.html> (last visited Nov. 23, 2005); see also J.P. Jakupciak et al., *Mitochondrial DNA as a Cancer Biomarker*, 7 J. MOLECULAR DIAGNOSTICS 258 (2005).

158. See, e.g., Brief for Affymetrix, Inc. as Amicus Curiae in Support of the Appellee at 12-13, *In re Fisher*, 421 F.3d 1365 (Fed. Cir. 2005); see also Wang, *supra* note 153. The current litigation surrounding the patenting of DNA microarrays seems to involve infringement of process patents (i.e., in the creation of the chip) as opposed to infringement of the claimed genetic material contained on the chip. See, e.g., Richard Rouse & Gary Hardiman, *Microarray Technology—An Intellectual Property Retrospective*, 4 PHARMACOGENOMICS 3 (2003).

patent applicant could overcome a utility objection by patenting a method by which the microarray could constitute the invention, even if the particular subunits of the invention fail to satisfy the utility standard.¹⁵⁹

Fisher may prove to be more directly applicable to nanotechnology. Nanotechnology comprises technology at the nanometer scale—one billionth of a meter.¹⁶⁰ Nanotechnology is remarkably interdisciplinary, cutting across a variety of disciplines, including chemistry, physics, biology, pharmaceuticals, and computer science.¹⁶¹ The primary areas of interest in the field are in the creation of “nanomachines” and “molecular manufacturing.”¹⁶²

The *Fisher* court, in dicta, declared that regardless of its comparisons to *Manson*, “the Supreme Court . . . [decision] applies with equal force in the fields of chemistry and biology as well as in *any* scientific discipline.”¹⁶³ Given that it encompasses a variety of disciplines and industries, nanotechnology is likely to place significant strain on this reasoning. Little prior art exists for nanotechnology, and determining a person of ordinary skill in the art may prove difficult.¹⁶⁴ Furthermore, one commentator noted that unlike early patents in biotechnology and other sectors, some of the existing nanotechnology patents are for the “basic building blocks” of the field.¹⁶⁵ Thus, in nanotechnology the tragedy of the anticommons presents a significant danger because the patents issued for these “building blocks” may be construed broadly, impeding the development of the field.¹⁶⁶ Additionally, properly determining when a particular nanotechnology invention is “ripe” for patenting may be a complex task. At present, there are a number of patents issued in the nanotechnology field but few products to show for them.¹⁶⁷

159. Wang, *supra* note 153.

160. David S. Almeling, Note, *Patenting Nanotechnology: Problems with the Utility Requirement*, 2004 STAN. TECH. L. REV. N1, ¶ 1 (2004), http://stlr.stanford.edu/STLR/Articles/04_STLR_N1.

161. *Id.* ¶ 7.

162. Qin Shi, *Patent System Meets New Sciences: Is the Law Responsive to Changing Technologies and Industries?*, 61 N.Y.U. ANN. SURV. AM. L. 317, 343 (2005). The commentator states that “molecular manufacturing” utilizes nanomachines to make products that exist on the atomic scale. *Id.*

163. *Fisher*, 421 F.3d at 1375 (emphasis added).

164. See Almeling, *supra* note 160, ¶ 21.

165. See Mark A. Lemley, *Patenting Nanotechnology*, 58 STAN. L. REV. 601, 613-14 (2005).

166. See *id.* at 618-21.

167. See *id.* at 604.

While it appeared the PTO would traverse the same road for patenting nanotechnology that it tread when ESTs first came before the office, issuing numerous patents in a poorly understood technological sector,¹⁶⁸ the recent actions of the PTO are promising. The Office is taking proactive measures to educate itself on this emerging field.¹⁶⁹ In conjunction with the PTO's effort to prevent immature patenting, the Federal Circuit should use the implicit utility standard established in *Fisher* to limit patenting of nanotechnology products until further down the developmental timeline.¹⁷⁰

V. CONCLUSION

The *Fisher* decision provided the first judicial acknowledgment of the 2001 PTO Utility Guidelines and also provided some initial guidance regarding the substance of the utility requirement for ESTs. While *Fisher* did not provide a precise standard for the minimum necessary utility, the decision effectively eliminates generic uses not unique to the claimed EST molecules. The case reflected perfectly the utility standard serving as a "timing device,"¹⁷¹ allowing clearance of the utility hurdle only when the invention is "ripe." The impact of this standard on the patentability of ESTs as well as its applicability to other nascent industries remains an open question.

168. *See id.* at 613.

169. *See id.* at 603. The PTO has created a novel "cross-reference" system to track the new art in the nanotechnology sector. *See id.* at 603 n.8. It also holds annual meetings to become better educated in the field by other nanotechnologists. *See* M. Veronica Mullally & David R. Winn, *Patenting Nanotechnology: A Unique Challenge to IP Bar*, N.Y. L.J., July 6, 2004, <http://www.orrick.com/fileupload/324.pdf>.

170. *See* Lemley, *supra* note 165, at 628.

171. *See* Forman, *supra* note 119, at 648.

REFORMING INEQUITABLE CONDUCT TO IMPROVE PATENT QUALITY: CLEANSING UNCLEAN HANDS

By Kevin Mack

Legal scholars have widely criticized the efficacy of the United States patent system.¹ Much of this criticism revolves around the increasing costs associated with patent litigation and the decreasing quality of patents issued by the United States Patent and Trademark Office (PTO).² As an agency within the Department of Commerce, the Patent Office conducts *ex parte* examinations of patent applications and issues patents after applicants satisfy the statutory requirements for patent protection.³ When the Patent Office inadequately performs its duties, the integrity of the patent system and society suffer: investors rely upon “bad” patents as enforceable economic devices, and the public remunerates royalties to illegitimate patent holders.⁴

During *ex parte* examination, the Patent Office imposes a duty of candor and good faith on patent applicants.⁵ This duty includes disclosure of information material to the patentability of an invention.⁶ When an applicant violates this duty, an alleged infringer may assert inequitable conduct

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1. See, e.g., Jay P. Kesan & Marc Banik, *Patents as Incomplete Contracts: Aligning Incentives for R&D Investment with Incentives to Disclose Prior Art*, 2 WASH. U. J.L. & POL’Y 23 (2000) (characterizing patents as incomplete contracts because of deficiencies in the patent prosecution process); Mark A. Lemley, *Rational Ignorance at the Patent Office*, 95 NW. U. L. REV. 1495 (2001); Robert P. Merges, *As Many as Six Impossible Patents Before Breakfast: Property Rights for Business Concepts and Patent System Reform*, 14 BERKELEY TECH. L.J. 577 (1999).

2. For the remainder of this Note, “Patent Office” represents patent operations within the U.S. Patent and Trademark Office.

3. 35 U.S.C. §§ 1, 2 (2000).

4. See David Hricik, *Aerial Boundaries: The Duty of Candor as a Limitation on the Duty of Patent Practitioners to Advocate for Maximum Patent Coverage*, 44 S. TEX. L. REV. 205, 222 (2002) (“Large numbers of improvidently granted patents may create in terrorem effects on entrepreneurship, ranging from holdup licensing to patent thickets.”); Lemley, *supra* note 1, at 1515-20 (discussing the social effects of “bad” patents).

5. 37 C.F.R. § 1.56(a) (2005).

6. *Id.*

as an affirmative defense to patent infringement during litigation.⁷ A finding of inequitable conduct renders all claims of a patent unenforceable and may adversely affect related patents contaminated by the inequitable conduct.⁸

Budgetary constraints, rapidly evolving fields of technology, and information asymmetries between applicants and patent examiners continue to thwart the Patent Office's efforts to improve patent quality.⁹ To address these impediments, the National Academy of Sciences (NAS) and the Federal Trade Commission (FTC) advocated reforms to the patent system.¹⁰ Specifically, both organizations recommended improving the quality of information available to examiners during patent examination.¹¹ Currently, the duty of candor and good faith defines the quality of information available to examiners.¹² Based on the findings of the NAS and the FTC, Rep. Lamar Smith of Texas proposed legislation that reforms the duty of candor.¹³ Commentators are touting this legislation, entitled the Patent Reform Act of 2005, as an overhaul of the patent system.¹⁴

7. See generally 6 DONALD S. CHISUM, CHISUM ON PATENTS § 19.03[6][b][ii] (2004).

8. See *Lummus Indus., Inc. v. D.M. & E. Corp.*, 862 F.2d 267, 274 (Fed. Cir. 1988) ("The principle is well settled that if inequitable conduct is established as to any claim, all claims of the patent are rendered unenforceable."); *Consol. Aluminum Corp. v. Foseco Int'l Ltd.*, 910 F.2d 804, 809 (Fed. Cir. 1990) (holding several related patents unenforceable because of inequitable conduct).

9. See U.S. PATENT AND TRADEMARK OFFICE, PERFORMANCE AND ACCOUNTABILITY REPORT FOR FISCAL YEAR 2004, at 58 ("[S]low growth in total budgetary resources available for spending has had, and continues to have, an impact on the USPTO operations . . ."); Jay P. Kesan, *Carrots and Sticks to Create a Better Patent System*, 17 BERKELEY TECH. L.J. 763, 767 (2002); Lawrence Lessig, *The Problem with Patents*, INDUSTRY STANDARD, Apr. 23, 1999, available at <http://www.lessig.org/content/standard/0,1902,4296,00.html>.

10. FED. TRADE COMM'N, TO PROMOTE INNOVATION: THE PROPER BALANCE OF COMPETITION AND PATENT LAW AND POLICY (2003) [hereinafter FTC REPORT], available at <http://www.ftc.gov/opa/2003/10/cpreport.htm>; NAT'L ACAD. OF SCIS., A PATENT SYSTEM FOR THE 21ST CENTURY (Stephen A. Merrill et al. eds., 2004) [hereinafter NAS STUDY], available at <http://www.nap.edu/catalog/10976.html>.

11. See FTC REPORT, *supra* note 10, ch. 5, at 10-13 (discussing a proposal to enhance examiner access to prior art); NAS STUDY, *supra* note 10, at 87-89 (discussing a proposal to reinvigorate the non-obvious standard by increasing the Patent Office's access to published information regarding common general knowledge).

12. See 37 C.F.R. § 1.56 (2005).

13. H.R. 2795, 109th Cong. § 5 (2005); Amendment in the Nature of a Substitute to H.R. 2795, 109th Cong. § 5 (2005).

14. See, e.g., Peter Geier, *Bill in Congress to Overhaul Patent Law Seeks to Quell Suits*, NAT'L L.J. (2005); Eli Kintisch, *Overhaul of U.S. Patent System Proposed*, SCIENCE NOW, June 9, 2005, at 1.

This Note proposes four modifications to inequitable conduct standards designed to improve the quality of information available to examiners and reduce patent litigation costs. Two proposals address modern inequitable conduct doctrine, and the remaining two proposals address the Patent Reform Act's formulation of inequitable conduct. All proposals are consistent with recent recommendations advanced by the NAS, the FTC, and the American Intellectual Property Law Association (AIPLA).

Part I of this Note outlines the judicial and statutory roots of inequitable conduct, expands upon modern inequitable conduct doctrine, and discusses the efficacy of inequitable conduct as a defense to patent infringement. Part II describes the Patent Reform Act, focusing primarily on its proposed modifications to modern inequitable conduct doctrine and how these modifications will affect patent litigation costs. Part II includes a case study of the Act's ramifications on *Purdue Pharma L.P. v. Endo Pharmaceuticals Inc.*,¹⁵ a recent patent decision involving inequitable conduct. Part III describes the four proposals and expands upon how they may improve the quality of information available to examiners and reduce patent litigation costs. Two proposals comment on modern inequitable conduct doctrine: (1) establish procedures for applicants and third parties to submit relevant information to the Patent Office, including mandating relevancy statements for applicant submitted information and integrating protest and third-party submission procedures for third parties; and (2) award attorney's fees to patent owners when alleged infringers assert but do not prevail on an inequitable conduct defense. The two remaining proposals comment on the Patent Reform Act's formulation of inequitable conduct: (1) impute misconduct committed by registered practitioners to the patent owner;¹⁶ and (2) eliminate the Patent Office's proposed role in inequitable conduct adjudications.

I. BACKGROUND

The mission of the Patent Office is to ensure the patent system contributes to a strong economy, encourages innovation, and fosters entrepreneurial spirit.¹⁷ In pursuit of this mission, the Patent Office examines patent applications and issues patents after applicants satisfy the statutory re-

15. 70 U.S.P.Q.2d 1185 (S.D.N.Y. 2004), *aff'd*, 410 F.3d 690 (Fed. Cir. 2005).

16. For the remainder of this Note, the term "registered practitioner" includes all individuals registered to practice before the Patent Office.

17. U.S. PATENT AND TRADEMARK OFFICE, THE 21ST CENTURY STRATEGIC PLAN 4 (2003) [hereinafter PTO'S 21ST CENTURY STRATEGIC PLAN]. The Patent Act of 1836 established the Patent Office for the examination of patent applications. Act of July 4, 1836, ch. 357, §§ 1, 7, 5 Stat. 117.

quirements for patent protection. Once the Patent Office issues a patent, the patent owner may judicially enforce the rights vested in the patent by filing a patent infringement claim in federal court.¹⁸ An alleged infringer may defend against an infringement claim by asserting that the patent owner failed to comply with his duty of candor and good faith towards the Patent Office during the prosecution of the patent, thereby committing inequitable conduct.¹⁹ Section A outlines the judicial and statutory roots of inequitable conduct, and Section B expands upon modern inequitable conduct doctrine.

A. The History of Inequitable Conduct

The Supreme Court derived the inequitable conduct defense from the equitable doctrine of “unclean hands.”²⁰ Although judicially created, the defense possesses statutory precursors that date back to the origins of the patent system in the United States.²¹ Each patent statute prior to the Patent Act of 1952 established a private remedy for inequitably procured patents.²² Notwithstanding this statutory authorization, courts were reluctant to recognize inequitable conduct as a defense to patent infringement until 1945.²³

1. *Judicial Reluctance to Recognize Inequitable Conduct as a Defense to Patent Infringement*

Before 1945 courts generally refused to dismiss a patent infringement claim because of inequitable conduct. For example, in *Providence Rubber Co. v. Goodyear*,²⁴ the defendant, as a defense to patent infringement, alleged that the plaintiff fraudulently obtained a term extension for a pat-

18. 35 U.S.C. §§ 271, 281 (2000); 28 U.S.C. § 1338(a) (2000).

19. Inequitable conduct is often equated with “fraudulent procurement” or “fraud in the PTO.” See *Am. Hoist & Derrick Co. v. Sowa & Sons, Inc.*, 725 F.2d 1350, 1362-63 (Fed. Cir. 1984). This Note uses “inequitable conduct” to encompass any violation of the duty of candor and good faith codified in 37 C.F.R. § 1.56 (2005).

20. The doctrine of unclean hands denies equitable relief to a party that has acted fraudulently or in bad faith. See JOHN NORTON POMEROY & SPENCER W. SYMONS, A TREATISE ON EQUITY JURISPRUDENCE §§ 397, 398 (Spencer W. Symons ed., 5th ed., 1941).

21. The Patent Acts of 1790 and 1793, the first statutes specifically directed towards patent procurement, contained clauses authorizing third parties to seek repeal of patents obtained through surreptitious means. Act of Apr. 10, 1790, ch. 7, § 5, 1 Stat. 109; Act of Feb. 21, 1793, ch. 11, § 10, 1 Stat. 318.

22. See Robert J. Goldman, *Evolution of the Inequitable Conduct Defense in Patent Litigation*, 7 HARV. J.L. & TECH. 37, 38-40 (1993).

23. *Id.* at 38.

24. 76 U.S. (9 Wall.) 788 (1869).

ent.²⁵ The Supreme Court pronounced that “fraud must appear on the face of the patent to render it void in a court of law” and refused to consider the alleged misconduct.²⁶ Thus, the Supreme Court declared that a court may not dismiss an infringement claim because of misconduct extrinsic to the patent.

District courts consistently adhered to the Supreme Court’s proclamation in *Goodyear*.²⁷ During the 1930s and early 1940s, however, courts slowly began to recognize the inequitable conduct defense.²⁸ For example, in *Hazel-Atlas Glass Co. v. Hartford-Empire Co.*,²⁹ the plaintiff concocted a trade journal publication to overcome the Patent Office’s opposition to a patent.³⁰ The defendant, as a defense to patent infringement, proved that the plaintiff “deliberately planned and carefully executed [a] scheme” to defraud the Patent Office.³¹ Although the majority recognized the plaintiff’s misconduct as a defense to patent infringement,³² Justice Roberts adhered to the longstanding limits of inequitable conduct.³³ Specifically, Justice Roberts concluded that the proper procedure to address such misconduct was for the government, and not the defendant, to nullify the plaintiff’s patent.³⁴ Indeed, since 1888 the Supreme Court had repeatedly confirmed the government’s standing to cancel a fraudulently procured patent.³⁵

25. *Id.* at 790.

26. *Id.* at 797.

27. *See, e.g.,* *Vortex Mfg. Co. v. Ply-Rite Contracting Co.*, 33 F.2d 302 (D. Md. 1929) (citing *Mowry v. Whitney*, 81 U.S. 434 (1872)). Although the court cited *Mowry v. Whitney* as precedent for this “firmly established” principle, *Goodyear* clearly supported the court’s holding. *Id.* at 310.

28. *See* *Keystone Driller Co. v. Gen. Excavator Co.*, 290 U.S. 240, 243-47 (1933) (barring patent owner’s infringement claim because of suppression of prior use evidence).

29. 322 U.S. 238 (1944).

30. *Id.* at 240-41.

31. *Id.* at 245.

32. *Id.* at 250-51 (“The total effect of all this fraud, practiced both on the Patent Office and the courts, calls for nothing less than a complete denial of relief to Hartford for the claimed infringement of the patent thereby procured and enforced.”).

33. *Id.* at 251-54 (Roberts, J., dissenting).

34. *See id.* at 251-52 (Roberts, J., dissenting).

35. *See* *United States v. Am. Bell Tel. Co.*, 128 U.S. 315, 373 (1888); CHISUM, *supra* note 7, § 19.03[1].

2. *Genesis of the Inequitable Conduct Defense*

In 1945 the reluctance of courts to recognize the inequitable conduct defense subsided when the Supreme Court explicitly derived the inequitable conduct defense from the equitable doctrine of unclean hands.³⁶ The doctrine of unclean hands denies a party equitable relief when there is evidence of bad faith.³⁷ The Supreme Court reasoned that, when the public interest is at stake, the doctrine of unclean hands is of great significance because of the potential injury to the public.³⁸ This potential injury includes the grant of monopoly rights to illegitimate patent holders.³⁹ When applying the doctrine of unclean hands to patent cases, the Supreme Court recognized that “[a] patent by its very nature is affected with a public interest.”⁴⁰ Because of the inequitable conduct committed during the procurement of the plaintiff’s patent, the Supreme Court upheld the district court’s finding dismissing the plaintiff’s patent claims under the doctrine of unclean hands.⁴¹ Thus, the Supreme Court pronounced that inequitable conduct committed during the procurement of a patent may be a defense to patent infringement, officially commencing the inequitable conduct defense.

B. **Modern Inequitable Conduct Doctrine**

The Patent Office imposes a duty of candor and good faith on every individual associated with the filing and prosecution of a patent application.⁴² This duty extends to the patent applicant and his representatives, such as attorneys and patent agents that assist in the prosecution or preparation of the patent.⁴³ A breach of this duty constitutes inequitable conduct when an affirmative misrepresentation of a material fact, failure to disclose material information, or submission of false material information couples with intent to deceive or mislead the Patent Office.⁴⁴

36. *Precision Instrument Mfg. Co. v. Auto. Maint. Mach. Co.*, 324 U.S. 806 (1945).

37. *POMEROY & SYMONS*, *supra* note 20, at 91.

38. *Precision Instrument*, 324 U.S. at 815-16.

39. *Id.* at 816.

40. *Id.* The Federal Regulations still codify this landmark recognition. 37 C.F.R. § 1.56(a) (2005).

41. *See Precision Instrument*, 324 U.S. at 819-20.

42. *See* 37 C.F.R. § 1.56(a); *Bristol-Myers Squibb Co. v. Rhone-Poulenc Rorer, Inc.*, 326 F.3d 1226, 1233 (Fed. Cir. 2003).

43. 37 C.F.R. § 1.56(c); *Molins PLC v. Textron, Inc.*, 48 F.3d at 1178 n.6 (Fed. Cir. 1995); *FMC Corp. v. Manitowoc Co.*, 835 F.2d 1411, 1415 n.8 (Fed. Cir. 1987).

44. *Molins*, 48 F.3d at 1178.

Because courts presume a patent is valid,⁴⁵ a party seeking to render a patent unenforceable due to inequitable conduct must prove both materiality and intent by clear and convincing evidence.⁴⁶ Once threshold findings of materiality and intent are established, the court balances the materiality of the information with the intent of the accused to determine if the equities warrant a conclusion of inequitable conduct.⁴⁷ A finding of inequitable conduct renders all claims of the patent unenforceable and may adversely affect related patents contaminated by the inequitable conduct.⁴⁸

1. Materiality

The first prong of the test for inequitable conduct requires that the information either submitted to or withheld from the Patent Office be material to patentability.⁴⁹ When evaluating materiality, the Court of Appeals for the Federal Circuit has consistently referred to the standard set forth in 37 C.F.R. § 1.56 (“Rule 56”) regarding the duty of disclosure.⁵⁰ Rule 56 “is the appropriate starting point because it is the broadest and because it most closely aligns with how one ought to conduct business with the PTO.”⁵¹

In 1977 the Patent Office promulgated Rule 56 as an affirmative duty of disclosure.⁵² Under the Rule, information was material to patentability when there was a “substantial likelihood that a reasonable examiner would consider it important in deciding whether to allow the application to issue as a patent.”⁵³ The Patent Office derived this “reasonable examiner” definition of materiality from the Supreme Court’s interpretation of material-

45. 35 U.S.C. § 282 (2000).

46. See *Kingsdown Med. Consultants, Ltd. v. Hollister, Inc.*, 863 F.2d 867, 872 (Fed. Cir. 1988).

47. See *Molins*, 48 F.3d at 1178.

48. See *Lumms Indus., Inc. v. D.M. & E. Corp.*, 862 F.2d 267, 274 (Fed. Cir. 1988) (“The principle is well settled that if inequitable conduct is established as to any claim, all claims of the patent are rendered unenforceable.”); *Consol. Aluminum Corp. v. Foseco Int’l Ltd.*, 910 F.2d 804, 809 (Fed. Cir. 1990) (holding several related patents unenforceable because of inequitable conduct).

49. See *Kingsdown*, 863 F.2d at 872.

50. See, e.g., *Bruno Indep. Living Aids v. Acron Mobility Servs., Ltd.*, 394 F.3d 1348, 1352 (Fed. Cir. 2005) (applying the post-1992 version of the rule); *Critikon, Inc. v. Becton Dickinson Vascular Access, Inc.*, 120 F.3d 1253, 1257 (Fed. Cir. 1997) (discussing the post-1992 version of the rule); *J.P. Stevens & Co. v. Lex Tex Ltd.*, 747 F.2d 1553, 1559 (Fed. Cir. 1984) (applying the pre-1992 version of the rule).

51. *J.P. Stevens*, 747 F.2d at 1559.

52. 42 Fed. Reg. 5593 (Jan. 27, 1977) (to be codified at 37 C.F.R. pt. 1); Gary M. Hoffman & Michael C. Greenbaum, *The Duty of Disclosure Requirement*, 16 AIPLA Q.J. 124, 134 (1988).

53. 42 Fed. Reg. 5593 (Jan. 27, 1977).

ity in securities fraud.⁵⁴ The Patent Office intended for this rule to stabilize decisions in the Patent Office and aid those who were not experts in the legal doctrine of fraud.⁵⁵ The Patent Office “strongly encouraged” applicants to submit prior art statements during patent procurement as a mechanism to comply with this newly formulated duty.⁵⁶

In 1992 the Patent Office amended the definition of materiality. The amended definition applies to all applications pending or filed after March 16, 1992.⁵⁷ In accordance with the amendment, information is material to patentability when:

- (1) It establishes, by itself or in combination with other information, a prima facie case of unpatentability of a claim; or
- (2) It refutes, or is inconsistent with, a position the applicant takes in:
 - (i) Opposing an argument of unpatentability relied on by the Office, or
 - (ii) Asserting an argument of patentability.⁵⁸

Conversely, information that is merely duplicative or cumulative of information already presented to the Patent Office is not material.⁵⁹ The Patent Office designed this new formulation to provide a more objective definition of materiality⁶⁰ and to strike a balance between the needs of the applicant and the Patent Office.⁶¹ Although this “prima facie” standard of materiality replaced the “reasonable examiner” standard, the Federal Circuit recently stated that the revised rule “was not intended to constitute a significant substantive break with the previous standard.”⁶² The Federal Cir-

54. 42 Fed. Reg. 5589 (Jan. 27, 1977); *TSC Indus. v. Northway*, 426 U.S. 438, 449 (1976) (“An omitted fact is material if there is a substantial likelihood that a reasonable shareholder would consider it important in deciding how to vote.”).

55. Fed. Reg. 5589 (Jan. 27, 1977).

56. *Id.* at 5590. In 1992, the Patent Office replaced prior art statements with information disclosure statements to clarify the duty of disclosure as encompassing all information materially related to patentability, regardless of whether the information constitutes prior art. 57 Fed. Reg. 2022 (Jan. 17, 1992).

57. 57 Fed. Reg. 2021 (Jan. 17, 1992).

58. 37 C.F.R. § 1.56(b) (2005).

59. *See id.*; *J.P. Stevens & Co. v. Lex Tex Ltd.*, 747 F.2d 1553, 1559-60 (Fed. Cir. 1984).

60. 57 Fed. Reg. 2024 (Jan. 17, 1992).

61. *Id.* at 2021.

62. *Hoffman-La Roche, Inc. v. Promega Corp.*, 323 F.3d 1354, 1368 n.2 (Fed. Cir. 2003).

cuit recently explained that a litigant may establish materiality under either standard, as well as three older standards.⁶³

2. *Intent to Deceive or Mislead*

The second prong of the test for inequitable conduct requires intent to deceive or mislead the Patent Office. A litigant does not need to prove the intent of the accused by direct evidence; inferential evidence of the circumstances surrounding the alleged inequitable conduct will suffice.⁶⁴ Indeed, “direct proof of wrongful intent is rarely available” in equitable conduct proceedings.⁶⁵ Moreover, the subjective good faith of the accused is only one factor to consider when balancing materiality and intent. If the information involved is highly material to patentability, the level of intent required to sustain an inequitable conduct finding is proportionally less.⁶⁶ The Federal Circuit has therefore advocated that the requisite standard of culpability for inequitable conduct is interrelated with the degree of materiality of the omitted or misrepresented information.⁶⁷

3. *Frequency with which the Inequitable Conduct Defense is Pled*

In 2004 the Patent Office received over 380,000 patent applications and granted over 180,000 patents.⁶⁸ During patent litigation, accused infringers pled inequitable conduct as a defense to patent infringement so frequently that the Federal Circuit repeatedly denounced its overuse.⁶⁹

63. *Digital Control Inc., v. The Charles Mach. Works*, No. 05-1128, 2006 U.S. App. LEXIS 2991, at *18 (Fed. Cir. Feb. 8, 2006). The three older standards are the objective “but for” standard, the subjective “but for” standard, and the “but it may have” standard. *Id.* at *14.

64. *See Baxter Int’l, Inc. v. McGaw, Inc.*, 149 F.3d 1321, 1329 (Fed. Cir. 1998); *LaBounty Mfg., Inc. v. USITC*, 958 F.2d 1066, 1076 (Fed. Cir. 1992).

65. *LaBounty Mfg.*, 958 F.2d at 1076.

66. *See Am. Hoist & Derrick*, 725 F.2d at 1363.

67. 6 CHISUM, *supra* note 7, § 19.03[3] & n.12 (“The Federal Circuit has stated that the appropriate standard of materiality is interrelated with the question of the degree of culpability.”).

68. U.S. PATENT AND TRADEMARK OFFICE, U.S. PATENT STATISTICS REPORT (2004).

69. *See Multiform Desiccants, Inc. v. Medzam Ltd.*, 133 F.3d 1473, 1482 (Fed. Cir. 1998); *Burlington Indus., Inc. v. Dayco Corp.*, 849 F.2d 1418, 1422 (Fed. Cir. 1988); *Kimberly-Clark Corp. v. Johnson & Johnson*, 745 F.2d 1437, 1454 (Fed. Cir. 1984).

Table 1: Patent Decisions Involving Inequitable Conduct⁷⁰

Year	Total Number of Patent Cases	Number of Cases Patentee Prevailed	Number of Cases Alleged Infringer Prevailed	% of Decisions with Inequitable Conduct Determination
2000	104	15	5	19
2001	161	23	4	17
2002	234	26	11	16
2003	208	22	18	19
2004	127	29	15	35

Accused infringers, however, continue to plead the defense with regularity. Table 1 illustrates this regularity; from 2000 to 2004, an inequitable conduct adjudication appeared in 16% to 35% of all reported patent opinions.⁷¹ Because the vast majority of patent cases settle before trial or resolve during summary judgment on issues other than inequitable conduct,⁷² it can be inferred that the percent of patent cases in which a litigant plead inequitable conduct is substantially higher than these figures.

II. THE NEED FOR REFORM: THE PATENT REFORM ACT OF 2005

In 1984 Judge Giles Rich proclaimed that the inequitable conduct defense “has been overplayed, is appearing in nearly every patent suit, and is cluttering up the patent system.”⁷³ Four years later, Judge Philip Nichols pronounced that “the habit of charging inequitable conduct in almost every major patent case has become an absolute plague.”⁷⁴ The Federal Circuit’s ostensible hostility towards the inequitable conduct doctrine stems from its perceived effects: defendants employ inequitable conduct as a magic incantation against patentees, diverting the court’s attention away from the

70. All statistics are obtained from University of Houston Law Center, U.S. Patent Litigation Statistics, <http://www.patstats.org> (last visited Mar. 1, 2006).

71. The opinions represent all reported patent decisions, including those affirmations by the Federal Circuit under Rule 36 with no published opinion and those decided by the International Trade Commission and the Court of Federal Claims.

72. JAY P. KESAN & GWENDOLYN G. BALL, HOW ARE PATENT CASES RESOLVED? AN EMPIRICAL EXAMINATION OF THE ADJUDICATION AND SETTLEMENT OF PATENT DISPUTES 18 (Univ. of Ill. Law & Econ. Working Paper No. LE05-027, 2005). For additional information on the efficacy of the inequitable conduct defense see Katherine Nolan-Stevaux, *Inequitable Conduct Claims in the 21st Century: Combating the Plague*, 20 BERKELEY TECH. L.J. 147 (2005).

73. *Kimberly-Clark*, 745 F.2d at 1454.

74. *Burlington*, 849 F.2d at 1422.

statutory requirements of patent protection.⁷⁵ The Federal Circuit's long-standing hostility towards inequitable conduct sparked a series of proposals for its reform from the NAS, FTC, and AIPLA.⁷⁶

On June 8, 2005, Rep. Lamar Smith introduced the Patent Reform Act of 2005.⁷⁷ The bill is a wide-ranging reform package relating to the procurement, enforcement, and validity of patents.⁷⁸ Specifically, the bill proposes a number of procedural and substantive changes to the duty of candor and good faith presently codified in 37 C.F.R. § 1.56. In general, the Patent Reform Act substantially increases the barriers to successfully pleading inequitable conduct as a defense to patent infringement and, in some cases, reduces the penalties for the commission of inequitable conduct.⁷⁹ Thus, the Act cleanses the hands of some who would possess unclean hands under modern inequitable conduct doctrine.

This Part discusses the Act's proposed modifications to modern inequitable conduct and expands upon how these modifications will affect patent litigation costs. As an illustration of its anticipated effects, this Part also discusses the Act's ramifications on *Purdue Pharma L.P. v. Endo Pharmaceuticals Inc.*,⁸⁰ a recent patent decision involving inequitable conduct.

A. A Heightened Culpability Requirement

The Patent Reform Act, like current rules and regulations, imposes a duty of candor and good faith on individuals associated with the filing or prosecution of a patent application.⁸¹ Under the Act, an individual is in violation of this duty when:

- (1) the individual knowingly failed to disclose information or knowingly misrepresented information;

75. See *Multiform Desiccants, Inc. v. Medzam Ltd.*, 133 F.3d 1473, 1482 (Fed. Cir. 1998) (“[T]he charge of inequitable conduct before the patent office had come to be attached to every patent prosecution, diverting the court from genuine issues and simply spawning satellite litigation.”); *FMC Corp. v. Manitowoc Co.*, 835 F.2d 1411, 1415 (Fed. Cir. 1987); Committee Position Paper, *The Doctrine of Inequitable Conduct and The Duty of Candor in Patent Prosecution: Its Current Adverse Impact on the Operation of the United States Patent System*, 16 AIPLA Q.J. 74, 75 (1988).

76. See FTC REPORT, *supra* note 10; NAS STUDY, *supra* note 10; Committee Position Paper, *supra* note 75.

77. H.R. 2795, 109th Cong. (2005).

78. *Id.*

79. *Id.*

80. 70 U.S.P.Q.2d 1185 (S.D.N.Y. 2004), *aff'd*, 410 F.3d 690 (Fed. Cir. 2005).

81. See 37 C.F.R. § 1.56(a) (2005); Amendment in the Nature of a Substitute to H.R. 2795, 109th Cong. § 5(a) (2005).

- (2) the information not disclosed was material or, in the case of a misrepresentation, the misrepresentation was material;
- (3) the individual had knowledge of the materiality of the information not disclosed or, in the case of a misrepresentation, had knowledge of the materiality of the misrepresentation; and
- (4) the individual's intent was to deceive or mislead.⁸²

Accordingly, the basic elements of modern inequitable conduct—materiality and intent—remain under the proposed legislation.

The Act, however, departs from the Federal Circuit's standard of culpability for inequitable conduct. Presently, the Federal Circuit employs a standard of culpability interrelated with the degree of materiality of the misrepresented or omitted information.⁸³ The Patent Reform Act proposes a knowledge requirement substantially higher than the current standard.⁸⁴ Thus, the subjective good faith of the accused would be dispositive of intent under the Act.⁸⁵

The Act's heightened culpability requirement also substantially increases an alleged infringer's evidentiary burden when asserting inequitable conduct. Pursuant to the Act, the patent owner must *knowingly* fail to disclose or misrepresent information.⁸⁶ This heightened requirement will deter alleged infringers from frivolously asserting the defense in court unless substantial evidence exists to satisfy the requirement. Since direct proof of wrongful intent is rarely available in inequitable conduct proceedings,⁸⁷ this heightened requirement should drastically reduce the number of parties claiming inequitable conduct as a defense to patent infringement. By cleansing the hands of those who would be liable for inequitable conduct under modern inequitable conduct doctrine, the Act should reduce overall costs associated with patent litigation.

82. Amendment in the Nature of a Substitute to H.R. 2795, 109th Cong. § 5(a) (2005).

83. *Am. Hoist & Derrick Co. v. Sowa & Sons, Inc.*, 725 F.2d 1350, 1363 (Fed. Cir. 1984).

84. *Compare* Amendment in the Nature of a Substitute to H.R. 2795, 109th Cong. § 5(a) (2005), *with* 37 C.F.R. § 1.56 (2005).

85. *Contra Am. Hoist & Derrick*, 725 F.2d at 1363.

86. *See* Amendment in the Nature of a Substitute to H.R. 2795, 109th Cong. § 5(a) (2005).

87. *See Baxter*, 149 F.3d at 1329; *LaBounty*, 958 F.2d at 1076.

B. The Patent Office's Proposed Role as a Limited Investigatory Body

Under the Patent Reform Act, no state or federal court could adjudicate, or even investigate, a claim of misconduct unless specifically provided for by the Act.⁸⁸ The Act designates the Patent Office as the sole agency for investigating all alleged fraud or misconduct claims committed in any proceeding before the Patent Office unless the Act permits a party to plead the inequitable conduct defense in court.⁸⁹ In addition, the Act specifically provides a mechanism for courts to refer possible misconduct to the Patent Office when a party is not pleading inequitable conduct as a defense.⁹⁰

Under the Act, a “special office” within the Patent Office would be responsible for conducting investigations into inequitable conduct and receiving referrals from state and federal courts.⁹¹ After probable cause of inequitable conduct is established, the “special office” may impose remedies under 35 U.S.C. § 32,⁹² such as the suspension and exclusion of registered practitioners from practice before the Patent Office.⁹³ The Patent Reform Act, however, does not explicitly authorize the Patent Office to render patents unenforceable because of inequitable conduct; the “special office” is primarily limited to reprimanding registered practitioners who have committed misconduct as defined by the Act. To render a patent unenforceable, a party must plead inequitable conduct in court and succeed on their inequitable conduct claim. Because the Patent Office's role is primarily limited to sanctioning registered practitioners under the Patent Reform Act, Part III of this Note proposes eliminating this section of the Act to alleviate the burden on the Patent Office.

C. The Judiciary's Proposed Role as the Dominant Investigatory Body

Pursuant to the Patent Reform Act, a court may render a patent unenforceable only after a party successfully pleads inequitable conduct and satisfies the requirements for unenforceability.⁹⁴ Specifically, a party seek-

88. Amendment in the Nature of a Substitute to H.R. 2795, 109th Cong. § 5(a) (2005).

89. *Id.*

90. *Id.*

91. *Id.*

92. *Id.*

93. 35 U.S.C. § 32 (2000).

94. See Amendment in the Nature of a Substitute to H.R. 2795, 109th Cong. § 5(a) (2005).

ing to plead inequitable conduct must file a motion to amend the pleadings, and the court will only grant the motion if:

- (A) the validity of one or more claims in the patent is at issue in the action;
- (B) the court has previously entered a judgment in the action that a claim in the patent is invalid;
- (C) the motion to amend the pleadings is brought by a party to the action adverse to the patent owner within 3 months after a judgment is entered by the court invalidating the claim; and
- (D) the motion sets out with particularity a substantial basis for findings that—
 - (i) because of the reliance of the Office on the misconduct, fraud took place in a proceeding before the Office involving the patent or in connection with the filing or examination of the application for patent, and as a result at least 1 claim in the patent invalidated in the action was issued as a result of the reliance on the misconduct; and
 - (ii) the alleged fraud is attributable to the patent owner.⁹⁵

Contained within this section of the Act are at least two substantive changes to modern inequitable conduct doctrine. First, a court must declare at least one claim of a patent invalid before an alleged infringer can plead the inequitable conduct defense in court. Presently, a finding of invalidity is not a requisite for pleading inequitable conduct.⁹⁶ Second, the Act reduces the remedies available for inequitable conduct. Specifically, unlike under the law today, a court would not be able to render related patents unenforceable solely because inequitable conduct contaminates them.⁹⁷ Requiring a finding of invalidity before a litigant may plead inequitable conduct and reducing available remedies for the commission of inequitable conduct should deter alleged infringers, at least in some cases, from seeking a judicial remedy, thereby reducing patent litigation costs.

D. Liability of the Patent Owner for the Misconduct of Others

The Patent Reform Act also shields patent owners from the misconduct of patent attorneys and patent agents who represent the patent owner during the prosecution of the patent. Specifically, the Act does not impute

95. *Id.*

96. See Committee Position Paper, *supra* note 75, at 78 (1988) (“A finding of inequitable conduct may render claims of a patent unenforceable even though those claims are otherwise valid under the strict requirements for obtaining a patent.”).

97. *Consol. Aluminum Corp. v. Foseco Int’l Ltd.*, 910 F.2d 804, 809 (Fed. Cir. 1990) (holding several related patents unenforceable because of inequitable conduct).

the misconduct of those “registered to practice before the Office and acting in a representative capacity before the Office” to the patent owner.⁹⁸ This provision will markedly change the current law, which imputes the misconduct of the patent applicant’s representatives to the patent owner.⁹⁹

The Act does impute the misconduct of unregistered practitioners to the patent owner. Specifically, if an individual who is not registered to practice before the Office acts on the patent owner’s behalf, the court may impute the individual’s misconduct to the patent owner.¹⁰⁰ By not imputing the misconduct of registered practitioners, the Act may likely reduce the frequency of inequitable claims, especially those in which only registered practitioners allegedly commit the misconduct, and reduce litigation costs. Nevertheless, Part III of this Note proposes modifications to this section of the Act designed to treat registered and unregistered practitioners equally.

E. Examiner Reliance Necessary to Establish Inequitable Conduct

Pursuant to the Patent Reform Act, misconduct is insufficient to support a finding of inequitable conduct unless the examiner relied upon the misconduct. A litigant may establish reliance by showing that the examiner

- (i) would not have issued the invalidated claim, acting reasonably, in the absence of the misconduct; or
- (ii) based upon the prosecution history as a whole objectively considered, would have done so based upon in whole or in part on account of the misconduct.¹⁰¹

Examiner reliance is another substantive change from modern inequitable conduct doctrine proposed by the Act.¹⁰²

Working together, the requirements of one invalid claim and examiner reliance create an inequitable conduct standard similar to the “but for” standard proposed by the AIPLA Ad Hoc Committee on Rule 56 and Inequitable Conduct in 1988.¹⁰³ Under the “but for” standard, information is material only if “one or more claims of the patent should not have issued

98. See Amendment in the Nature of a Substitute to H.R. 2795, 109th Cong. § 5(a) (2005).

99. See *FMC Corp. v. Manitowoc Co.*, 835 F.2d 1411, 1415 n.8 (Fed. Cir. 1987).

100. See Amendment in the Nature of a Substitute to H.R. 2795, 109th Cong. § 5(a) (2005).

101. *Id.*

102. Compare *id.*, with 37 C.F.R. § 1.56 (2005).

103. See Committee Position Paper, *supra* note 75, at 79-81.

or should have issued with different scope.”¹⁰⁴ The Committee found that frequent charges of inequitable conduct have a detrimental effect on the patent system. In particular, allegations of inequitable conduct render settlement more difficult by increasing hostility between parties.¹⁰⁵ The Patent Reform Act addresses these concerns by substantially increasing the barriers associated with pleading inequitable conduct as a defense to patent infringement. The net effect of these barriers should reduce the number of parties asserting the inequitable conduct defense and decrease expected patent litigation costs.

F. Case Study: *Purdue Pharma L.P. v. Endo Pharmaceuticals Inc.*

This Section presents a study of the Patent Reform Act’s ramifications on *Purdue Pharma L.P. v. Endo Pharmaceuticals Inc.*,¹⁰⁶ a recent patent decision involving inequitable conduct. This Section outlines the procedural and substantive background of the case, then comments on how the outcome of the case would change under the Patent Reform Act.

1. Background

On May 18, 1999, Purdue Pharma L.P., The Purdue Frederick Company, The P.F. Laboratories, Inc., and The Purdue Pharma Company (collectively, “Purdue”) sued Endo Pharmaceuticals Inc. and Endo Pharmaceuticals Holdings Inc. (collectively, “Endo”) for patent infringement in the United States District Court for the Southern District of New York.¹⁰⁷ Purdue asserted that Endo was infringing three of Purdue’s patents directed to a product and process for relieving moderate to severe pain.¹⁰⁸

The district court held that Purdue committed inequitable conduct through a “clear pattern of intentional misrepresentation” during the prosecution of the asserted patents, thereby providing Endo with a defense to the infringement claim.¹⁰⁹ In particular, the court examined the specifications of each asserted patent, which contained the following passage:

It has now been *surprisingly discovered* that the presently claimed controlled release oxycodone formulations acceptably

104. *Id.* at 85.

105. *Id.* at 75.

106. 70 U.S.P.Q.2d 1185 (S.D.N.Y. 2004), *aff’d*, 410 F.3d 690 (Fed. Cir. 2005).

107. *Id.*

108. The patent infringement claim was filed pursuant to 35 U.S.C. § 271(e)(2). *Id.* at 1186. The three patents asserted were U.S. Patent No. 5,549,912 (filed Aug. 27, 1996), U.S. Patent No. 5,508,042 (filed Apr. 16, 1996), and U.S. Patent No. 5,656,295 (filed Aug. 12, 1997). *Purdue Pharma*, 70 U.S.P.Q.2d at 1185.

109. *Id.* at 1208.

control pain over a substantially narrower, approximately four-fold [range] (10 to 40 mg every 12 hours-around-the-clock dosing) in approximately 90% of patients. This is in sharp contrast to the approximately eight-fold range required for approximately 90% of patients for opioid analgesics in general.¹¹⁰

Moreover, one of the named inventors submitted a declaration emphasizing the four-fold dosage range as a patentable aspect of the invention.¹¹¹ Before the district court it was undisputed that Purdue had no clinical evidence or scientific proof during the prosecution of the patents supporting a four-fold dosage range for oxycodone.¹¹² Based in part on the Manual of Patent Examining Procedure (MPEP), which states that “[n]o results should be represented as actual results unless they have actually been achieved” and “[p]aper or prophetic examples should not be described using the past tense,”¹¹³ the district court found that Purdue misled the PTO in believing that the four-fold dosage range was a scientific certainty based on clinical studies.¹¹⁴ The court further concluded that the dosage range was an essential element of the claims and material to patentability.¹¹⁵

The district court viewed Purdue’s claim of good faith with skepticism.¹¹⁶ At no time during the prosecution of the patents in suit did Purdue possess a procedure for proving the four-fold dosage range. In addition, documents created by Purdue contemporaneously with the prosecution of the patent further reduced the credibility of Purdue’s good faith. Numerous internal memoranda stated that the four-fold range was “theoretical” and “difficult to demonstrate.”¹¹⁷

After weighing the materiality of the information with Purdue’s intent, the district court found that Purdue was so culpable as to create a finding of inequitable conduct and rendered all three of the asserted patents unen-

110. U.S. Patent No. 5,549,912, col.3 ll.34-41 (filed Nov. 25, 1992) (emphasis added); U.S. Patent No. 5,508,042, col.3 ll.38-45 (filed June 6, 1995) (emphasis added); U.S. Patent No. 5,656,295, col.3 ll.34-41 (filed Mar. 19, 1996) (emphasis added).

111. *Purdue Pharma*, 70 U.S.P.Q.2d at 1196.

112. *Id.* at 1205.

113. U.S. PATENT AND TRADEMARK OFFICE, MANUAL OF PATENT EXAMINING PROCEDURE § 2004 ¶ 8 (8th ed. 2001) [hereinafter MPEP], available at <http://www.uspto.gov/web/offices/pac/mpep/mpep.htm>; see also *id.* (“[S]tating that an experiment ‘was run’ or ‘was conducted’ when in fact the experiment was not run or conducted is a misrepresentation of the facts.”).

114. *Purdue Pharma*, 70 U.S.P.Q.2d at 1205-06.

115. *Id.* at 1206.

116. *Id.* at 1206-07.

117. *Id.* at 1207.

forceable.¹¹⁸ The district court reasoned that Purdue had repeatedly asserted its discovery to the PTO in “precise, quantified, and past-tense language.”¹¹⁹ Although the Court affirmed the validity of the patent claims, these repeated material misrepresentations warranted the finding of inequitable conduct.¹²⁰

Purdue appealed the district court’s decision to the Federal Circuit, which affirmed the district court’s inequitable conduct determination.¹²¹ Specifically, the Federal Circuit found that the language used by Purdue in the patents and during the prosecution of the patents clearly implied that clinical studies were the basis for a four-fold dosage range.¹²² The Federal Circuit also agreed with the district court that this information was material to patentability and Purdue possessed the requisite intent for a finding of inequitable conduct.¹²³

2. *Analysis of Case under the Patent Reform Act*

If the Patent Reform Act becomes law, courts would be unable to render Purdue’s patents invalid, or otherwise punish Purdue, for its deceptive practices toward the Patent Office. In general, the provisions of the Patent Reform Act would benefit Purdue in three respects.

First, because the court found Purdue’s claims to be valid, courts would not permit Endo to plead the defense of inequitable conduct. Under the Act, a party may not plead inequitable conduct for a patent unless a court has invalidated at least one claim in the patent.¹²⁴

Second, the court in *Purdue Pharma* declared several related patents unenforceable. Under the Act, such a remedy is only available when a litigant establishes misconduct for each patent and the examiner relied upon this misconduct.¹²⁵ Accordingly, a court would not render Purdue’s related patents unenforceable unless Endo established misconduct for each patent. Because misconduct requires a court to invalidate at least one claim of a

118. *Id.* at 1208-09.

119. *Id.* at 1208.

120. *Id.* at 1208-09.

121. *Purdue Pharma L.P. v. Endo Pharms. Inc.*, 410 F.3d 690, 693 (Fed. Cir. 2005).

122. *Id.* at 698.

123. Purdue petitioned the Federal Circuit for a rehearing. Purdue’s petition was granted, and on Feb. 1, 2006, the original appellate panel reversed itself, vacated the district court’s inequitable conduct ruling, and remanded the case for further proceedings. *Purdue Pharma L.P. v. Endo Pharms. Inc.*, No. 04-1189, 2006 U.S. App. LEXIS 2887 (Fed. Cir. Feb. 1, 2006).

124. *See* Amendment in the Nature of a Substitute to H.R. 2795, 109th Cong. § 5(a) (2005).

125. *See id.*

patent and the district court upheld the validity of the claims, Endo would not prevail under the Act on an inequitable conduct claim.

Third, courts would not impute the misconduct of registered practitioners to the patent owner when evaluating potential misconduct. By contrast, in *Purdue Pharma* the court attributed all actions of Purdue's patent attorney to the patent owner, in accordance with modern inequitable conduct doctrine.¹²⁶ Under the Act, courts would differentiate the actions of registered and unregistered practitioners to determine which actions are properly attributable to the patent owner. For example, the court would presumably attribute the submission of the declaration by an inventor to Purdue, the patent owner, because the inventor is subject to the duty of candor and good faith with respect to the patent, is not likely registered to practice before the Office, and was acting on Purdue's behalf.¹²⁷ The court, however, would not attribute to Purdue the acts that their patent attorney committed.

Although courts would be unable to sanction Purdue or its representatives under the Act, the Patent Office could discipline the practitioners who represented Purdue during the prosecution of the disputed patent applications. The Patent Reform Act does not purport to modify Patent Office proceedings that discipline practitioners who engage in conduct involving dishonesty, fraud, deceit, or misrepresentation.¹²⁸ Sanctioning practitioners in such proceedings, however, is difficult—if not impossible—in cases like *Purdue Pharma* because the Director must prove the misconduct by clear and convincing evidence.¹²⁹ Thus, if the provisions of the Patent Reform Act are adopted, it is unlikely that either the Patent Office or the courts would sanction Purdue or its representatives under the provision of the Act or current disciplinary proceeding, thereby failing to deter Purdue's misconduct. Part III of this Note recommends modifications to the Patent Reform Act that allow the misconduct of practitioners to be imputed to the patent owner, thereby increasing the likelihood of effectively sanctioning those who engage in deceptive practices toward the Patent Office.

126. See *FMC Corp. v. Manitowoc Co.*, 835 F.2d 1411, 1415 n.8 (Fed. Cir. 1987).

127. See Amendment in the Nature of a Substitute to H.R. 2795, 109th Cong. § 5(a) (2005).

128. 37 C.F.R. §§ 10.23(b)(4), 10.132 (2005).

129. See *id.* § 10.149.

III. PROPOSALS TO REFORM INEQUITABLE CONDUCT

The following proposals either enhance modern inequitable conduct doctrine or improve the Patent Reform Act's formulation of inequitable conduct. Each suggestion addresses at least one of three objectives.

First, the primary goal of the proposals is to improve the quality of information available to examiners. Improving the quality of information improves the integrity of examination, thereby improving the quality of patents issued by the Patent Office.¹³⁰ As Former Assistant Commissioner Rene Tegtmeier discussed, the Patent Office considers improving the quality of information available to examiners a primary goal of the inequitable conduct doctrine.¹³¹ According to the Assistant Commissioner, the doctrine assures that examiners consider material information during patent examination, facilitates the disclosure of material information in a prompt and complete manner, and discourages the disclosure of large amounts of immaterial information.¹³² Thus, improving the quality of information available to examiners is a central component of the inequitable conduct doctrine.

Second, the proposals aim to reduce patent litigation costs. The NAS and the FTC have expressed concerns over the skyrocketing costs associated with patent litigation.¹³³ Through discovery each party incurs between \$350,000 and \$3 million in legal fees.¹³⁴ Furthermore, the total cost of a patent infringement suit through appeal ranges from between \$650,000 and approximately \$4.5 million in legal fees.¹³⁵ These high expenses reflect the needless complexity of many patent cases resulting from the uncritical use of procedural tactics. In addition, because inequitable conduct

130. Kesan, *supra* note 9, at 768-70.

131. Rene D. Tegtmeier, *The Patent and Trademark Office View of Inequitable Conduct or Attempted Fraud in the Patent and Trademark Office*, 16 AIPLA Q.J. 88 (1988).

132. *Id.*

133. See FTC REPORT, *supra* note 10, ch. 1 at 33; NAS STUDY, *supra* note 10, at 2.

134. AM. INTELLECTUAL PROP. LAW ASS'N, REPORT OF THE ECONOMIC SURVEY 2005, at 108-10 [hereinafter AIPLA SURVEY]. Costs per party varied with the amount at stake. The median cost of litigation at the end of discovery with less than \$1 million at stake was \$350,000. *Id.* at 108. The median cost of litigation at the end of discovery with \$1 million to \$25 million at stake was \$1.25 million. *Id.* at 109. The median cost of litigation at the end of discovery with more than \$25 million at stake was \$3 million. *Id.* at 110.

135. *Id.* at 108-10. Inclusive costs per party varied with the amount at stake. The median cost of litigation through appeal with less than \$1 million at stake was \$650,000. *Id.* at 108. The median cost of litigation through appeal with \$1 million to \$25 million at stake was \$2 million. *Id.* at 109. The median cost of litigation through appeal with more than \$25 million at stake was \$4.5 million. *Id.* at 110.

determinations require examination into subjective elements, such as intent of the accused,¹³⁶ it can be inferred that a small, but significant percentage of total litigation costs are spent litigating issues related to inequitable conduct. An ideal reform to inequitable conduct should aim to reduce these expenses, thereby reducing the financial burden placed on the litigants in a patent infringement suit.

Third, the proposals aim to maintain or reduce the current burden on the Patent Office. During the 2004 fiscal year, the Patent Office earned approximately \$1.07 billion in revenue and spent approximately \$1.15 billion.¹³⁷ The Patent Office derives a majority of this revenue from fees that it collected during the year, including maintenance fees, filing fees, and issue fees.¹³⁸ The majority of the Patent Office's expenditures were costs associated with personnel and examination of patent applications.¹³⁹ By focusing the Patent Office's available resources on the recruitment and training of qualified personnel, the Patent Office can reduce the burden on patent applicants and increase the quality of patent examination.¹⁴⁰ Assistant Commissioner Tegtmeyer reiterated this point when elaborating on the Patent Office's views of the inequitable conduct doctrine.¹⁴¹ Specifically, the Assistant Commissioner acknowledged the findings of the Court of Customs and Patents Appeals, which concluded that the Patent Office "must rely on applicants for many of the facts upon which its decisions are based" and faces a "tremendous burden."¹⁴² Reducing this burden is therefore consistent with the Patent Office's views on inequitable conduct.

A. Proposals to Improve Modern Inequitable Conduct Doctrine

1. *Create Procedures and Incentives for the Applicant and Competitors of the Applicant to Submit Information Relevant to Patentability*

The Patent Office continually strives to increase the quality of issued patents.¹⁴³ As previously mentioned, improving the quality of information available to examiners during patent examination improves the quality of patents issued by the Patent Office. Improving the quality of information available to examiners, however, entails more than simply increasing the

136. NAS STUDY, *supra* note 10, at 117.

137. PTO'S 21ST CENTURY STRATEGIC PLAN, *supra* note 17, at 62, 64.

138. PTO'S 21ST CENTURY STRATEGIC PLAN, *supra* note 17, at 62.

139. PTO'S 21ST CENTURY STRATEGIC PLAN, *supra* note 17, at 64.

140. NAS STUDY, *supra* note 10, at 103-05.

141. See Tegtmeyer, *supra* note 131, at 88.

142. Norton v. Curtiss, 433 F.2d 779, 794 (C.C.P.A. 1970).

143. See PTO'S 21ST CENTURY STRATEGIC PLAN, *supra* note 17, at 4.

quantity of information disclosed by applicants. Applicants presently inundate the Patent Office with information, only a fraction of which is material to patentability.¹⁴⁴ “Burying” the Patent Office with irrelevant information decreases the overall quality of information associated with a particular patent application.¹⁴⁵ Accordingly, the Patent Office should implement procedures designed to increase the quality, not necessarily the quantity, of information disclosed. By carefully creating incentives and procedures for those who are in possession of such information, the Patent Office can improve patent quality.

At least two groups of individuals readily know information material to the patentability of an invention: the applicant and the applicant’s competitors in the industry. The applicant, presumably an individual of ordinary skill in the art, is influenced by and aware of teachings in the art.¹⁴⁶ Competitors of the applicant are in a comparable position—they produce or anticipate producing technology that may be relevant to the patentability of the applicant’s pending patent applications. Accordingly, the Patent Office should carefully promulgate procedures and provide incentives for both parties to disclose relevant information. Below, Section III.A.1.a describes a procedure and incentive system for applicants to disclose relevant information to the Patent Office, whereas Section III.A.1.b outlines a procedure for third parties, including competitors of an applicant.

a) Mechanism for Applicants: Relevancy Statements

Relevancy statements are one mechanism to increase the quality of applicant-submitted information.¹⁴⁷ Under such a mechanism, an applicant either prioritizes information disclosed to the Patent Office or includes a brief statement of the relevancy of the information.¹⁴⁸ Although the efficacy of relevancy statements is likely dependent upon the precise implementation chosen by the Patent Office, the statements address the information asymmetry between examiners and applicants. Accordingly, such statements, if implemented effectively, will improve the quality of information available to examiners.

Because a litigant may use the information contained in a relevancy statement against an applicant in an inequitable conduct proceeding, the Patent Office should create incentives that outweigh the risks associated

144. See FTC REPORT, *supra* note 10, ch. 5, at 11 n.73 & n.74.

145. See Hricik, *supra* note 4, at 233 n.113; Kesan, *supra* note 9, at 770-71. See generally 6 CHISUM, *supra* note 7, § 19.03[2][b][v].

146. 1 CHISUM, *supra* note 7, Glossary.

147. FTC REPORT, *supra* note 10, ch. 5, at 11-12.

148. See Kesan, *supra* note 9, at 770-71; Nolan-Stevaux, *supra* note 72, at 147.

with the submission of relevancy statements. Some of the possible incentives for applicants to submit relevancy statements include a heightened presumption of patent validity with respect to the information submitted,¹⁴⁹ reduced patent examination fees, and “special” examination status for applicants who utilize relevancy statements.

Alternatively, the Patent Office may mandate the submission of such statements regardless of the incentive chosen. Statements of relevance are already required for submission of foreign-language prior art references,¹⁵⁰ and the Patent Office could simply extend this requirement to all applicant submitted information. Although relevancy statements address the information asymmetry between applicants and the Patent Office, the statements do not address the information asymmetry between the Patent Office and competitors of the applicant.

b) Mechanism for Competitors: Integrating Third-Party Submission and Protest Procedures

As previously discussed, individuals in competition with patent applicants may possess a vast resource of information relevant to the patentability of a pending patent application. The Patent Office should therefore create incentives and procedures for these competitors to disclose relevant information in a timely fashion. One way to accomplish these goals is to integrate current third-party submission and protest procedures.

Pursuant to 37 C.F.R. § 1.99 (“Rule 99”), competitors and other interested third parties may submit publications to the Patent Office for consideration during examination after the Patent Office published a patent application.¹⁵¹ Presently, in accordance with the *ex parte* examination procedure, the Patent Office preserves pending applications in confidence until publication.¹⁵² Although Rule 99 may, in theory, permit competitors and other interested third parties to submit relevant information to the Patent Office, the procedure is limited in three respects. First, a third party must submit a list of publications for consideration by the Patent Office within two months from the date of application publication.¹⁵³ Second, a third-party submission may not include an explanation describing the relevant aspects of the list of publications.¹⁵⁴ Finally, the procedure permits the

149. Kesan, *supra* note 9, at 773-75.

150. 37 C.F.R. § 1.98(a)(3)(i) (2005).

151. 37 C.F.R. § 1.99 (2005).

152. *Id.* § 1.14 (2005); 35 U.S.C. § 122 (2000).

153. 37 C.F.R. § 1.99(e) (2005).

154. *Id.* § 1.99(d).

submission of only printed publications.¹⁵⁵ Accordingly, the quality of information submitted under the third-party submission procedure is relatively low.

In addition to third-party submissions under Rule 99, third parties may file a protest with the Patent Office to submit information adverse to a pending patent application.¹⁵⁶ Unlike third-party submissions, protests require a concise explanation of the relevance of each item the protestor submits.¹⁵⁷ In addition, a protest is not limited to printed publications; the protestor may submit any relevant information to the Patent Office.¹⁵⁸ Accordingly, the quality of information submitted to the Patent Office in a protest is relatively high; however, a protestor must file a protest prior to the date the Patent Office publishes the application or issues a notice of allowance, whichever occurs first.¹⁵⁹ Thus, the feasibility of competitors becoming aware of a pending patent application to file a protest is relatively low because the Patent Office preserves pending applications in confidence until publication.

Integrating the third-party submission and protest procedures would improve the quality of information submitted by competitors. The Patent Office should allow competitors and other interested third parties to submit information anytime after the publication of a patent application. The examiner would consider the submitted information unless it unduly interferes with the preparation of an office action, similar to current Patent Office practices with preliminary amendments.¹⁶⁰ Moreover, under this proposal and similar to the current procedure for protests, third parties would be allowed to submit all types of information, including evidence of sales or public use activity. This broadened submission practice ensures that an applicant informs the examiner of all information relevant to the statutory requirements for patent protection. In addition, third parties should submit a brief statement of relevancy for all information submitted. This additional relevancy requirement improves the quality of information submitted and decreases the burden on the Patent Office to independently establish relevancy. Because the current regulations mandate the publication of patent applications eighteen months after the earliest filing date¹⁶¹ and the

155. *Id.* § 1.99(b)(2).

156. *Id.* § 1.291 (2004); MPEP, *supra* note 113, § 1901.

157. 37 C.F.R. § 1.291(c)(2) (2005).

158. *Id.* § 1.291(c)(1).

159. *Id.* § 1.291(b).

160. *Id.* § 1.115(b)(2).

161. 35 U.S.C. § 122(b)(1) (2000).

average pendency for a patent is 27.6 months,¹⁶² third parties will typically have ample time to submit relevant information to the Patent Office under this proposal.

If patent pendency decreases so as to render the submission of information unfeasible or impractical, the Patent Office should consider reviving the practice of publishing abstracts.¹⁶³ Under this proposal, the Patent Office may either publish abstracts immediately upon the filing of a patent application or contemporaneous to the first office action of a pending patent application. Although waiting to publish the abstract until the first office action may delay the submission of information by third parties, it ensures that the abstract publication includes any modifications made by a preliminary amendment.¹⁶⁴ Designed to convey to the public the nature and gist of the technical disclosure, the abstract allows third parties to locate relevant information and disclose this information to the Patent Office.¹⁶⁵

To ensure that these proposals do not impose any additional, significant burden, the Patent Office may employ a number of limiting strategies. For example, the Patent Office may limit submissions to a defined number of pieces of information. This restriction is similar to the current third-party submission procedure, which permits the submission of up to ten total patents or publications.¹⁶⁶ Limiting the number of pieces of information ensures that third parties submit only their most relevant information and cannot inundate the Patent Office with irrelevant material. Under another limiting strategy, the Patent Office may rely on applicants to submit and maintain a list of direct competitors. Various agencies, such as the Security Exchange Commission (SEC), routinely require similar information disclosures from regulated entities.¹⁶⁷ The Patent Office may choose to limit submissions to individuals or corporations identified by the applicant as competitors. This restriction confines the number of parties capable of submitting information and avoids multiple individuals within an organization from separately submitting information and inundating the Patent Office.

162. PTO'S 21ST CENTURY STRATEGIC PLAN, *supra* note 9, at 21.

163. Publication of abstracts was discontinued in 1953. MPEP, *supra* note 113, § 711.06.

164. Generally, a preliminary amendment is an amendment that is received in the Patent Office on or before the mail date of the first office action. MPEP, *supra* note 113, § 714.01(e).

165. MPEP, *supra* note 113, § 608.01(b).

166. 37 C.F.R. § 1.99(d) (2005).

167. See Cynthia A. Williams, *The Securities and Exchange Commission and Corporate Social Transparency*, 112 HARV. L. REV. 1197, 1210 (1999).

2. *Provide a Fee-shifting Mechanism*

Total legal costs associated with patent litigation typically range from \$650,000 to \$4.5 million per party.¹⁶⁸ It can be inferred that litigants spend a small, yet significant amount of these total costs litigating issues related to inequitable conduct, in particular the subjective element of intent. Presently, the court may award attorney fees in only exceptional patent cases.¹⁶⁹ Accordingly, a fee-shifting mechanism would be advantageous to reduce the number of parties frivolously pleading inequitable conduct and reduce patent litigation costs for those who prevail on an inequitable conduct determination. One feasible proposal is to employ a fee shifting mechanism similar to that contained in the Patent Acts of 1790 and 1793. Pursuant to these Acts, a third party could seek the repeal of patents obtained surreptitiously, and if the courts denied the party seeking to repeal a patent relief, that party paid all costs associated with defending the repeal action to the patent owner.¹⁷⁰

Under this proposal, if a party pleads inequitable conduct by bringing an unenforceability action and the court denies relief, the court awards the prevailing party the reasonable value of attorney fees incurred in defending the unenforceability action. Providing such a fee shifting mechanism will directly reduce the number of frivolous inequitable conduct claims by increasing the expected costs of claiming the defense.¹⁷¹ By removing inequitable conduct from some patent infringement cases, the court can force litigants to focus on the statutory requirements for patent protection. Furthermore, the fee shifting mechanism should ameliorate other detrimental effects inequitable conduct has on patent litigation, including animosity among the parties and negative impact on settlement,¹⁷² by compensating those injured by legally unpersuasive inequitable conduct claims.

168. AIPLA SURVEY, *supra* note 134, at 108-110.

169. See 35 U.S.C. § 285 (2000); *Pro-Mold and Tool Co., Inc. v. Great Lakes Plastics, Inc.*, 75 F.3d 1568, 1575 (Fed. Cir. 1996) ("If a trial court considers that the case is an exceptional one, which is often found when the patent has been improperly procured, attorney fees can be awarded.")

170. Act of Apr. 10, 1790, ch. 7, § 5, 1 Stat. 109; Act of Feb. 21, 1793, ch. 11, § 10, 1 Stat. 318.

171. See *Multiform Desiccants, Inc. v. Medzam Ltd.*, 133 F.3d 1473, 1482 (Fed. Cir. 1998) ("[T]he charge of inequitable conduct before the patent office had come to be attached to every patent prosecution, diverting the court from genuine issues and simply spawning satellite litigation."); see *FMC Corp. v. Manitowoc Co.*, 835 F.2d 1411, 1415 (Fed. Cir. 1987).

172. See Committee Position Paper, *supra* note 75, at 75.

B. Proposals to Improve the Patent Reform Act

1. *Allow the Actions of Registered Practitioners to be Imputed to the Patent Owner*

The Patent Reform Act does not impute misconduct committed by registered practitioners to the patent owner.¹⁷³ In contrast, a patent owner is liable for misconduct committed by unregistered practitioners who represent the patent owner.¹⁷⁴ This preferential treatment seems unwarranted and counterintuitive for three reasons. First, registered practitioners are more likely to be familiar with Patent Office procedures and the technicalities of the inequitable conduct doctrine. Sanctions, therefore, for registered practitioners should arguably be more severe than sanctions for unregistered practitioners.

Second, the Patent Office has always recognized that members of the patent bar should be held to a higher standard of conduct than the rest of the legal community.¹⁷⁵ Reforms to the inequitable conduct doctrine should maintain, not weaken, this recognition.

Third, the patent owner's culpability does not change because of the status of the patent owner's representatives. Since inequitable conduct results in the unenforceability of a patent, the doctrine should focus on the culpability of the patent owner and not the status of a patent owner's representative. Accordingly, the court should impute the misconduct of both registered and unregistered practitioners to the patent owner, conforming to modern inequitable conduct doctrine and agency principles.¹⁷⁶

2. *Eliminate the Patent Office's Proposed Role in Inequitable Conduct Investigations*

The Patent Reform Act would create a "special office" within the PTO to handle referrals from courts and conduct inequitable conduct investigations.¹⁷⁷ Since the Patent Office's remedial powers under the Act are limited to sanctions under 35 U.S.C. § 23, this "special office" is primarily responsible for reprimanding practitioners who commit inequitable con-

173. Amendment in the Nature of a Substitute to H.R. 2795, 109th Cong. § 5(a) (2005).

174. *See id.*

175. *See* 37 C.F.R. § 10.20 (2005).

176. *See* FMC Corp. v. Manitowoc Co., 835 F.2d 1411, 1415 (Fed. Cir. 1987).

177. Amendment in the Nature of a Substitute to H.R. 2795, 109th Cong. § 5(a) (2005).

duct.¹⁷⁸ Because of the numerous detrimental effects of such an office, this provision of the Patent Reform Act should be eliminated.

First, the Patent Office will be required to allocate its limited resources to the "special office." These resources will support various administrative tasks, such as the recording of office proceedings, scheduling of hearings, and issuance of subpoenas. In addition, the Patent Office will need to procure and compensate competent decision makers to adjudicate inequitable conduct hearings. Because it is well established that the Patent Office is an under funded agency,¹⁷⁹ proposals to reform inequitable conduct should seek to reduce, not increase, the burden on the Patent Office.

Second, the Patent Office already sanctions members of the patent bar who commit misconduct.¹⁸⁰ Devoting a "special office" solely for the sanctioning of registered practitioners who commit inequitable conduct is a waste of valuable resources when current disciplinary proceedings already evaluate misconduct involving dishonesty, fraud, deceit, or misrepresentation.¹⁸¹ Moreover, if the previous proposal of imputing the acts of registered practitioners to the patent owner is adopted, practitioners committing inequitable conduct will be effectively disciplined when a court renders a client's patents unenforceable because of the practitioner's misconduct. Accordingly, the threat of losing a client or ruining one's reputation will deter registered practitioners from committing inequitable conduct.

Finally, the Patent Office has already announced its inability and unwillingness to investigate claims of inequitable conduct. In 1982, the Patent Office amended Rule 56 to permit rejections of patent applications based on inequitable conduct and fraud.¹⁸² The amended Rule permitted rejections only if, by clear and convincing evidence, the applicant committed or attempted to commit fraud on the Patent Office or violated the duty of disclosure through bad faith or gross negligence.¹⁸³ Under the amendment, "examiners with legal training assigned to the Office of the Assistant Commissioner for Patents"¹⁸⁴ conducted investigations into and made

178. *See id.*

179. *See* FTC REPORT, *supra* note 10, Executive Summary, at 10 ("Hearings participants unanimously held the view that the PTO does not receive sufficient funding for its responsibilities."); NAS Report, *supra* note 10, at 103-08.

180. 37 C.F.R. §§ 10.131-10.132 (2005).

181. *Id.* §§ 10.23(b)(4), 10.132.

182. Notice of Final Rulemaking, 47 Fed. Reg. 21,746 (May 19, 1982).

183. *Id.*

184. *See* Slimfold Mfg. Co., Inc. v. Kinkead Indus., Inc., 600 F. Supp. 1015, 1022 n.2 (N.D. Ga. 1984).

determinations of inequitable conduct. In 1988 the Patent Office announced that it would no longer investigate or reject original and reissue applications under Rule 56.¹⁸⁵ Former Commissioner Donald Quigg opined that the Patent Office was not the best forum to adjudicate inequitable conduct claims.¹⁸⁶ Specifically, the Patent Office's lack of resources to cross-examine witnesses and inability to handle live testimony would not be conducive to the intent of the accused. Furthermore, even if the Patent Office possessed the resources, the former Commissioner stated that modifying Patent Office procedures to accommodate live testimony would not be an effective utilization of such resources.¹⁸⁷ Thus, after a court determines that a registered practitioner committed inequitable conduct, the Patent Office should utilize current misconduct proceedings to sanction practitioners on a case-by-case basis.

IV. CONCLUSION

The goals of a properly functioning patent system are to reward ingenuity and stimulate innovation. The twenty-first century presents challenges to the United States patent system that will test its flexibility and capacity to accomplish these goals. This Note recommends four proposals that strive to enhance inequitable conduct standards by improving the quality of information available to examiners and reducing patent litigation costs. The Patent Reform Act, in conjunction with these four proposals, will help our patent system meet the challenges of the twenty-first century by delivering high-quality, cost-effective patent examination.

185. Patent and Trademark Office Implementation of 37 C.F.R. 1.56, 1095 Off. Gaz. Pat. & Trademark Office 16 (Sept. 8, 1988) ("Accordingly, the Office will no longer investigate and reject original or reissue applications under 37 CFR 1.56 and to the extent 37 CFR 1.56 now requires the Office to do so, it is hereby waived.").

186. *See id.*

187. *Id.*

ADDITIONAL DEVELOPMENTS—PATENT

MERCExchange, LLC v. eBay, Inc.

401 F.3d 1323 (Fed. Cir. 2005), cert. granted, 126 S. Ct. 733 (2005)

The Federal Circuit held that absent extraordinary circumstances, a successful patent plaintiff is entitled to a permanent injunction against future infringement. The Supreme Court has granted certiorari to consider this decision in light of its precedents regarding the appropriateness of a permanent injunction against a patent infringer.

MercExchange, the owner of a series of business method patents for conducting online sales, sued eBay and two affiliates alleging infringement of three of its patents. At trial, the jury found that two patents were valid and that the defendants infringed. The court held the third patent invalid on a motion for summary judgment. Despite finding the defendants liable for infringing some of the claims in plaintiff's patents, the district court refused to issue a permanent injunction against future infringement, citing a general concern with the issuance of business method patents, and noting that if the injunction were issued it would lead to further litigation in contempt hearings as eBay tried to design around the patents. It also found that MercExchange's stated willingness to license its technology and its failure to seek a preliminary injunction weighed against a presumption that it would suffer any irreparable harm if an injunction was not granted.

On appeal, the Federal Circuit affirmed the finding of infringement of the first patent, found the second invalid, and found that an issue of material fact existed with regard to whether the third patent was valid, making summary judgment inappropriate. The court also reversed the denial of a permanent injunction. The court noted that permanent injunctions should issue to prevailing patent plaintiffs as a general rule. Although there are occasional exceptions to protect the public interest, such as where there is a demonstrated "need to use an invention to protect public health," the Federal Circuit found the lower court's reasoning here to be unpersuasive, holding that the case was not sufficiently exceptional to justify the denial of the injunction.

The Supreme Court granted certiorari to consider the appropriate circumstances for issuance of a permanent injunction where there has been a finding of patent infringement. A significant number of groups have filed amicus briefs in support of each party.

*INDEPENDENT INK, INC. v. ILLINOIS TOOL WORKS, INC.**396 F.3d 1342 (Fed Cir. 2005), rev'd, 126 S. Ct. 1281(2006)*

The Court of Appeals for the Federal Circuit held that, in considering a patent tying arrangement conditioning the use of a patented product on the purchase of an unpatented product, the possession of a patent creates a rebuttable presumption of sufficient market power over the tying product to constitute a restraint of trade under Section 1 of the Sherman Act.

Trident, Inc., a wholly-owned subsidiary of Illinois Tool Works, Inc., holds a patent on printhead technology that is used by printer manufacturers in bar code printers. Trident also manufactures ink, which is not covered by any patents, for use with the printheads. In its standard licensing agreement, Trident requires printer manufacturers who use Trident's printhead technology to "manufacture, use and sell . . . ink jet printing devices supplied by Trident" to do so only "when used in combination with ink and ink supply systems supplied by Trident."

Independent Ink, a competing manufacturer of ink usable in Trident's printheads, filed suit alleging that the tying arrangement violated Section 1 and Section 2 of the Sherman Act. The district court held that a plaintiff must affirmatively prove market power in order for patent tying to constitute a violation of antitrust laws. Finding that Independent Ink submitted no affirmative evidence defining the relevant market or proving Trident's power in that market, the district court granted summary judgment in favor of Trident on both of its claims.

Independent Ink appealed. The Federal Circuit reversed the grant of summary judgment on the Sherman Act Section 1 claim. The court cited two Supreme Court cases, *International Salt Co. v. United States*, 332 U.S. 392 (1947), and *United States v. Loew's, Inc.*, 371 U.S. 38 (1962), for the proposition that, where the tying product is patented or copyrighted, market power may be presumed. Indicating that "it is the duty of a court of appeals to follow the precedents of the Supreme Court until the Court itself chooses to expressly overrule them," the court remanded the case and ordered the district court to presume market power in the patented tying product and provide the defendants an opportunity to supplement the summary judgment record with evidence rebutting the presumption.

However, the court upheld the summary judgment motion on the Section 2 claim. The court held that, in Section 2 monopolization or attempted monopolization claims, the plaintiff still bears the burden of proving mar-

ket power, and that there is no presumption that market power over the tying product confers market power over the tied product.

The Supreme Court granted certiorari. In March 2006, in a unanimous opinion, the Court reversed the Federal Circuit, holding that the fact that a tying product is patented does not support a presumption of market power.

SMITHKLINE BEECHAM CORP. V. APOTEX, INC.*403 F.3d 1331 (Fed. Cir. 2005)*

The Federal Circuit clarified the standard for proving anticipation under 35 U.S.C. § 102(b) and reiterated that a “policy-driven inquiry” is inappropriate in patent claim construction.

SmithKline’s patent, U.S. Patent No. 4,721,723 (“the ’723 patent”), covers paroxetine hydrochloride hemihydrate (“PHC hemihydrate”), the active ingredient in the antidepressant Paxil. Apotex filed an Abbreviated New Drug Application to market paroxetine hydrochloride anhydrate (“PHC anhydrate”) as an anti-depressant prior to the expiration of the ’723 patent, claiming its drug would not infringe that patent. SmithKline sued for infringement of the PHC hemihydrate patent. The company alleged that the manufacture of PHC anhydrate necessarily results in the production of at least trace amounts of PHC hemihydrate because PHC anhydrate is extremely unstable and “morphs” into the more stable PHC hemihydrate form. Apotex challenged the validity of the ’723 patent based on public use under § 102(b).

The district court limited the construction of the relevant claim of SmithKline’s patent to “commercially significant amounts” of PHC hemihydrate and found that Apotex’s PHC anhydrate pills did not contain a commercially significant amount. Thus, Apotex did not infringe. In the alternative, the district court created a new equitable defense, based on SmithKline’s “seeding theory,” which applies when a patentee itself contributes to the infringing activity. Under the seeding theory, PHC hemihydrate in the general atmosphere contributes to the conversion of PHC anhydrate to PHC hemihydrate. According to the district court, Apotex’s incidental production of PHC hemihydrate was caused by the “seeding” of the atmosphere as a result of SmithKline’s research. Thus, the district court found that Apotex was not liable for infringement. The court also found that SmithKline’s patent was not invalid under § 102(b) because any public use had been experimental, and that there was insufficient evidence to support anticipation through inherency.

SmithKline appealed the infringement ruling. The Federal Circuit reversed the lower court’s construction of the hemihydrate claim, holding that it was inappropriate to read in the phrase “commercially significant amounts” based on a policy-driven inquiry when the text of the claim is unambiguously not limited to “commercial significant amounts” of paroxetine hydrochloride hemihydrate. Furthermore, because the claim covered a definite chemical structure that would be plain on its face to a per-

son having ordinary skill in the art, the claim could not be invalidated for indefiniteness.

However, the Federal Circuit reversed the district court's validity finding, ruling that the claim at issue was invalid for inherent anticipation under § 102(b) and, thus, declined to address the district court's new equitable defense. The court looked to an earlier expired patent from SmithKline that claimed production of PHC anhydrate. Because the production of PHC hemihydrate is "inherent" in production of PHC anhydrate, the court reasoned that SmithKline's claim on production of PHC hemihydrate was anticipated. Accordingly, the district court erred in requiring Apotex to prove by clear and convincing evidence that it was impossible to produce pure PHC anhydrate before the date of SmithKline's patent. Since Apotex sought to practice SmithKline's expired patent on PHC anhydrate, that patent sufficed as an anticipatory prior art reference to invalidate the '723 patent because practicing the expired patent naturally resulted in the production of PHC hemihydrate.

KIRIN-AMGEN, INC. v. HOECHST MARION ROUSSELL, LTD.

[2004] UKHL 46; [2005] 1 All ER 667 (H.L. 2004),

available at 2004 WL 2330204

The House of Lords rejected the patent construction doctrines of strict textual interpretation and the doctrine of equivalents in favor of a standard based on what a person having ordinary skill in the art reasonably understood himself to be patenting at the time of invention.

Kirin-Amgen, Inc. (“Amgen”), discovered a method of producing erythropoietin (“EPO”), useful for the treatment of anemia, by using recombinant DNA technology. Amgen’s method, for which it held a European patent, involved introducing an exogenous DNA sequence coding for EPO into a host cell. Another company, Transkaryotic Therapies, Inc., from whom Hoechst Marion Roussel, Ltd., imported EPO, developed a method involving inserting an endogenous DNA sequence coding for EPO driven by an exogenous upstream control sequence into a human host cell. Amgen claimed Hoechst and TKT (collectively “TKT”) infringed its patent, and TKT sought a declaration of noninfringement and a revocation of the patent on grounds of insufficiency. The High Court found one of Amgen’s claims invalid and another valid and infringed. The Court of Appeal held that both claims were valid, but that neither was infringed. Both sides appealed, Amgen from the finding of no infringement and TKT from the appellate court’s finding of sufficiency.

The Lords dismissed Amgen’s appeal and allowed TKT’s cross-appeal, revoking Amgen’s patent and stating that a person skilled in the art would read Amgen’s claim as attempting to patent the discovery of a protein, which is not patentable subject matter. After briefly outlining the doctrine of equivalents, Lord Hoffman described the abandonment of both this doctrine and that of literalism in patent construction in the U.K. in *Catnic Components Ltd. v. Hill & Smith Ltd.*, [1982] RPC 183 (H.L. 1980). Equivalents, according to the Lords, can still be relevant as an evidentiary matter, forming the background knowledge of one skilled in the art. What a person skilled in the art would take a claim to mean, however, is the only appropriate question when constructing a patent’s claims. Any other questions, including those arising in the Protocols of Article 69, are intermediate in answering this ultimate inquiry about the person having ordinary skill in the art. The Lords also declared that this approach to patent construction comports with that of Germany and of the Netherlands and is consistent with Article 69 of the Convention on the Grant of European Patents 1973.

EUROPEAN UNION SOFTWARE PATENT PROPOSAL

On July 6, 2005, the European Parliament voted 648 to 14 to reject the Computer-Implemented Inventions Directive, a proposal which would have harmonized treatment of software patents throughout the European Union. The rejection ends the legislative initiative that began in late 2000, when the European Commission first called for consultations to address the question of how software patents should be handled across the European Union.

Both the European Patent Office (“EPO”) and most European nations already allow for varying degrees of patent protection for software. Currently, whether or not software patents get approval from the EPO depends on whether they make a “technical contribution” under the European Patent Convention (“EPC”). This language leaves the granting of software patents largely to the discretion of patent examiners. Furthermore, though the EPC lays the basic ground rules for patentability, the national legislatures of individual member states may adopt their own patent policies, and national courts make the final decisions regarding the validity of patents.

Fearing that the uncertainty of patent rules would harm businesses and deter innovation, the European Commission submitted a proposal to harmonize the treatment of software patents by the EPO and the member states. The proposal allowed for software patents provided they have a “technical character,” but explicitly excluded business methods. Opponents criticized the language of the proposal for being overly broad and vague, and expressed concern that it would allow all software to be patentable, regardless of its actual innovative contribution.

In response, the European Parliament passed a series of amendments to the bill aimed at narrowing the scope of the term “technical” to exclude abstract information processing. The Council of Ministers, however, overturned most of these amendments, and, in March 2005, approved a compromise text that allowed for software patents provided the inventions have a “technical character.” The Commission refused the Parliament’s request to restart the entire legislative process. Left with the option of voting on the compromise text, or proposing yet more amendments, the Parliament voted to reject the entire text.

MERCK & CO. v. TEVA PHARMACEUTICALS USA, INC.*395 F.3d 1364 (Fed. Cir. 2005)*

The Federal Circuit ruled that the application of the patentee-as-lexicographer rule is only appropriate where the patentee clearly expresses his intent to redefine a term with sufficient clarity to put a person of ordinary skill in the art on notice about the redefinition.

Merck owns U.S. Patent No. 5,994,329, which details a method of treating and preventing osteoporosis through less-than-daily administration of biphosphonate compounds. The described method decreases the adverse side effects associated with the standard practice of daily doses of biphosphonates by employing a once-weekly dosing. Importantly, the claims refer to the use of *about* 35 (or 70) mg of alendronic acid. Teva sought FDA approval to market generic versions of Merck's patented compound, and Merck filed suit alleging infringement. The controversy centered on the meaning of the term "about" used in the claim—specifically, whether Merck intended to define "about" as meaning "exactly," or whether the term should be given its ordinary meaning of "approximately." The district court concluded that Merck acted as its own lexicographer and, through the specification, redefined the ordinary meaning of "about" to mean "exactly." Relying on this construction of "about," the district court dismissed Teva's allegations that the claims were anticipated or rendered obvious by a prior publication.

Teva appealed. The Federal Circuit reversed the district court's claim construction and held that the word "about" should be given its ordinary meaning of "approximately." Accordingly, the patent was held invalid as obvious. The court reasoned that when a patentee acts as his own lexicographer he must clearly express the intent with sufficient clarity in the written description to put a person having ordinary skill in the art on notice that the inventor intended to redefine the term. The court found the definition of "about" in the specification to be ambiguous, and that Merck failed to redefine "about" to mean "exactly" in clear enough terms to justify a counterintuitive definition of "about." Because the passage that Merck relied upon to define "about" was amenable to a second, more reasonable, interpretation, the court held that Merck did not set out its own definition of "about" with sufficiently reasonable clarity, deliberateness, and precision and thus failed to act as its own lexicographer. Additionally, the specification suggested that Merck contemplated a range of dosages, and the range of doses further indicated that Merck did not intend for "about"

to mean “exactly.” In light of the correctly constructed claims, the court invalidated the patent as obvious in view of a prior publication.

Judge Rader wrote a scathing dissent arguing the need to respect the role of patentee-as-lexicographer and urging the Federal Circuit to adopt a rule to observe some deference to the trial court’s construction of a patent claim.

*ELECTROMOTIVE DIVISION OF GENERAL MOTORS CORP. V.
TRANSPORTATION SYSTEMS DIVISION OF GENERAL
ELECTRIC CO.*

417 F.3d 1203 (Fed. Cir. 2005)

The Federal Circuit ruled that plaintiff patentee's pre-issuance use of its claimed inventions did not qualify for the experimental use exception to the on-sale bar of 37 U.S.C. § 102(b).

The Electromotive Division of General Motors ("EMD") designs and produces locomotives and locomotive parts. EMD obtained two patents at issue in this case, United States Patent Number 5,169,242 ("the '242 patent") on compressor bearings used in turbochargers, filed on November 27, 1990, and United States Patent Number 5,567,056 ("the '056 patent") on planetary bearings in drive trains, filed on September 29, 1994. The compressor bearings of the '242 patent were incorporated into existing locomotive orders as part of an EMD experimentation plan in July of 1989, five months prior to the critical date for the § 102(b) on-sale bar. Over three hundred compressor bearings were manufactured for EMD and purchased by EMD from another division of General Motors. The planetary bearings of the '056 patent were installed in locomotive orders as part of an EMD experimentation program in August 1992, thirteen months prior to the critical date under § 102(b). The district court held that each patent was invalid as a matter of law, because each invention was on sale more than one year prior to filing of the patent application, and neither qualified for the experimental use exception to the on-sale bar.

EMD appealed, challenging the court's ruling with respect to the experimental use exception to the on-sale bar, but the Federal Circuit affirmed. The Federal Circuit held that the sale of bearings did not qualify as experimental use because the purpose of the supply order was primarily commercial rather than experimental. EMD could provide no evidence that the third party even used the '242 compressor bearings in the field program locomotives.

With regard to the '056 planetary bearings, the Federal Circuit relied primarily on the fact that the that EMD failed to exercise control over the bearings during the alleged experimental test period, and that EMD failed to provide evidence that the third party purchaser of the locomotives containing the planetary bearings was aware of the experimental nature of the sale. The court emphasized the need for an inventor to demonstrate that any third party user or purchaser of the invention was fully aware of the

experimental nature of the invention for the exception to apply. Consequently, the sale from EMD to the third party must be considered simply a commercial transaction because EMD was unable to show any concrete evidence that the third party purchaser was aware of the experimental nature of the sale of the bearings.

Although the court found customer awareness to be dispositive, it also noted that EMD failed to institute any means by which they could check the progress of the allegedly experimental use of the various parts.

GROUP ONE LTD. V. HALLMARK CARDS, INC.*407 F.3d 1297 (Fed. Cir. 2005)*

The Federal Circuit ruled that district courts can only correct typographical errors in a patent if the correction would not be subject to reasonable debate and the prosecution history contains no reason to hold any other interpretation of the patent.

Group One Ltd., as the assignee of a series of patents for the curling and cutting of ribbon, brought suit against Hallmark for infringement of its patents. While some parts of the suit were decided in favor of Hallmark on a motion for summary judgment, the jury ultimately found for Group One, entering a \$8,900,000 verdict. Subsequently, however, the district court, responding to a series of post-verdict motions, found one of Group One's patents invalid for indefiniteness and ruled that it could not correct a printing error that materially altered the patent.

Group One appealed, arguing that the district court should have corrected the printing error. The Federal Circuit affirmed in part the ruling of the district court, holding that the district court could only correct errors that were evident from the face of the document. Other corrections are to be left to the Patent and Trademark Office.

METRO-GOLDWYN-MAYER STUDIOS INC. V. GROKSTER, LTD.: INDUCING INFRINGEMENT AND SECONDARY COPYRIGHT LIABILITY

By Galen Hancock

*MGM Studios Inc. v. Grokster, Ltd.*¹ ends the latest battle in the entertainment industry's running war against online copyright infringement. The *Grokster* Court established a new theory of copyright liability, one based on inducement of infringement by end users. This new theory significantly alters the legal environment for technologists, who must now consider a new source of indirect copyright liability when designing software. At the same time, *Grokster* may frustrate copyright owners who will have to satisfy a new and ambiguous indirect infringement standard.

This Note considers the effect of the *Grokster* decision's inducement theory on designers of file-sharing networks and the decision's effects on the staple article of commerce doctrine. Part I describes the current state of the technology underlying file-sharing systems. Part II provides a legal primer on indirect copyright liability in the file-sharing context. Part III describes the Court's holding and rationale in *Grokster*, and Part IV interprets that decision and its impact on the future of file sharing.

I. TECHNICAL BACKGROUND

Traditional systems for distributing files over the internet use a client-server model.² In this model, an entity with files to distribute (a website operator, for example) maintains a computer (called a "server") that stores a copy of those files and sends them to users' computers (called "clients") at their request.³ Because the data is only available from one server (or a small group of them), servers offer a relatively inefficient means of transmitting information. Because they must serve the same data to each requesting user computer, servers frequently transmit very large amounts of data. This makes them expensive to operate, and the cost increases the

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1. 125 S. Ct. 2764 (2005).

2. See Client-server, FREE ONLINE DICTIONARY OF COMPUTING (Jan. 25, 1998), <http://foldoc.org/?client%2Fserver>; Client-server, WIKIPEDIA: THE FREE ENCYCLOPEDIA, <http://en.wikipedia.org/wiki/Client-server> (last visited Feb. 22, 2006).

3. Client-server, FREE ONLINE DICTIONARY OF COMPUTING (Jan. 25, 1998), <http://foldoc.org/?client%2Fserver>.

more popular the files are.⁴ Additionally, if a server fails, the files it stores become inaccessible, rendering client-server systems quite vulnerable. Meanwhile, client computers work independently of each other, and tend to use only a small amount of their available resources.

Peer-to-peer (P2P) networks, in contrast, provide a more efficient and reliable means of transferring information. In a P2P system, copies of a desired file may reside on many computers ("peers"), any of which can supply the file to any other peer upon request it.⁵ Because any end user computer that stores a file can potentially transfer it to another, costs can be spread out among users rather than centralized at the server operator.⁶ P2P networks are also more reliable. Because they lack the centralization of client-server systems, the failure of a single computer will not typically limit availability of a file.⁷ P2P networks, then, exhibit resistance to losing data, whether because of technical failures at the provider or a legal order to stop distributing a file.⁸ P2P networks are therefore more effective systems for both legitimate⁹ and infringing¹⁰ copying and distribution of data.

While the P2P approach increases the efficiency of data transfer, the fact that the desired content may be stored on any number of computers can make finding the best source of a file difficult.¹¹ As a result, many successful P2P systems are not completely decentralized, and instead rely on central servers for some functions.¹² Napster, an early entrant, used a P2P mechanism for transferring files, but relied on a group of centralized servers that acted as a referral service for searching.¹³ The Napster servers

4. The cost of operating a web site, for example, includes the cost of the server and the network bandwidth it uses. The cost of bandwidth increases directly with how much data is sent, and as sites become more popular they also require larger and more expensive servers. *See, e.g.*, PEER-TO-PEER SYSTEMS AND APPLICATIONS 29 (Steinmetz & Wehrle eds., 2005).

5. *Grokster*, 125 S. Ct. at 2770.

6. *Id.*

7. *Id.*

8. *Id.*

9. Legal uses of P2P networks include software distribution and serving movie trailers. *E.g.*, BitTorrent, WIKIPEDIA: THE FREE ENCYCLOPEDIA, http://en.wikipedia.org/wiki/BitTorrent#Legal_uses_for_BitTorrent (last visited Dec. 20, 2005).

10. P2P networks do not generally distinguish between systems going down for technical reasons and systems going down because of legal action. Their reliability therefore works against copyright owners trying to eliminate infringement.

11. Compare how files are located on the Web: each URL embeds the name of the server with the data. P2P networks cannot use that method because it would force reliance on a particular server, undercutting part of the rationale for using P2P.

12. *See* PEER-TO-PEER SYSTEMS AND APPLICATIONS, *supra* note 4, at 37-38.

13. *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1011-12 (9th Cir. 2001).

maintained an index of files on the network and referred users to the peers with a copy of the desired file.¹⁴

Later designers improved on this system in various ways. Some tried to do away with central servers altogether, which reduced the costs of running the servers and also promised to reduce or avoid copyright liability.¹⁵ Gnutella consisted solely of interconnected end user systems.¹⁶ When a user searched for a file, the request was relayed from one system to each one directly connected to it, propagating that request throughout the network.¹⁷ Peers storing the requested file sent replies back along the same path.¹⁸ For technical reasons, Gnutella's performance became poorer as the number of users increased.¹⁹ However, the *MGM v. Grokster* defendants overcame these problems and implemented a more successful decentralized P2P network.²⁰

Other network designers attempted to protect their users, rather than themselves, from liability. In the wake of recording industry lawsuits against the individual infringing users of P2P software,²¹ several P2P designers produced programs built around "small-world networks" in which users connect only to systems run by people they know and trust.²² Since copyright holders rely on anonymous scans to find infringing files, this type of system increases the difficulty of locating potential defendants.²³ The Freenet project uses encryption and randomization to prevent users'

14. *Id.*

15. Napster was liable for its service in part because it ran its own central search mechanism, which materially contributed acts of end user infringement. *See infra* Part II.

16. Clip2, The Gnutella Protocol Specification v0.4, http://www9.limewire.com/developer/gnutella_protocol_0.4.pdf (last visited Dec. 20, 2005) (including a technical description of the protocol).

17. *Id.*

18. *Id.*

19. Jordan Ritter, Why Gnutella Can't Scale. No, Really., <http://www.darkridge.com/~jpr5/doc/gnutella.html> (last visited Feb. 7, 2006); PEER-TO-PEER SYSTEMS AND APPLICATIONS, *supra* note 4, at 46-49.

20. The FastTrack system, used by Grokster, improved on the Gnutella design by separating the network into two castes of systems. A group of "supernodes" connected to each other and to ordinary systems, and provided indexing and searching capabilities. Systems were selected as supernodes based on their data transfer capacity, which resulted in the overall network scaling much better than Gnutella. StreamCast's Morpheus worked similarly. *See MGM Studios Inc. v. Grokster, Ltd.*, 125 S. Ct. 2764, 2771 (2005).

21. *See generally* Kristina Groennings, *An Analysis of the Recording Industry's Litigation Strategy Against Direct Infringers*, 7 VAND. J. ENT. L. & PRAC. 389 (2005).

22. *See* Peter Biddle et al., Microsoft Corp., The Darknet and the Future of Content Distribution, <http://crypto.stanford.edu/DRM2002/darknet5.doc>, at 9 (last visited Dec. 20, 2005).

23. *Id.*

identities from being discovered while they transfer files in an attempt to protect users from legal attack.²⁴

Although many of these innovations may have been driven by the desire to avoid copyright liability, other designers focused on different problems with early P2P systems. BitTorrent, for example, was created partly to solve the free-rider problem. In earlier systems, many users would download files without supplying anything in return, reducing network efficiency.²⁵ Bram Cohen, BitTorrent's creator, designed a protocol that encouraged reciprocity. Each peer prefers to send its data to systems that gave it data in return, thus providing an incentive to contribute bandwidth to the network.²⁶

II. LEGAL BACKGROUND

This Part reviews secondary copyright liability as applied to P2P systems. Section II.A reviews secondary copyright liability generally, and Section II.B describes an important defense for technologies with lawful uses. Section II.C discusses previous P2P cases.

A. Contributory and Vicarious Copyright Liability

The Copyright Act explicitly prohibits only primary (or direct) copyright infringement.²⁷ Over time, the courts have developed two forms of secondary (or indirect) liability. Vicarious liability finds its roots in the doctrine of *respondeat superior*.²⁸ This theory requires that the defendant possess the right and ability to control the direct infringement as well as a direct financial interest in the infringing activity.²⁹ An owner of a public entertainment venue may be liable for infringement by an independent contractor hired to supply music, for instance, because the contractor is subject to the owner's control and the music makes the establishment more attractive.³⁰

24. J.D. LASICA, DARKNET: HOLLYWOOD'S WAR AGAINST THE DIGITAL GENERATION 226 (2005).

25. See Eytan Adar & Bernardo Huberman, *Free Riding on Gnutella*, 5 FIRST MONDAY 10 (2000), http://www.firstmonday.org/issues/issue5_10/adar/index.html.

26. Bram Cohen, *Incentives Build Robustness in BitTorrent 3-4* (May 22, 2003), <http://www.bittorrent.com/bittorrentecon.pdf>.

27. 17 U.S.C. § 106 (2000); 3 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 12.04[A] (2005).

28. 3 NIMMER, *supra* note 22, § 12.04[A][2].

29. 3 NIMMER, *supra* note 22, § 12.04[A][1].

30. Famous Music Corp. v. Bay State Harness Horse Racing and Breeding Ass'n, Inc., 554 F.2d 1213 (1977).

Contributory liability grew out of enterprise liability and requires knowledge of and material contribution to the direct infringement by the defendant.³¹ In *Fonovisa, Inc. v. Cherry Auction, Inc.*, for example, the Ninth Circuit found that the operator of a swap meet at which a vendor sold infringing sound recordings could be contributorily liable if the operator knew of the infringement and supplied substantial services—space, utilities, parking, advertising, and customers—without which the infringement could not have occurred.³²

P2P network designers face potential liability under both theories of indirect infringement.³³ Claims of secondary copyright liability for distributing or designing a product tend to rely on contributory infringement, however, since most product distributors lack any ability to control their customers' actions.

B. The *Sony* Case

Although distributing a product that enables copyright infringement may be unlawful, products with lawful uses enjoy an exception to the general principles of secondary liability. In *Sony Corp. of America v. Universal City Studios, Inc.*,³⁴ the defendant was accused of contributory infringement for manufacturing and selling Betamax video cassette recorders (VCRs).³⁵ The plaintiffs owned copyrights for television programs and argued that VCRs were primarily used for unauthorized “time-shifting” and creating libraries of programs for later viewing.³⁶ The record, however, also showed that a number of copyright owners were willing to permit private home taping.³⁷

The *Sony* Court noted the importance of not permitting copyright holders to extend their monopolies beyond the extent determined by Congress, and noted that a contributory infringement finding effectively extends a plaintiff's exclusive rights to the infringing article.³⁸ Furthermore, in this case the plaintiffs' businesses accounted for less than 10% of the

31. 3 NIMMER, *supra* note 27, § 12.04[A][2].

32. 76 F.3d 259, 264 (9th Cir. 1996) (reversing dismissal for failure to state a claim).

33. *See, e.g.*, *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004 (9th Cir. 2001) (finding the defendant P2P vendor was probably liable for vicarious copyright infringement).

34. 464 U.S. 417 (1984).

35. *Id.*

36. *Id.* at 423.

37. *Id.* at 424 (particularly sports, religious, and educational producers).

38. *Id.* at 441-42.

market share for television programming.³⁹ If they succeeded in their suit, new technologies with potential to aid infringers could have been harshly restricted: not only could copyright owners as a group be able to block new technologies, but individual owners could prevent technologies that other owners wanted available.

The *Sony* Court adopted a rule that protected distributors of products capable of substantial noninfringing uses from secondary copyright liability.⁴⁰ Since the Copyright Act was silent on the issue of secondary infringement, the Court analogized to patent law which clearly delineates the scope of indirect liability. Section 271 of the Patent Act reads in part:

(b) Whoever actively induces infringement of a patent shall be liable as an infringer.

(c) Whoever offers to sell or sells within the United States or imports into the United States a component of a patented machine, manufacture, combination or composition, or a material or apparatus for use in practicing a patented process, constituting a material part of the invention, knowing the same to be especially made or especially adapted for use in an infringement of such patent, and not a staple article or commodity of commerce suitable for substantial noninfringing use, shall be liable as a contributory infringer.⁴¹

While copyright and patent are distinct bodies of law,⁴² the Court borrowed the “staple article of commerce” doctrine from § 271(c) to create a parallel substantial noninfringing use rule for copyright law.⁴³

Sony’s VCR could be and certainly was used to commit widespread copyright infringement. But the VCR could also be used to time-shift the programs of copyright holders who permitted such recording.⁴⁴ Moreover, the Court found that even unauthorized time shifting could qualify as fair use.⁴⁵ Accordingly, the Court held that, because its copying equipment enabled substantial noninfringing uses, Sony could not be held liable for distributing its product.⁴⁶

39. *Id.* at 443.

40. *Id.* at 442.

41. 35 U.S.C. § 271 (2000).

42. *Eldred v. Ashcroft*, 537 U.S. 186, 216-17 (2003).

43. 464 U.S. at 442.

44. *Id.* at 446.

45. *Id.* at 454-55.

46. *Id.* at 442.

C. P2P Copyright Liability Cases

Although *Grokster* is the first P2P case to come before the Supreme Court, previous P2P litigation in Seventh and Ninth Circuit Courts of Appeal reached different interpretations of the *Sony* doctrine as applied to file-sharing systems.

Napster, the first widely adopted P2P program, used centralized servers to coordinate end user searching of the network.⁴⁷ Relying on the control over search results that this network architecture allowed, the Ninth Circuit—reviewing an appeal from a preliminary injunction against Napster—found that Napster was likely contributorily liable for copyright infringement committed by its users.⁴⁸ Because of the substantial noninfringing uses of P2P technology, the court held that design and functionality of the Napster network alone could not establish copyright liability.⁴⁹ Napster could still, however, be held liable for particular infringing works available on its system of which it had actual, specific knowledge.⁵⁰ This meant that Napster could be liable, at a minimum, for files on its network that it failed to remove from its centralized search indices after notice from the copyright holders.⁵¹

In *In re Aimster Copyright Litigation*,⁵² the defendant produced a P2P system that, like Napster, relied on a centralized group of servers to facilitate file transfer.⁵³ The Seventh Circuit, on an appeal from a preliminary injunction, found the defendant was likely contributorily liable for the copyright infringement of its users.⁵⁴ Aimster used encryption that prevented its developer from knowing which files were transferred by users, but the court held actual knowledge of infringement was not required where the defendant turned a blind eye to unlawful activity.⁵⁵ Although the defendant argued noninfringing uses were possible, he failed to show any users actually used the software for such purposes.⁵⁶ Unlike the Ninth Circuit, the Seventh Circuit interpreted *Sony* to require actual, not merely

47. *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1012 (9th Cir. 2001); see *supra* Part I.

48. *Napster*, 239 F.3d at 1022.

49. *Id.* at 1020-21 (“We are bound to follow *Sony*, and will not impute the requisite level of knowledge to Napster merely because peer-to-peer file sharing technology may be used to infringe plaintiffs’ copyrights.”).

50. *Id.* at 1020-22.

51. *Id.* at 1022 n.6.

52. 334 F.3d 643 (7th Cir. 2003).

53. *Id.* at 646.

54. See *id.* at 654-55.

55. *Id.* at 650-51.

56. *Id.* at 651.

potential, noninfringing uses.⁵⁷ Finally, the court found that the Aimster developer invited infringement in the software documentation:

In explaining how to use the Aimster software, the tutorial gives as its *only* examples of file sharing the sharing of copyrighted music, including copyrighted music that the recording industry had notified Aimster was being infringed by Aimster's users. The tutorial is the invitation to infringement that the Supreme Court found was missing in *Sony*.⁵⁸

Finally, the court explained in dicta that even when a service demonstrates substantial noninfringing uses, the provider has a duty to eliminate or reduce infringing uses when it is not disproportionately costly to do so.⁵⁹ Given this analysis, the court affirmed the grant of a preliminary injunction against Aimster.⁶⁰

III. *METRO-GOLDWYN-MAYER STUDIOS INC. V. GROKSTER, LTD.*

Grokster started as a suit against two P2P software vendors who released free programs for sharing files over the Internet.⁶¹ The District Court and the Ninth Circuit both focused on whether the *Sony* doctrine protected the defendants.⁶² A unanimous Supreme Court sidestepped that question, and created a new theory of secondary copyright liability holding that those who intentionally induce copyright infringement can be liable for the results.⁶³ Two concurring opinions evaluated whether *Sony* should have applied in the case, however, reaching opposite conclusions.⁶⁴

A. Background and Procedural History

Grokster and StreamCast designed and distributed P2P software programs used by millions of Americans for file sharing over the Internet.⁶⁵ These programs allowed users to access P2P networks that were entirely self-organizing, requiring no central servers run by the software vendors to

57. *Id.*

58. *Id.*

59. *Id.* at 653.

60. *Id.* at 656.

61. *MGM Studios Inc. v. Grokster, Ltd.*, 125 S. Ct. 2764, 2770-71 (2005).

62. *Id.* at 2774-75; *MGM Studios Inc. v. Grokster, Ltd.*, 259 F. Supp. 2d 1029, 1035-36 (2003).

63. *See Grokster*, 125 S. Ct. at 2770, 2779.

64. *Id.* at 2783-2787 (Ginsburg, J. & Breyer, J., concurring).

65. *Id.* at 2770.

coordinate activity.⁶⁶ The vendors distributed their software for free and sold advertising that was delivered through the programs.⁶⁷ Both programs were used primarily to distribute copyrighted music.⁶⁸ Numerous members of the recording industry sued both companies in 2001, claiming contributory and vicarious copyright infringement.⁶⁹

The District Court found for defendants on cross-motions for summary judgment, and the Ninth Circuit affirmed.⁷⁰ As to the contributory infringement claim, the Ninth Circuit held that the software was capable of substantial noninfringing uses. Therefore, under the *Sony* standard, knowledge of direct infringement could not be attributed to the defendants.⁷¹ The court also held that the limited interaction between the defendants and the users—consisting informing users of each other’s IP addresses in the initial stages of network formation—was too limited to qualify as a material contribution.⁷² On the question of vicarious infringement, the court held that because the design of the software left the defendants with no ability to remove content or restrict user activity, they lacked any right or ability to supervise. Vicarious liability, therefore, could not be established.⁷³

The copyright holders sought review in the Supreme Court, which granted certiorari in 2004.⁷⁴

B. The Court’s Opinion

The Court considered “under what circumstances the distributor of a product capable of both lawful and unlawful use is liable for acts of copyright infringement by third parties using the product.”⁷⁵ The Court, introducing a novel theory of secondary copyright liability, held that if Grokster and StreamCast intended to promote copyright infringement using their software, they could be held liable for direct infringement committed by their users.⁷⁶

66. *Id.* at 2771.

67. *Id.* at 2774.

68. *Id.* at 2772.

69. *Id.* at 2771.

70. *MGM Studios, Inc. v. Grokster Ltd.*, 380 F.3d 1154 (9th Cir. 2004).

71. *Id.* at 1162.

72. *Id.* at 1163.

73. *Id.* at 1164-65.

74. *MGM Studios Inc. v. Grokster, Ltd.*, 125 S. Ct. 686 (2004).

75. *MGM Studios Inc. v. Grokster, Ltd.*, 125 S. Ct. 2764, 2770 (2005).

76. *Id.*

The Court's analysis noted the need to strike a balance between supporting artistic pursuits and protecting technological innovators.⁷⁷ Although the Court acknowledged the importance of protecting innovation, it determined that this balance favored copyright holders because the number of infringing copies was very large and it was difficult to obtain relief against direct infringers.⁷⁸

Turning to the *Sony* doctrine, the Court found that although *Sony* might preclude imputing knowledge of infringement to a product distributor merely because the product could be used in an infringing way, the substantial noninfringing use test did not prevent plaintiffs from establishing liability through other evidence of culpability.⁷⁹ In particular, they could show that the distributor intended to cause the infringement.⁸⁰ Much as *Sony* borrowed the staple article of commerce doctrine from the Patent Act, the Court claimed to draw the inducement doctrine from patent law as well.⁸¹ The Court held that "one who distributes a device with the object of promoting its use to infringe copyright, as shown by clear expression or other affirmative steps taken to foster infringement, is liable for the resulting acts of infringement by third parties."⁸² This would not threaten legitimate commerce or innovation, the Court wrote, because evidence of "purposeful, culpable expression or conduct," and not ordinary product distribution, was necessary to establish liability.⁸³

The Court considered a host of facts relevant to the inducement determination. Specifically, the Court focused on the defendants' attempts to market their software to music file traders, particularly former Napster users. After the collapse of the original Napster network,⁸⁴ both Grokster and Streamcast used a system called OpenNap that was intended to attract former Napster users.⁸⁵ StreamCast used this system to give away its Mor-

77. *Id.* at 2775.

78. *Id.* at 2776.

79. *Id.* at 2778.

80. *Id.* at 2779-80.

81. *Id.* at 2780.

82. *Id.*

83. *Id.*

84. Napster was later reorganized as a legal, subscription service as part of a settlement of the case against it. *See, e.g.,* Brad King, *Napster Service: 2Legit 2Quit*, WIRED NEWS, June 5, 2001, <http://www.wired.com/news/mp3/0,1285,44322,00.html>.

85. *Id.* at 2772-73. Recall from Part I that Napster used a centralized group of servers to coordinate user systems. After Napster shut down, the user software was useless without Napster's servers. OpenNap was a free program that allowed former Napster users to set up their own servers. OpenNap: Open Source Napster Server, <http://opennap.sourceforge.net/> (last visited Dec. 20, 2005).

pheus software⁸⁶ and designed advertising aimed at Napster users. One advertisement read “When the lights went off at Napster . . . where did the users go?”⁸⁷ Grokster used metatags in its website to attract users querying search engines for the term “Napster.”⁸⁸ The Court also noted that the “Grokster” name was apparently derived from “Napster,” concluding that Grokster’s attempts to target former Napster users could establish liability under an inducement theory.⁸⁹

According to the Court, the defendants’ business models also suggested that they intended to induce infringement.⁹⁰ They received revenue by selling in-program advertising; their profits, therefore, were directly tied to the number of users on their respective networks.⁹¹ Since the large bulk of file transfers on these networks were infringing, the defendants profited from an increased number of available infringing songs.⁹² In addition, the Court considered internal StreamCast communications that indicated its desire to maximize the number of copyrighted songs on its system.⁹³ The Court noted, however, that merely having a business model that profits from increased use would not establish liability without other evidence.⁹⁴

The Court also noted that the defendants did not attempt to prevent infringement.⁹⁵ Their software contained no content filtering system, and Grokster actively tried to prevent copyright owners from monitoring infringement on its network.⁹⁶ Failure to take affirmative steps against infringement would not support liability on its own, but it was evidence of intent to induce infringement and could support liability given other such evidence.⁹⁷

Finally, the Court noted that secondary copyright liability requires direct infringement, and that the facts in this case had shown large-scale in-

86. *Grokster*, 125 S. Ct. at 2773.

87. *Id.* The record didn’t show whether this advertising campaign was actually used, but the Court found that they were good evidence of StreamCast’s intent regardless. *Id.* at 2773 n.7.

88. *Id.* at 2773.

89. *Id.*

90. *Id.* at 2774.

91. *Id.*

92. *Id.*

93. *Id.*

94. *Id.* at 2782.

95. *Id.* at 2774.

96. *Id.*

97. *Id.* at 2781.

fringement on the defendants' networks.⁹⁸ A study commissioned by MGM indicated that almost ninety percent of the files on Grokster's network were copyrighted, and the defendants conceded that most downloads were infringing.⁹⁹ The strength of the inducement case against the defendants led the Court to conclude that summary judgment in their favor was inappropriate.¹⁰⁰ Because the lower courts did not consider the evidence in light of the inducement theory, the Court remanded for reconsideration of MGM's summary judgment motion.¹⁰¹ The tone and content of the Court's opinion, however, suggested that it expected MGM to prevail.¹⁰²

C. *Sony* and the Concurring Opinions

Many commentators expected the Court to decide *Grokster* by interpreting *Sony* in light of P2P technology, thus clarifying the legality of such programs.¹⁰³ Although the Court's holding did not reach the issue, two concurring opinions, each joined by three justices, reached different conclusions about the application of *Sony* to P2P technology. In her concurrence, Justice Ginsburg opined that anecdotal evidence of noninfringing uses was insufficient under *Sony* in light of the overwhelming volume of infringing activity. *Sony* required, according to Ginsburg, a more substantial amount of noninfringing use, which had to exist or be likely to develop.¹⁰⁴ Although she did not attempt to give a precise description of how much noninfringing use is sufficient to qualify under *Sony*, she wrote that the lawful uses of Grokster and Morpheus described in the record were

98. *Id.* at 2782.

99. *Id.* at 2772.

100. *Id.*

101. *See id.* at 2782-83.

102. *See id.*

103. *E.g.*, Joshua S. Wattles, *Modernizing Sony Betamax for the Digital Age: The Ninth Circuit Enables P2P*, 34 SW. U. L. REV. 233, 243-45 (2005) (describing several directions the Supreme Court could take *Grokster* and suggesting the *Sony* doctrine would be narrowed); Andrew J. Lee, Note, *MGM Studios, Inc. v. Grokster, Ltd. & In re Aimster Litigation: A Study of Secondary Copyright Liability in the Peer-to-Peer Context*, 20 BERKELEY TECH. L.J. 485, 501-08 (2005) (describing the conflict between the Ninth Circuit opinion in *Grokster* and the Seventh Circuit's *Aimster* and suggesting lower courts would benefit from guidance from the Supreme Court regarding *Sony*); Richard M. Myrick, Note, *Peer-to-Peer and Substantial Noninfringing Use: Giving the Term "Substantial" Some Meaning*, 12 J. INTELL. PROP. L. 539 (2005) (arguing that the Supreme Court should adopt the Seventh Circuit's reading of *Sony*). Additionally, many of the amici curiae in the case focused their arguments on *Sony*. For a compilation of briefs filed before the Court, see U.S. Copyright Office, *MGM Studios v. Grokster*, <http://www.copyright.gov/docs/mgm/> (last visited Feb. 23, 2006).

104. *Grokster*, 125 S. Ct. at 2786 (Ginsburg, J., concurring).

anecdotal and that even if the noninfringing uses were large in absolute terms, they may be small in relation to the infringing uses.¹⁰⁵ This suggests that Ginsburg interprets *Sony* to require numerical evidence that the amount of noninfringing uses form a substantial percentage of total uses.

Justice Breyer's concurrence disagreed with the analysis of the substantial noninfringing use test offered by Justice Ginsburg. Justice Breyer relied on *Sony*'s holding that a device need only be capable of substantial noninfringing uses to qualify for the safe harbor.¹⁰⁶ Justice Breyer noted the documented—if anecdotal—evidence of noninfringing uses of P2P technology. Moreover, the Breyer concurrence pointed to the increasing rate of non-infringing uses of P2P technology and their potential future growth. Breyer contended that the lower courts correctly interpreted and applied *Sony*, and that its safe harbor should be preserved despite changing technological developments.¹⁰⁷

IV. DISCUSSION

The implications of the *Grokster* decision for technology developers will prove significant and widespread. The Supreme Court created an inducement theory that serves as a completely independent road to contributory liability. Future product distributors, therefore, will face both inducement-based and contributory infringement claims. While this Note focuses on *Grokster*'s impact on file sharing, the impact of *Grokster* extends beyond P2P networks. Potentially every software developer or device manufacturer that creates a product that interacts with copyrighted content—such as personal video recorders (PVRs) and portable MP3 players¹⁰⁸—could face inducement liability. Such liability could be particularly troubling since, once a product has been distributed, developers have little control over the end-user behavior.

This Part argues that the inducement doctrine is likely to eliminate only the most flagrant copyright offenders and will impose significant costs on technology developers. To avoid the specter of inducement-based liability, developers must reconsider their internal practices and business models in light of the ambiguous and untested bounds of the Court's intent to induce standard. Section IV.A describes some common characteristics

105. *Id.* (Ginsburg, J., concurring).

106. *Id.* at 2789 (Breyer, J., concurring).

107. *Id.* at 2796 (Breyer, J., concurring).

108. Copyright owners have already sued both PVR and MP3 player manufacturers on other grounds. *Recording Indus. Ass'n of Am. v. Diamond Multimedia Sys. Inc.*, 180 F.3d 1072, 1073 (9th Cir. 1999); *Paramount Pictures Corp. v. RePlayTV*, 298 F. Supp. 2d 921, 923 (C.D. Cal. 2004).

of modern file-sharing products. Section IV.B discusses how *Grokster's* inducement theory should be interpreted and explains how product distributors will avoid inducement liability. Section IV.C discusses the probable future of the *Sony* doctrine in light of the *Grokster* majority and concurring opinions.

A. Common Features of Current and Future File-Sharing Products

The evolution of P2P technology did not end after the *Grokster* decision. Several groups are actively working to improve the state of the art and enable end users to avoid detection or prosecution.¹⁰⁹ This Section provides an overview of the most common features of modern P2P systems.

The designs of modern P2P systems vary, but certain features are common. They are self-organizing, so that the designer distributes the program as an independent product, but operates no services.¹¹⁰ The copying of copyrighted files remains their primary use.¹¹¹ They are capable of substantial noninfringing uses, in that some use them to transfer public domain or licensed works.¹¹² Their packaging and documentation do not promote infringement, and advertising, if it exists, is not suggestive of illegitimate uses.¹¹³ Most of the new breed of P2P technologies lack features that specifically target infringers. If any features are particularly useful to infringers, they also serve more benign purposes, like promoting free speech in dictatorial regimes.¹¹⁴ They do not employ content filtering for copyrighted works. The developers' business models typically do not rely on advertising revenue, or other means that benefit significantly from infringing users.¹¹⁵

109. See *supra* Part I.

110. E.g., PEER-TO-PEER SYSTEMS AND APPLICATIONS, *supra* note 4, at 37.

111. E.g., Eric Hellweg, *Digital Music Forecast: BitTorrential Downpour*, TECH. REV., Oct. 19, 2004, http://www.technologyreview.com/InfoTech/wtr_13824,300,p1.html.

112. See, e.g., Legal Torrents, <http://www.legaltorrents.com> (last visited Dec. 20, 2005) (search tool for authorized P2P files).

113. See, e.g., GUNet, GUNet Documentation: Using GUNet for File Sharing, http://gnunet.org/user_afs.php3?xlang=English#gnunetdownload (last visited Dec. 20, 2005) (file sharing tool documentation giving as example a transfer of a file licensed for redistribution).

114. See, e.g., LASICA, *supra* note 24, at 225-27.

115. Not all systems will be like this, and some companies may try to replicate the *Grokster* business model. There are noncommercial, open source projects being devel-

The goals of these developers vary. BitTorrent, for example, is a business that aims to produce a platform for content distributors to use;¹¹⁶ in the mean time, they are releasing their technology under an open source license.¹¹⁷ Freenet and GUNet are noncommercial projects run by activists whose political and philosophical agendas—perhaps opposition in principle to copyright law, perhaps a desire to prevent censorship of the internet by totalitarian regimes, or both—support file-sharing networks that are difficult to shut down or control.¹¹⁸ Future for-profit developers may attempt to design P2P systems that profit from infringement while navigating the *Sony* and *Grokster* decisions' interstitial ambiguities.

B. Applying the *Grokster* Inducement Test to Future P2P Technology Developers

Under *Grokster*, “one who distributes a device with the object of promoting its use to infringe copyright, as shown by clear expression or other affirmative steps taken to foster infringement, is liable for the resulting acts of infringement by third parties.”¹¹⁹ That is, defendants who “induce” infringement are not liable unless they intend to promote infringement. This requisite intent will likely be difficult to prove—and even more difficult to disprove—so both courts and litigants will face unresolved questions regarding what evidence is necessary to establish liability under the inducement standard.

In *Grokster*, the Court reviewed a wide variety of facts in its inducement analysis.¹²⁰ *Grokster* identified three factors as particularly significant: the defendants' efforts to satisfy a known market for copyright infringement, their failure to develop filtering mechanisms or other means for reducing infringement, and their choice of a business model that bene-

oped now, however, and these will have an advantage among users because of their cost and lack of advertising. See, e.g., GUNet, <http://gnunet.org/> (last visited Mar. 14, 2006).

116. Daniel Roth, *Why Hollywood Loves BitTorrent*, CNN.COM, Oct. 19, 2005, <http://money.cnn.com/2005/10/19/technology/bittorrent/index.htm>.

117. BitTorrent, BitTorrent Open Source License, <http://www.bittorrent.com/license> (last visited Dec. 20, 2005).

118. Some of them may believe in the aphorism “Information wants to be free.” See generally Roger Clarke, “Information Wants to be Free. . .”, <http://www.anu.edu.au/people/Roger.Clarke/II/IWtbF.html> (last visited Dec. 20, 2005) (describing the history of the phrase).

119. *MGM Studios Inc. v. Grokster, Ltd.*, 125 S. Ct. 2764, 2780 (2005).

120. Among these facts were the resemblance the defendant's name bore to Napster, the operation of OpenNap servers, internal documents and unused advertising campaigns, and the number of infringing downloads. *Id.* at 2773, 2776.

fited substantially from infringement.¹²¹ Other indications of intent may arise in future cases, but were not discussed in *Grokster*, such as product features that are particularly useful for infringement and public statements by defendants. As courts resolve the questions left open in *Grokster*, developers are likely to simultaneously take steps to protect themselves from liability.

1. *Targeting Known Demand for Infringement*

The *Grokster* opinion emphasized evidence suggesting the defendants targeted infringers.¹²² The Court focused on the defendants' internal and external communications, *Grokster's* choice of name, advertisements—even if the ads were never shared with the public—and the use of OpenNap servers.¹²³ While the Court did not hold that this factor alone was decisive, the Court's analysis emphasized marketing evidence and found that the other two factors were insufficient to support liability.¹²⁴

a) Advertising to known infringers

Future developers will take great pains to avoid the problems that plagued *Grokster*. For example, they will not adopt names ending in “-ster,” or that resemble those of other services known to be popular among infringers. Likewise, product developers will avoid advertising that targets infringers. Open source programmers will use a purely noncommercial model and avoid advertisements altogether. Commercial developers will also avoid advertising that directly refers to known infringers or infringing services like the StreamCast advertisements, which asked “when the lights went off at Napster . . . where did the users go?”¹²⁵ Since *Grokster* considered even unused advertisements as evidence of intent,¹²⁶ developers will exercise caution when communicating without outside ad agencies.

This focus on targeting infringers could lead to perverse and anticompetitive results. For example, suppose two companies independently produce products that otherwise avoid liability under inducement and contributory infringement theories. If those services are primarily used to in-

121. *Id.* at 2781.

122. *Id.* at 2780-81.

123. *Id.*

124. *Id.* at 2781-82.

125. *Id.* at 2773.

126. *Id.* at 2781.

fringe, each company may avoid targeting the other's customers in order to minimize exposure to future inducement claims.

Beyond this, courts' interpretations of what constitutes legitimate advertising will depend in part on the business context of a given dispute. For defendants who appear to be independent, anti-copyright activists, evidence of targeting infringers will likely be given great weight. Conversely, defendants whose business models depend primarily on legitimate uses will be able to claim they are not attempting to attract infringing activity, even if their advertising suggests copying¹²⁷ and targets customers of services known to have infringing uses.¹²⁸

Other types of marketing evidence, like the operation of OpenNap servers, will probably be more difficult to apply in future cases. Running related services in the past could suggest an attempt to target infringers. This evidence will be of relatively minor concern to businesses with fundamentally legitimate business models,¹²⁹ but those that operate in a gray area will need to take care to avoid services favored by infringers and programmers who worked on them.

In general, any advertising or other effort to attract probable infringers will subject a defendant to scrutiny. Potential defendants who do engage in such advertising may avoid liability if they have an innocent business explanation for their actions, while liability is likely for those whose business models suggest an unlawful motive.¹³⁰ Developers who avoid advertising entirely, like open-source P2P programmers, will benefit the most from the Court's emphasis on this factor.

127. Compare the advertising by Sony in the case against Betamax that was arguably suggestive of infringement. *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417 (1984) (Blackmun, J., dissenting).

128. See *infra* Section IV.B.3. This will be of particular concern for non-P2P inducement defendants.

129. For example, HiveCache, a now-defunct business, was a backup vendor that previously operated a P2P service called MojoNation on which its backup software was based, and which was used for copyright violation. HiveCache, <http://web.archive.org/web/20040701105400/http://www.mojonation.net> (last visited Dec. 20, 2005) (archive of HiveCache's website). As long as HiveCache could demonstrate their backup business was genuine and that there was a strong rationale for running the file-sharing service (for example, to test the technology underlying its backup software), they probably would not have been at risk.

130. Other evidentiary factors will come into play, such as the other two major factors of the *Grokster* three. But without significant mitigating evidence (perhaps such as proactive efforts to filter copyrighted content), this factor may be decisive by itself.

b) Internal communications

The Court inferred that the defendants intended to target old Napster users partly on the basis of internal communications.¹³¹ This raises risks for technology companies, since any employee e-mail may qualify as discoverable evidence likely to increase the risk of liability. This risk is most substantial for high-ranking employees and presents greater risks when the company lacks a well-developed legitimate business plan.

Risks of this kind are not entirely new, and many potential defendants will already have tools in place that can help protect them, such as document retention policies.¹³² Potential defendants who are particularly susceptible to inducement claims may choose to discuss business strategies in person or through other means that do not leave a paper or electronic trail. Executives and spokespersons probably will be trained to describe the company's goals in ways that cannot be distorted by an opposing attorney. This sort of risk management, however, will raise development costs.

2. *Lack of Content Filtering*

The Supreme Court considered the failure to develop filtering tools to reduce infringement as an indicator of unlawful purpose.¹³³ Lower courts will therefore be favorably disposed to defendants that proactively attempt to remove copyrighted material from their systems. The earlier Seventh Circuit *Aimster* decision went further and held outright that distributors have a duty to mitigate damage to copyright owners where such efforts are cost-effective.¹³⁴ While the *Grokster* Court disagreed with the weight such considerations were given in *Aimster*, it still considered the failure to filter as a key consideration in the inducement analysis.¹³⁵

Many technologists would argue that judicial promotion of content filtering is premature since current filtering tools are easily circumvented.¹³⁶ For example, the content filtering that Napster implemented when it was ordered to by the Ninth Circuit performed poorly.¹³⁷ More sophisticated

131. *Grokster*, 125 S. Ct. at 2773.

132. Document retention policies generally involve discarding unnecessary documents after a period of time.

133. *Grokster*, 125 S. Ct. at 2781.

134. *See supra* Section III.C.

135. *Grokster*, 125 S. Ct. at 2781.

136. *See, e.g.*, Brief Amici Curiae of Computer Science Professors Harold Abelson et al. Suggesting Affirmance of the Judgment, *MGM Studios Inc. v. Grokster, Ltd.*, 125 S. Ct. 2764 (2005) (No. 04-480).

137. *See* Brad King, *Napster Filter More Like a Sieve*, WIRED NEWS, Mar. 5, 2001, <http://www.wired.com/news/culture/0,1284,42196,00.html>.

forms of filtering scan audio files for copyrighted content, but these measures can be evaded by certain kinds of encryption.¹³⁸ Given the difficulty of developing content filtering, its limited effectiveness, and the constraints it imposes on network design, technologists are unlikely to build encryption into systems unless pressured to do so by either the content industry or the courts.¹³⁹ Content filtering could increase in popularity if lower courts weigh this factor more heavily in the inducement analysis. But footnote twelve of the *Grokster* opinion, holding that content filtering is not required to avoid liability, should foreclose the possibility that the judiciary will support mandatory content filtering schemes.¹⁴⁰

3. *Business Model Evidence*

Grokster's business model relied almost entirely on the sale of advertisements, requiring it to focus on high volume uses of P2P, which were largely infringing.¹⁴¹ While finding evidence related to the defendants' business models worthy on consideration, the Court held that, like content filtering, such evidence alone is insufficient to prove unlawful intent.¹⁴² Business model evidence probably will prove more significant than failure to filter. Receiving revenue from infringing uses will likely color how the finder of facts weighs defendant testimony.

Different business models will lead to different degrees of credibility. Businesses that generate revenue from each user, through sales, subscriptions, or advertising, will face the most liability and appear the least credible when disclaiming an intent to induce infringing uses. Since most business models yield payments per product sold or user subscribed, applying *Grokster's* third factor will require some care to avoid imposing liability where the *Sony* rule should otherwise excuse it. For example, consider *Diamond Rio*, in which the recording industry sued one of the first portable MP3 player manufacturers.¹⁴³ At the time, legitimate digital music sources were relatively rare,¹⁴⁴ and so the Diamond Rio was probably fre-

138. See Declan McCullagh, *SDMI CodeBreaker Speaks Freely*, WIRED NEWS, Aug. 16, 2001, <http://www.wired.com/news/politics/0,1283,46097,00.html>.

139. DRM's public image took a blow when it was discovered that DRM software used by Sony made computers vulnerable to viruses. John Borland, *Sony Recalls Risky "Rootkit" CDs*, CNET NEWS.COM, Nov. 15, 2005, http://news.com.com/2100-7349_3-5954154.html.

140. *Grokster*, 125 S. Ct. at 2781 n.12.

141. *Id.* at 2781-82.

142. *Id.* at 2782.

143. Recording Indus. Ass'n of Am. v. Diamond Multimedia Sys. Inc., 180 F.3d 1072 (9th Cir. 1999) (applying the Audio Home Recording Act of 1992).

144. See *id.* at 1074.

quently used to play illegally downloaded music. Although Diamond certainly profited from infringers who bought its product, the nature of its business was similar to that in *Sony*.¹⁴⁵ But if the *Grokster* business model considerations were applied literally, Diamond Rio's sale of MP3 players could have given rise to inducement-based liability.

Open source providers like GUNet and Freenet will be in a better position than for-profit file-sharing networks, since their claimed efforts to promote noninfringing uses, improve the state of the art, or fight censorship will not be tainted by monetary gain. But to the extent these claims are viewed as pretexts for an anti-copyright agenda, they will remain vulnerable to inducement liability.

Businesses that generate revenue solely from noninfringing users will be in a much better position since their financial interests suggests that any enablement of infringement is only accidental. Such businesses will include those that give away basic versions of their software but sell platforms for legal content sales¹⁴⁶ or other business services.¹⁴⁷ Where a business makes money through both noninfringing and infringing uses, but the noninfringing uses make up the bulk of the activity, it will be in a similar position.¹⁴⁸

For non-P2P businesses that need to consider inducement liability, this factor may be troublesome. Inducement liability could potentially discourage many businesses from introducing new products, because almost any business model will produce more profit when usage is higher. If courts are not cautious in developing inducement liability, they may limit development of some technologies that would ultimately have substantial lawful value by imputing unlawful intent to developers of groundbreaking devices and services.

4. *Technological Features Conducive to Infringement*

While the three factors discussed above were central to the *Grokster* decision,¹⁴⁹ future cases will look to other evidence that may contribute to a finding of an unlawful objective. For example, product features that are

145. *Id.* at 1079.

146. For example, BitTorrent plans to operate a market for content providers to sell their work. See Roth, *supra* note 116.

147. For example, One (failed) company, HiveCache, started by giving away a file-sharing program called MojoNation and tried to switch to selling backup services. See *supra* note 129.

148. Most business models will probably benefit from increased use of their products, but not all will have the same direct financial gain as the *Grokster* defendants did.

149. *MGM Studios Inc. v. Grokster, Ltd.*, 125 S. Ct. 2764, 2781-82 (2005).

particularly conducive to infringing uses could provide evidence of unlawful intent.

Programs currently under development offer features that may make it difficult for copyright holders to identify and target individual infringers. Freenet, for example, serves as a “darknet” in which user actions are obscured through encryption and relaying, minimizing the likelihood of detection by copyright enforcers.¹⁵⁰ While other darknets avoided detection by only connecting small groups of users, the Freenet project believes it can protect each user’s identity, but allow them to access files located through the entire network.¹⁵¹ This feature could result in a global network offering all the functionality of traditional P2P clients, but with very little legal risk for users.

Anonymity on the internet is nothing new, and other tools already provide similar functionality.¹⁵² Combining them with a file-sharing tool in a convenient package, however, suggests an intent to promote infringement. The developers of these darknets usually explain their design choices as protective of free speech, particularly for citizens of dictatorial regimes.¹⁵³ The effectiveness of such programs in subverting the control of totalitarian regimes, however, remains unproven. And since these programs can be easily adapted to copyright infringement, this rationale is weak. Designers of systems like these run a major risk of being found liable, particularly if other evidence suggests an intent to cause infringement.

5. *Public Statements*

While product designers are unlikely to explicitly support use of their software to infringe, some developers have made statements that could be interpreted as opposing the copyright system. For example, the Freenet project leader wrote that “copyright is economic censorship (i.e., restricting the free distribution of information for economic reasons), and thus

150. The Free Network Project, <http://www.freenetproject.org/> (last visited Feb. 23, 2006).

151. LASICA, *supra* note 24, at 226, 228-29.

152. One, called the Mixmaster protocol, sends a message from one e-mail relay to another, eventually coming to the destination in a way that does not permit it to be traced. Mixmaster, <http://mixmaster.sourceforge.net/> (last visited Dec. 20, 2005). The method could be adapted to systems other than e-mail. Another protocol, called onion routing, is another technique involving the relay of messages through different systems to allow a user system to interact with Internet servers “pseudonymously”—that is, the servers would be able to tell they were dealing with a distinct end user, but not who that user was. Tor: An Anonymous Internet Communication System, <http://tor.eff.org> (last visited Dec. 20, 2005).

153. *See, e.g.*, LASICA, *supra* note 24, at 225-27.

Freenet will make it difficult or impossible to enforce copyright.”¹⁵⁴ These statements are certainly suggestive of an intent to cause infringement, and will support a finding of liability.¹⁵⁵

6. *Summary: Evidence Bearing on Designer's Intent*

Future cases in which inducement liability is alleged will require careful fact-specific weighing of the evidence to determine the existence of unlawful intent to cause infringement.

After *Grokster*, developers can take advantage of a variety of methods to avoid liability. In general, those that avoid demonstrating a financial interest in infringing uses of their products will likely not be liable under a reasonable interpretation of *Grokster*. In the P2P context, most product designers will be able to insulate themselves from liability. Those that add more advanced anti-censorship or anonymity features that are useful for preventing copyright enforcement may be liable in any event if their stated objectives are unpersuasive.

For non-file-sharing businesses, the inducement test will protect most companies that attempt to build legitimate customer bases if they exhibit reasonable care in their marketing efforts. The inducement standard is highly subjective, however, which will likely lead technological innovators to be cautious when designing their systems. Unless courts are cautious in developing inducement liability, the development of the next generation's VCRs and MP3 players may be stifled.

C. **Liability Under *Sony* and the Future of the *Sony* Rule**

Potential infringers will likely continue to face claims under ordinary contributory liability. Under this theory of liability, the *Sony* safe harbor remains a relevant defense. Since *Grokster* presented an opportune time to revisit *Sony*,¹⁵⁶ the Court's reluctance to alter *Sony* suggests that it is unlikely to do so in the near future. However, with three justices favoring

154. Posting of Roblimo to Slashdot, <http://slashdot.org/article.pl?sid=00/04/10/0755259&mode=thread> (Apr. 10, 2000, 11:00); see also LASICA, *supra* note 24, at 227 (quoting Clarke's statement that copyright has been expanded far beyond its appropriate role). The author of BitTorrent has also made comments that could suggest intent to cause infringement, though he later disclaimed them as a parody. Bram Cohen, A Technological Activist's Agenda, http://bitconjuror.org/a_technological_activists_agenda.html (last visited Dec. 20, 2005).

155. Some of the designers make vaguer statements that may suggest bad intent but probably will not lead to liability. *E.g.*, BitTorrent, Introduction, <http://www.bittorrent.com/introduction.html> ("BitTorrent is a free speech tool.") (last visited Dec. 20, 2005).

156. See *supra* note 103 and accompanying text.

a limiting interpretation of *Sony* and three favoring a more lenient understanding, predicting the precise scope of the protection offered by *Sony* will prove difficult.

Footnote twelve of the *Grokster* opinion limits how restrictively lower courts can interpret *Sony*. The Court held that a product distributor need not include content filtering features to avoid liability, at least as long as there is no other evidence of an unlawful objective of causing infringement.¹⁵⁷ This footnote is a strong signal that the Court will not significantly alter the contours of the *Sony* safe harbor. Footnote twelve would be hard to reconcile with a change in the *Sony* doctrine that holds P2P designers liable for general-purpose file-sharing programs that avoid inducement liability. Even if the Court interprets *Sony* more narrowly, it would most likely do so by raising the standard of proof required for a showing of noninfringing uses. This would follow the reasoning of Justice Ginsburg's concurrence, which would have required a "reasonable prospect" for a market for noninfringing uses to develop.¹⁵⁸

The boundaries of *Sony* thus are unlikely to change at the Supreme Court. If the *Sony* doctrine continues to evolve at the lower courts, it will be constrained by the language of footnote twelve. *Grokster* may limit the practical usefulness of *Sony*, however, because inducement claims will be more difficult to dispose of on summary judgment, making it harder for defendants to avoid litigation costs. Moreover, *Sony* may become less relevant to real cases if showing intent to induce infringement proves easier than establishing contributory liability on other grounds.

V. CONCLUSION

Grokster's inducement standard provides copyright owners a new weapon in the war on P2P networks. Since *Grokster* did not give the content industry what they really wanted—a rule that *Sony* requires primarily noninfringing uses or demands content filtering to be built in to products when possible—the industry will increasingly turn to other methods of combating infringement.

In particular, the industry will continue to advance its legal alternatives to unauthorized services. The popularity of such licensed services will receive a substantial boost as the illegal services that cannot survive an inquiry into their business objectives close their doors or strike deals with

157. *MGM Studios Inc. v. Grokster, Ltd.*, 125 S. Ct. 2764, 2781 n.12 (2005).

158. *Id.* at 2786 (Ginsburg, J., concurring).

copyright owners.¹⁵⁹ Copyright owners will also continue to sue individual infringers. Although the volume of infringing users makes it difficult for suits to stem the tide of P2P infringement, they will generate negative publicity for non-licensed services and encourage the public to migrate to the authorized alternatives.

Meanwhile, *Grokster* will keep lower courts occupied with deciphering the details of inducement liability for some time. Although *Grokster* left copyright owners claiming victory and technology advocates disappointed,¹⁶⁰ it may in the end turn out to be a blessing in disguise for technologists. The subjective intent standard leaves room for technology developers to claim benign motivations for many activities, and most factors supporting inducement liability can be easily avoided by many technology companies. Avoiding liability under *Grokster*'s standard will have serious costs, however, as technologists alter the operation of their businesses to minimize their exposure. In the end, *Grokster* may slow innovation by technologists without significantly limiting the infringement the opinion was meant to ameliorate.

159. John Borland, *Last Waltz for Grokster*, CNET NEWS.COM, Nov. 7, 2005, http://news.com.com/2100-1027_3-5937832.html.

160. See Press Release, RIAA, RIAA Statement On MGM v. Grokster Supreme Court Ruling (June 27, 2005), <http://www.riaa.com/news/newsletter/062705.asp>; Press Release, Electronic Frontier Foundation, Supreme Court Ruling Will Chill Technology Innovation (June 27, 2005), http://www.eff.org/news/archives/2005_06.php.

GOOGLE'S TECHNICOLOR DREAMCOAT: A COPYRIGHT ANALYSIS OF THE GOOGLE BOOK SEARCH LIBRARY PROJECT

By Emily Anne Proskine

I am certainly not an advocate for frequent changes in laws and constitutions. But laws and institutions must go hand in hand with the progress of the human mind. As that becomes more developed, more enlightened, as new discoveries are made, new truths discovered and manners and opinions change, with the change of circumstances, institutions must advance also to keep pace with the times. We might as well require a man to wear still the coat which fitted him when a boy¹

Bringing copyright law up to speed in an era of advancing digital technology is exactly one of those events along the course of history to which Thomas Jefferson referred above. New discoveries, truths, and opinions brought about by the digital age require institutions to advance and legislation to be updated. Lagging behind innovations in technology, the coat of copyright law is getting a little too tight. Thus, law must advance to keep pace with the times. However, the required alterations are not clear. Will it suffice to let out the hem of copyright's coat, or must one be tailor-made from scratch in order to bring copyright law into the current era?

The Google Print Library Project, renamed the Google Book Search Library Project² ("Google Library Project"), more so than any of the other

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1. Inscription on the Thomas Jefferson Memorial in Washington, D.C., taken from a letter from Thomas Jefferson to Samuel Kercheval (July 12, 1816), *available at* <http://www.nps.gov/thje/memorial/inscript.htm>.

2. Google rebranded Google Print, which includes the Library Project, as the Google Book Search, in order to better describe the project's purpose. *See Google Print Renamed Google Book Search*, MARKETINGVOX, Nov. 18, 2005, *available at* http://www.marketingvox.com/archives/2005/11/18/google_print_renamed_google_book_search.

library digitization projects that have emerged over the last six months,³ presents the perfect opportunity for an analysis of the “fit” of current copyright law in the age of the internet. With unprecedented scope and huge corporate exposure, the Google Library Project represents a foray into uncharted waters of intellectual property law.

Part I of this Note will evaluate the Google Library Project, examining its scope, plan for implementation, competitors, cost, and potential copyright implications. Part II of this Note will address the possible legal repercussions for Google and assess the probability of Google’s success moving forward under the current copyright regime. Specifically, this Part will address the copyright issues implicated by the Library Project, namely the adherence of copyright liability and the applicability of the fair use defense. Part III will present a legislative patchwork solution to the current copyright regime that would allow socially beneficial projects like Google’s, which fail to harm copyright owners or impede their immediate or potential markets, to proceed. Part IV will address a new copyright regime, one that is based on a distribution right and tailored specifically to address the problem of unauthorized distribution of copyrighted works in the digital era.

I. THE GOOGLE LIBRARY PROJECT

In the digital age, it is not surprising that one of the biggest players in the digital market would start looking at new and improved venues for information organization and access. While Google currently indexes approximately eight to ten billion items online,⁴ the quality of the content provided by many of those sources is questionable. Internet resources are unknown, content is fluid, and authors are unreliable because just about

3. Yahoo! and MSNSearch announced their public domain digitization project in October 2005. See Stefanie Olsen, *An Open-Source Rival to Google’s Book Project*, CNET NEWS.COM, Oct. 26, 2005, available at http://news.com.com/an+open-source+rival+to+googles+book+project/2100-1025_3-5915690.html. Amazon.com announced its new Amazon Pages program in November 2005. See *Amazon Takes Page from Apple*, SEATTLE TIMES, Nov. 5, 2005, at D1. Random House, the world’s largest publisher of trade books, was the first big publishing house to move into online book access in November 2005. See *Pulp Friction*, ECONOMIST, Nov. 12, 2005, at 83. Amazon is working on a model of pay-per-view charging as well. See *id.*

4. *Id.*

anyone can anonymously create a website and post it on the internet at little or no cost.⁵

Additionally, studies by Microsoft have shown that around half of all search queries performed on the internet fail to provide the information that users want.⁶ This is at odds with the accessibility and searchability the internet promises. By contrast, physical libraries house print books whose trusted contents have been scrutinized by their authors, revised by their editors and ultimately approved by their publishers. Each book is the result of a laborious process of research, redaction, and outlays of time, energy and money.⁷ Nonetheless, the physical nature of print books and brick-and-mortar libraries has posed a much greater challenge to users in search of the knowledge within. Print books are difficult to locate, transport, and share; their physical nature exposes them to deterioration; and they are expensive. Accordingly, studies show patronage at libraries nationwide is on the decline.⁸

A. A Brief History of Digital Library Projects

More than three decades ago, the intersection of the print world and the computer, with its extraordinary ability to search and store information, generated several digital library initiatives. Project Gutenberg began in the 1970s, and now counts more than 17,000 e-books in nearly 45 languages in its digital collection.⁹ The Internet Archive is another, more re-

5. See Christopher Heng, *How to Design and Publish Your Website*, THE SITE WIZARD.COM, <http://www.thesitewizard.com/gettingstarted/mozillacomposer1.shtml> (last visited Mar. 13, 2006).

6. *Pulp Friction*, *supra* note 3, at 83.

7. Only about 20% of a publisher's budget for each book pays for paper, printing, and binding. The rest pays for the publisher's overhead, cuts taken by distributors, booksellers, and promoters. The author's cut is quite low. As a general rule it ranges from 10% to 15%. And prices for books are increasing. From 1975 to 2000 the price of the average hardcover book of fiction went up 200%, poetry and drama 211%, and nonfiction 123%. Christopher Dreher, *Why Do Books Cost So Much?*, SALON.COM, Dec. 3, 2002, <http://www.salon.com/books/feature/2002/12/03/prices/print.html>.

8. Library visits in 1998 were down 9.2% from 1994. ALA, *Academic Libraries in the U.S.: Statistical Trends*, <http://www.ala.org/ala/ors/statsaboutlib/academiclibraries.htm> (last visited Mar. 13, 2006).

9. Michael S. Hart, *History and Philosophy of Project Gutenberg*, PROJECT GUTENBERG, Aug. 1992, <http://www.gutenberg.org/about/history>. Project Gutenberg began in 1971 when Michael Hart was given an operator's account with \$100,000,000 of computer time by the operators of the Xerox Sigma V mainframe at the Materials Research Lab at the University of Illinois. Hart concluded that the most valuable manner in which to use his time would be to make use of the storage, retrieval and searching capabilities of the computer. Starting with the Declaration of Independence, Hart began

cent initiative, a nonprofit founded to build a digital library offering permanent access for researchers, historians, and scholars to historical collections that exist in digital format.¹⁰ Founded in 1996, the Internet Archive receives data donations and has grown to include texts, audio, moving images, software and archived webpages in its collections.¹¹ In the passing years, most large university libraries in the United States began digitizing their rare or unique collections, generally for archival purposes.¹² More recently, companies and organizations have also begun digitizing new and old print materials for easier storage and access online. Until now, however, inadequate technical capabilities and the high costs of such projects have limited digitization efforts.

B. The Scope of the Google Library Project

In response to these obstacles and growing consumer demand for improved search engine results, Google announced its Library Project on December 14, 2004.¹³ The goal of the project is “to make the full text of all the world’s books searchable by anyone” with a computer and internet access.¹⁴

One thing is certain: the project is ambitious. Google ultimately plans to include in its database digital copies of every work in the collections of “the Google 5,” the name given to the five participating library collections of Stanford University, the University of Michigan, Harvard University, Oxford University, and the New York Public Library.¹⁵ To incentivize library participation, Google will set up a simple exchange—for each book

reproducing texts onto his computer. Today, the Project focuses on providing access to public domain or donated works that are of great public interest. *Id.*

10. See Internet Archive, About IA, <http://www.archive.org/about/about.php> (last visited Mar. 13, 2006).

11. *Id.*

12. See UM Library/Google Digitization Partnership FAQ, Aug. 2005, at 2, <http://www.lib.umich.edu/staff/google/public/faq.pdf> [hereinafter UM Library/Google FAQ].

13. See Press Release, Google, Google Checks Out Library Books (Dec. 14, 2004), <http://www.google.com/press/pressrel/print-library.html>.

14. Posting of Adam M. Smith, Google Print Project Manager, to Google Blog (Aug. 11, 2005, 13:31 PDT), <http://googleblog.blogspot.com/2005/08/making-books-easier-to-find.html>.

15. To start, Google will scan and digitize all eight million of Stanford University’s print volumes, all seven million volumes at the University of Michigan, a pilot of 40,000 randomly selected books of Harvard University’s 1.5 million volumes, a sample of the New York Public Library’s twenty million items, and one million public domain volumes at Oxford’s Bodleian Library. Deborah Lines Andersen, *Benchmarks: The Google Library*, 7 J. ASS’N FOR HIST. & COMPUTING 3 (2004).

a participating library gives to Google, Google will provide to that library a digital copy of the book. Google will make these books searchable on its search engine anywhere in the world, and at no cost.¹⁶ What the participating libraries will do with their digital copy is unclear. Nonetheless, over the course of the next five to seven years, Google plans to scan and digitize over fifteen million books in the initial stages of this project.¹⁷

C. Google's Plan for Implementation

In order for this large-scale project to function efficiently, Google must scan and digitize the full text of all books in the Google 5 collection in order to “unbundle” the content from the printed page. Google has not made public its scanning technology, citing the proprietary nature of the hardware and software.¹⁸ However, the technology may closely resemble the specialized scanning machine and the open-source software that the Internet Archive built specifically for the purpose of scanning and digitizing books: “The ‘machine’ is an assembly of a standard PC with the software installed, two digital cameras, a pedal-operated glass and metal stand to hold and secure books at an angle, along with a table and a chair.”¹⁹ The “machine” is operated by one person who manually flips the book’s pages by hand, photographing each page.²⁰ The pages of the book then appear on the computer screen in their original form.²¹ The operator enters some metadata about the book—the author, title and publication date.²²

The digitized contents of the book can then be searched by Google’s search engine, which crawls the content and ultimately presents accurate results in response to a user query.²³ While this necessitates that every page of every book in the Google Library collection would be searchable

16. *Id.* This content is already being scanned and is now searchable on the Google Book Search Website at <http://books.google.com> (last visited Mar. 13, 2006).

17. Discussion of expanding this figure to thirty million books while expending \$750 million has also been mentioned on the internet, but has not been confirmed by Google’s official website. See JONATHAN BAND, AMERICAN LIBRARY ASSOCIATION, OITP TECHNOLOGY POLICY BRIEF: THE GOOGLE LIBRARY PROJECT: THE COPYRIGHT DEBATE 10 (Jan. 2006), <http://ala.org/ala/washoff/oitp/googlepaprfnl.pdf>.

18. See Olsen, *supra* note 3. However, the capture methods used by Google produce extremely high-quality raw image files. Google Book Search, Information for Publishers and Authors About the Library Project, http://print.google.com/googleprint/publisher_library.html (last visited Mar. 13, 2006) [hereinafter Information for Publishers].

19. Olsen, *supra* note 3, at 2.

20. *Id.*

21. *Id.*

22. *Id.*

23. See Information for Publishers, *supra* note 18 (answering the question: “How do I upgrade a Snippet View book into the Partner Program?”).

by Google's search engine, the distinction between copyrighted and public domain books will dictate the amount of information that will ultimately be available to a user as a search result.²⁴

In response to a given query, Google Book Search will return a list of books that include the term within the books' text. If a book from the list is under copyright, a user will be presented with three "snippets" of text,²⁵ a count of the number of times the search term appears in the volume and links to online booksellers and information about the nearest local library that carries a print version of the book.²⁶ A user will be provided with only three snippets no matter how many times the search term comes up in the text.²⁷ Furthermore, snippets will not be provided for reference books like dictionaries, because such snippets could harm the market for the physical dictionary itself.²⁸ But if the work is in the public domain, a user will be able to browse the full text of the book.²⁹

D. Google's Controversial Copyright Strategy: Opt-Out

Copyright still subsists in more than eighty percent of the materials in the Google 5 collection.³⁰ If Google were to request licenses for scanning and digitizing every print work from the work's copyright holder, not only might Google find it difficult to get a copyright holder's permission, but Google would likely also encounter problems with "orphan works,"³¹ or

24. Information for Publishers, *supra* note 18.

25. A "snippet" of text consists of approximately three lines of content. *Id.*

26. *Id.* Although there will be no explicit identification of the library from which the book was scanned, public domain books, which are fully searchable, will display the respective library stamp and barcode imprinted inside the front and back of the books. UM Library/Google Digitization Partnership FAQ, Aug. 2005, at 6, <http://www.lib.umich.edu/staff/google/public/faq.pdf>.

27. See Band, *supra* note 17.

28. *Id.*

29. Information for Publishers, *supra* note 18.

30. Brian Lavoie et al., *Anatomy of Aggregate Collections: The Example of Google Print for Libraries*, D-LIB MAGAZINE (Sept. 2005), <http://www.dlib.org/dlib/september05/lavoie/09lavoie.html>. Google uses 1922 as a break-off date that demarcates those books that are in-copyright from those books that are out-of-copyright, or in the public domain. Information for Publishers, *supra* note 18 (answering the question: "How do you Determine if a Book is in the Public Domain and Therefore out of Copyright?"). This date is used for books written and published in the United States; outside the U.S. the break-off date may vary. *Id.*

31. Olive Huang, Note, *U.S. Copyright Office Orphan Works Inquiry: Finding Homes for the Orphans*, 21 BERKELEY TECH. L.J. 265 (2006); Tim Wu, *Leggo My Ego: Google Print and the other Culture War*, SLATE, Oct. 17, 2005, <http://www.slate.com/id/2128094>. Orphan works are any copyrighted works where the rights holder is hard to find. Because the cost of finding the owner is so high, creators cannot build on

those works whose authors are hard to find. In such a scenario, Google would fall extremely short of its goal to make “the full text of all of the world’s books searchable by anyone.”³²

Understandably, Google has not requested permission for use of the books included in the project from any of the books’ copyright owners. Rather, Google has implemented an “opt-out” approach, in which copyright holders must notify Google if they do not want their work included in Google’s searchable library database.³³ This approach may seem contrary to copyright law since the one who copies or distributes a copyrighted work bears the burden of requesting permission from a copyright holder. However, when search engines index content, they do not formally request permission for such use despite the fact that such indexes copy entire webpages. Google maintains that, even absent permission, its Library Project is compliant with all copyright laws.³⁴

Google believes such an approach to copyright should apply in the Google Library Project because trudging through millions of works and requesting permission title-by-title would be unwieldy and would generate prohibitive transaction costs. Moreover, the full-text copy kept in the Google database will never be accessible to users. Accordingly, Google is placing the burden on copyright holders to opt their works out of the Google Library search engine. This “opt-out” practice is anathema to some publishers and authors who point out that copyright in the print context is not an “opt-out” regime, and that the procedural rules of U.S. copyright law must be respected.³⁵ Author and publisher dissatisfaction with Google’s copyright approach has recently become the subject of two high-profile legal battles.³⁶

orphan works, even when they would be willing to pay to use them. In many cases the works were abandoned because they no longer produced any income. In most cases, rights holders, once found, are delighted to have their work used. Save Orphan Works, <http://eldred.cc/> (last visited Mar. 13, 2006) (postings to Eldred blog).

32. Posting by Smith, *supra* note 14.

33. Forget Google Print Copyright Infringement: Search Engines Already Infringe, Posting of Danny Sullivan to SearchEngineWatch.com (May 25, 2005), <http://blog.searchenginewatch.com/blog/050525-093716>.

34. Google Print and the Authors Guild, Posting of Susan Wojcicki to Google Blog (Sept. 20, 2005), <http://googleblog.blogspot.com/2005/09/google-print-and-authors-guild.html>.

35. Under 17 U.S.C. § 106(1), the owner of a copyright has the exclusive right to reproduce the copyrighted work. 17 U.S.C. § 106(1) (2000).

36. On September 20, 2005, less than one year after the Google Library Project was announced, the Authors Guild, which represents more than 8,000 authors and is the largest society of published writers in the United States, filed a lawsuit, alleging that Google’s scanning and digitizing of library books constitutes “massive” copyright in-

E. Google's Competitors and Their Library Projects

The uncertainty surrounding such copyright questions seems to have encouraged a wait-and-see approach by other technology companies who might engage in similar projects. Most large, legally savvy technology companies are hedging their bets and, while entering the rat race that has become the digital library, they are conservatively creating projects that clearly comply with current copyright law and utilize the traditional opt-in policy. In September 2005, Yahoo! and its partners announced their own "library project" which digitizes books, but only those in the public domain, except where the copyright holder has expressly given permission.³⁷ Meanwhile, Amazon announced its own version of a digital library project on November 3, 2005 with "Amazon Pages," a program that allows users to "buy-the-book" or "pay-per-page" online, from a selection of licensed works.³⁸

The Google Library Project is different from the Yahoo! and Amazon projects in that it will provide access to books based on the great library collections of the United States. These library collections span public domain, orphan works, and copyrighted materials and are not limited to a particular group of publishers. Furthermore, Google has put its money where its mouth is—the cost of the Google Library Project is almost as enormous as its scope and supersedes the investment outlaid by its competitors' projects. Google has set aside \$150 million,³⁹ or about \$10 per

fringement. Elinor Mills, *Authors Guild Sues Google Over Library Project*, CNET-NEWS.COM, Sept. 20, 2005, http://news.com.com/Authors+Guild+sues+Google+over+library+project/2100-1030_3-5875384.html. The Authors Guild demanded that Google pay damages for each infringement (up to \$150,000 per infringing copy) and asked the court for an injunction prohibiting the company from scanning copyrighted books without explicit permission. *See* Authors Guild v. Google, No. 05 CV 8136 (S.D.N.Y. Sept. 20, 2005). Nearly one month later, on October 19, 2005, the Association of American University Publishers on behalf of the McGraw-Hill Companies, Pearson Education, Penguin Group (USA), Simon & Schuster and John Wiley & Sons, sued Google for copyright infringement as well. *See* Association of American Publishers Sues Google over Library Digitization Plan, Posting of Gary Price to SearchEngineWatch.com (Oct. 19, 2005), <http://blog.searchenginewatch.com/blog/051019-115424>. The later suit seeks a declaratory judgment rather than an award for damages. *Id.*

37. Members of this project include the Internet Archive, Adobe Systems, the European Archives, the Biodiversity Heritage Library, the Smithsonian Institution Libraries, Hewlett Packard, Microsoft, Columbia University, and others. *See* Olsen, *supra* note 3.

38. *Amazon Takes Page from Apple*, *supra* note 3. Google is working on a model of pay-per-view charging as well. *Pulp Friction*, *supra* note 3.

39. Keith Regan, *Google Print Faces More Opposition*, E-COMMERCE TIMES, Aug. 30, 2005, <http://www.ecommercetimes.com/story/na7XBnDNb9BueY/Google-Print-Faces-More-Opposition.xhtml>.

book, for the initial digitization of the Google 5 collection.⁴⁰ Business models to recoup the investment are nascent and include paid advertisements at the bottom of a search page.⁴¹

Expending tens of millions of dollars to create this potentially valuable resource would be a worthy investment if the project were sure to be a success. However, the Google Library Project's potential for success is diluted by the uncertainty of copyright law's application to its project. In addition, there is no consensus on this project, as early commentators have posited an array of opinions. Some argue that the Library Project will make equal access to information a reality after a history in which knowledge has been maintained by the elite;⁴² others suggest that the ability to perform Boolean searches of all the world's texts will revolutionize research and scholarship;⁴³ while others maintain that the social benefit is overstated and ultimately Google will merely recreate the traditional library card catalogue online.⁴⁴ Without consensus and clear precedent, the viability of the Google Library Project, thus, becomes a question of law for the courts.

II. THE GOOGLE LIBRARY PROJECT IN A CHILD-SIZE COAT

In the context of current copyright law, the legality of Google's Library Project is questionable. Current lawsuits have alleged that the Library Project infringes on the copyright of every book it scans and digi-

40. However, the cost of the Google project, because of the company's technical capabilities and manpower, is significantly lower than the cost of similar library initiatives conducted by universities or smaller-scale technology companies. For example, if the University of Michigan were to proceed with its private digitization program that scans and digitizes nearly 5,000 volumes per year, it would take the library more than a thousand years and billions of dollars to digitize their entire collection. Google, on the other hand, forecasts that the University of Michigan digitization program will be complete in six years. UM Library/Google FAQ, *supra* note 12, at 2.

41. *Pulp Friction*, *supra* note 3. Google speculates that the project's financial value, based on advertising revenue generated by the project, will more than make up for the company's initial outlay. Burt Helm, *A New Page in Google's Books Fight*, BUSINESSWEEKONLINE, June 22, 2005, http://www.businessweek.com/technology/content/jun2005/tc20050622_4076_tc119.htm.

42. Mary Sue Coleman, *Creating a Global Online Library will Spread Knowledge in the Quickest Way to the Most People*, THE OREGONIAN, Nov. 13, 2005, at C1.

43. Matt Villano, *'Opening' a Digital Library*, CAMPUS TECH., Sept. 2005, available at <http://www.campus-technology.com/article.asp?id=11727>.

44. Heidi Benson, *A Man's Vision: World Library Online*, S.F. CHRON., Nov. 22, 2005, at A1, available at <http://www.sfgate.com/cgi-bin/article.cgi?file=/c/a/2005/11/22/MNGQ0FSCCT1.DTL>; see also Wu, *supra* note 31.

tizes without the permission of the author or copyright holder.⁴⁵ However, Google views the situation differently, retorting that the doctrine of fair use permits its scanning and digitizing activities, particularly when considering the enormous public good that will result from the successful completion of the project.⁴⁶ Three distinct activities of the Google Library Project raise copyright concerns under the current copyright regime.⁴⁷

The first activity is Google's scanning and digitizing of full texts of copyrighted books from the Google 5 collection into Google's search database, effectively creating intermediate copies of millions of copyrighted works. The second activity arises in response to user queries. Google's search engine will present users with snippets, or a few sentences from the database's stored text, based on the user's search query.⁴⁸ The third activity involves Google's distribution of a copy of the digitized text to each of the five partner libraries. Although all three actions generate interesting questions for copyright law, this Note will focus, as do the pending lawsuits brought forth by the AAUP and the Authors Guild,⁴⁹ on the intermediate copy generated by digitization of the Google 5 collection as well as the snippets that a user will view when using the Google Book Search.

This Part will address the exclusive rights of copyright holders under the Copyright Act. Next, it will provide a background of the doctrine of fair use, and present relevant precedent. It will then apply the four-factor fair use test to Google's Library Project.

A. Exclusive Rights of Copyright Holders

Owners of copyright in print books enjoy the exclusive right to make and distribute copies of that work, to "prepare derivative works based upon the copyrighted work," and to display and perform the work publicly.⁵⁰ In order to prove infringement, a copyright holder must demon-

45. See *Authors Guild v. Google*, No. 05CV8136 (S.D.N.Y. Sept. 20, 2005); Price, *supra* note 36.

46. Posting of Susan Wojcicki, Vice President, Google Product Management, to Google Blog (Sept. 20, 2005, 17:04 PDT), <http://googleblog.blogspot.com/2005/09/google-print-and-authors-guild.html>.

47. Band's article notes that Google's Library Project raises two concerns: one related to the scanning and digitizing and the other related to the snippets. See Jonathan Band, *Copyright Owners v. The Google Print Library Project*, E-COMMERCE LAW & POLICY, Aug. 2005, available at <http://www.policybandwidth.com/doc/googleprint-EntLaw.pdf>.

48. Band dismisses the snippets as *de minimis*, but notes that even if a court did not find the snippets to be *de minimis* they would then be subject to fair use analysis. *Id.*

49. See Mills, *supra* note 36; Price, *supra* note 36.

50. 17 U.S.C. § 106 (2000); 2 Melville B. Nimmer & David Nimmer, *Nimmer on Copyright* 8.02[d] (2005).

strate ownership of the copyright and establish that the alleged infringer copied original elements of the work.⁵¹ The original work must be fixed in a tangible medium, but the copy need not be in the same medium as the original to constitute copyright infringement.⁵²

While the Google 5 libraries may own the physical books that Google will scan and digitize, the authors and—in many instances—publishers control the copyrights of the books not yet in the public domain. Without obtaining a license from copyright holders, Google's scanning and digitizing of books for the Google Library Project constitutes copying. However, the affirmative defense of fair use permits copying in certain circumstances, particularly those where value is being added to a copyrighted work. Ultimately, the legality of the copying that has and will occur by the Google Library Project rests on whether Google's use constitutes a fair use.

B. Fair Use

1. Background

The origins of the fair use defense to copyright infringement, currently codified in 17 U.S.C. § 107, date back to the early seventeenth century and the creation of the copyright.⁵³ Early courts recognized that certain instances of unauthorized reproduction of copyrighted material would not infringe the author's rights.⁵⁴ A century later, Justice Story in a nineteenth century opinion laid out an approach for analyzing a question of fair use: "In short, we must . . . look to the nature and objects of the selections made, the quantity and value of the materials used, and the degree in which the use may prejudice the sale, or diminish the profits, or supersede the objects of the original work."⁵⁵ Today the Copyright Act includes the codification of a four-factor test for analyzing fair use, which largely reflects Justice Story's approach.⁵⁶

Despite its long history and codification, some argue that the fair use doctrine lacks predictability.⁵⁷ The confusing doctrine stumps judges, whose fair use decisions are often based on "intuitive reactions to

51. *Feist Publ'ns v. Rural Tel. Serv. Co.*, 499 U.S. 340, 361 (1991).

52. *See* 17 U.S.C. §§ 101, 106 (2000).

53. *See* Act for the Encouragement of Learning, 1709, 8 Ann., c. 19 (Eng.).

54. *See, e.g., Gyles v. Wilcox*, (1740) 26 Eng. Rep. 489. *See generally* WILLIAM F. PATRY, *THE FAIR USE PRIVILEGE IN COPYRIGHT LAW* 6-17 (1985).

55. *Folsom v. Marsh*, 9 F. Cas. 342, 348 (C.C.D. Mass. 1841).

56. *See* 17 U.S.C. § 107 (2000)

57. *See* Pierre N. Leval, *Toward a Fair Use Standard*, 103 HARV. L. REV. 1105, 1107 (1990).

individual fact patterns,” and, as a result, “writers, historians, publishers and their legal advisers can only guess and pray as to how courts will resolve copyright disputes.”⁵⁸ Commentators assessing the validity of Google’s fair use defense disagree as to its legality.⁵⁹ Such is the legal quagmire in which Google and its Library Project are entangled.

2. *Relevant Precedent*

Two decisions, often quoted in commentator analysis, consider fair use in the context of digitization and provide some insight into the likelihood of success of Google’s fair use defense.

The Ninth Circuit considered fair use issues relating to search engine operation in *Kelly v. Arriba Soft Corp.*⁶⁰ In *Kelly*, a photographer sued a visual search engine for displaying thumbnail images of photographs originally posted on his website.⁶¹ The Ninth Circuit found in favor of the search engine, holding that the search engine’s creation of thumbnails of the photographer’s copyrighted images, although used for commercial purposes, was a transformative, nonexploitative use and therefore fair.⁶²

Another instructive example for Google’s project is the *MP3.com* case.⁶³ There, MP3.com purchased compact discs, created digital copies, and then stored the files in an online database. The company’s nonpaying subscribers were allowed to access any music that they could “prove” they owned or that they agreed to purchase.⁶⁴ When sued for infringement by a number of record companies, MP3.com maintained that the impact of its service would be positive since the service promoted purchase and ownership of the music.⁶⁵ The court rejected this argument on the grounds that the record companies had the right to grant or withhold a license to per-

58. *Id.*

59. See Elisabeth Hanratty, *Google Library: Beyond Fair Use?*, 2005 DUKE L. & TECH. REV. 10 (2005); Band, *supra* note 47; see also Posting of Michael Warnecke to OldFox Blog, Google’s Search of Library Shelves Splits Copyright Law Experts on Fair Use (Oct. 27, 2005), http://oldfox.blogspot.com/2005_10_01_oldfox_archive.html.

60. 336 F.3d 811 (9th Cir. 2003). Despite a substantial reliance on *Kelly* by many legal experts involved in the Google Library Project discussion, others question the long-term feasibility of *Kelly*: “It’s not at all clear that *Kelly* will withstand litigation in the Second Circuit.” Warnecke, *supra* note 59. If *Kelly* is in fact an out-of-the-mainstream Ninth Circuit decision, a more conservative judgment at the district court level could “hurt the viability of *Kelly*.” Warnecke, *supra* note 59.

61. *Kelly*, 336 F.3d at 816.

62. *Id.* at 822.

63. See *UMG Recordings, Inc. v. MP3.com, Inc.*, 92 F. Supp. 2d 349, 349 (S.D.N.Y. 2000).

64. *Id.* at 350.

65. *Id.* at 352.

form such a service.⁶⁶ The licensing market “directly derives” from the exclusive right granted to a copyright holder and the copyright holder has the right to “curb the development of such a derivative market by refusing to license a copyrighted work or by doing so only on terms the copyright owner finds acceptable.”⁶⁷

The Google Book Search service provides services similar to those provided by Arriba Soft and MP3.com. The snippets presented to a Google Library user are comparable to the thumbnails in *Kelly*. A difference between the two activities, however, is that Google converts its print works into digital format and places them in an electronic database, while Arriba did not store a digital copy of the full-sized photographs. *MP3.com* is also distinguishable from the Library Project because Google is not using its digital copy for the purpose of supplanting the original use of the works as did MP3.com by allowing users to access music from their computers.⁶⁸ Neither of the cases is exactly on point, but both address fair use within the context of digital technology and are therefore instructive in analyzing Google’s fair use defense.

3. *Application of the Four-Factor Fair Use Test to Google’s Library Project*

The Copyright Act specifies four factors for courts to consider in analyzing a fair use defense: (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.⁶⁹ Other relevant factors, such as the “transformative” or creative nature of a use are also considered since “fair use is an ‘equitable rule of reason’ to be applied in light of the overall purposes of the Copyright Act.”⁷⁰

66. *Id.* at 353.

67. *Id.* at 352.

68. *See infra* Section II.B.3.d.

69. 17 U.S.C. § 107 (2000).

70. *MP3.com*, 92 F. Supp. 2d at 350 (citing *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 448, 454 (1984)); *Harper & Row, Publishers, Inc. v. Nation Enters.*, 471 U.S. 539, 562-63 (1985); *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 585 (1994).

a) The Purpose and Character of the Use

The first statutory factor listed in § 107 is “the purpose and character of the use.”⁷¹ The transformative nature of a secondary use is also considered under this factor. It is likely that a court would find that this factor weighs in favor of fair use protection for Google’s Library Project.

i) Commercial Nature of the Use

The purpose and character of the use under the first factor considers “whether such use is of a commercial nature or is for nonprofit educational purposes.”⁷² While Google created the Library Project for commercial gain, it is not attempting to profit from the sale or distribution of full-text copies of the books scanned and digitized into its database. Moreover, commercial use is no longer deemed by courts to be presumptively unfair.⁷³ The court in *MP3.com* held that more important than *MP3.com*’s commercial use was the fact that it exploited its secondary use of the copyrighted music by superseding the need for the original.⁷⁴ In the instant case, Google is not exploiting its use of the books by selling them online or making the print-copy available to users. Even though it will likely profit from advertising displayed alongside search results, Google’s primary objective is to make books accessible by making them easier to find. Search results provided by Google will serve to aid users in determining whether they are interested in pursuing the work further, i.e., “find[ing] the original at the library or purchas[ing] it after determining the work’s relevance to the user’s search.”⁷⁵ In this regard, the snippets are analogous to the thumbnails in *Kelly*, which provided users with just enough visual image for users to discern interest in the artist’s original photograph.⁷⁶ The Ninth Circuit held that such use was not “highly exploitative” of the artist’s work.⁷⁷

71. 17 U.S.C. § 107(1).

72. *Id.*

73. *See Campbell*, 510 U.S. at 584.

74. *MP3.com*, 92 F. Supp. 2d at 351.

75. Hanratty, *supra* note 59.

76. *Kelly v. Arriba Soft Corp.*, 336 F.3d 811, 818 (9th Cir. 2003).

77. *Id.* Thumbnails are arguably different from snippets in that snippets are exact quality reproductions of a work, and thumbnails are lower-quality reproductions of a work. However, snippets provide such minimal reproduction that they, like thumbnails, do not serve to replace full text/full resolution versions of the work. In this regard, a court may deem snippets to be de minimis and not infringing on a work’s copyright.

ii) Transformative Nature of the Use

Under the first statutory factor, the Supreme Court has also examined the transformative nature of a secondary use and concluded that, “the more transformative the new work, the less will be the significance of other factors, like commercialism, that may weigh against a finding of fair use.”⁷⁸ Copied matter is transformed in the creation of “new information, new aesthetics, new insights and understandings.”⁷⁹

A court would likely find the Google Library Project to be transformative. Although the search engine copies the works verbatim, digitizing and indexing books does more than shift printed material online. The activities also permit the conversion of content from the printed page to the internet, thereby creating new access through search features and new sales opportunities through exposure to book titles. A Google search leads users to relevant book titles and then guides them to a library, the publisher or an online bookseller. In short, Google’s copies serve a new purpose: the location and retrieval of information.

The Google Library Project is a technological middle ground between the utopia of free access to the world’s best libraries and the reality that authors and publishers must be paid or they will lose some incentive to write and publish books.⁸⁰ As courts de-emphasize the importance of commercial use and highlight the importance of the transformative nature of a use, Google’s case is strengthened. Accordingly, the first factor of a fair use inquiry would likely weigh in favor of Google.

b) The Nature of the Copyrighted Work

Regarding the second factor, “the nature of the copyrighted work,”⁸¹ a court would likely hold that this factor weighs against the Google Library Project. Under this factor, courts examine whether a copyrighted work is factual or creative, and creative works are given greater protection.⁸² However, published works are protected less generously because copyright provides that it is the author’s right to first disseminate her work.⁸³

Analyzing “the nature of the copyrighted work” is complicated in the instant case. Due to the fact that Google is scanning and digitizing mil-

78. *Campbell*, 510 U.S. at 579.

79. Leval, *supra* note 57, at 1111.

80. See Kevin Maney, *Critics Should Grasp Google Projects Before Blasting Them*, USATODAY.COM, Nov. 8, 2005, available at http://www.usatoday.com/money/industries/technology/maney/2005-11-08-google_x.htm.

81. 17 U.S.C. § 107(2) (2000).

82. *Campbell*, 510 U.S. at 585.

83. *Salinger v. Random House, Inc.*, 811 F.2d 90, 97 (2d Cir. 1987).

lions of books ranging from creative to fact-based, different types of works will likely be considered collectively. Creative works indexed by Google should be afforded a higher standard of protection than other more fact-based books. Nevertheless, the books, like the photographs in *Kelly*, will not receive heightened protection because they have either been published or made publicly available by the libraries that house them. The fact that the books may not be published on the internet is likely irrelevant. The Copyright Act defines “copies” as “material objects . . . in which a work is fixed by any method now known or later developed, and from which the work can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device.”⁸⁴ Accordingly, the medium through which a work is transmitted is largely inconsequential, so long as the works are substantively the same. Given the creative nature of many works digitized by Google, it is likely that a court would view this factor as weighing against a finding of fair use.

c) The Amount and Substantiality of the Portion Used

The third statutory factor of § 107 is “the amount and substantiality of the portion used in relation to the copyrighted work as a whole.”⁸⁵ This factor seems to weigh against Google, since Google is copying the full text of millions of copyrighted books, and, in effect, making the entirety of each book available to a user in the form of a snippet. The court in *MP3.com* denied a claim of fair use under this factor on the same grounds—MP3.com copied the full text of CDs and presented the entirety of that text to its users. However, a court could also likely find, as did the Ninth Circuit in *Kelly*,⁸⁶ that this factor is neutral, weighing neither for nor against a finding of fair use because the secondary use necessitates use of the entire copyrighted work. Without full-text copying, Google would not be able to produce its robust database, and users would be unable to access snippets. Thus, the Google Library Project must copy the entire text of print works in order for its project to come to fruition. Accordingly, the court would balance the fact that, on the one hand, Google is copying the full text of print works, against the fact that Google *must* copy the full text of print works, and likely conclude that this factor does not weigh for or against a finding of fair use.

84. 17 U.S.C. § 101.

85. 17 U.S.C. § 107(3).

86. *Kelly v. Arriba Soft Corp.*, 336 F.3d 811, 821 (9th Cir. 2003).

d) The Effect of the Use on the Market

The fourth statutory fair use factor is “the effect of the use upon the potential market for or value of the copyrighted work,”⁸⁷ and represents the core of the publishers’ challenges to the Google Library Project. This factor considers whether unrestricted and widespread conduct of the sort engaged in by the purported fair user would result in a substantially adverse impact on the immediate or potential market for, or value of, publishers’ and authors’ copyrighted works.⁸⁸ Publishers argue that the Google Library Project will adversely impact the market for and value of books. Publishers claim that, accordingly, the Google Library Project challenges the utilitarian concept underlying copyright which promises creators the opportunity to realize rewards in order to encourage them to create. A secondary user that interferes excessively with an author’s incentives subverts the aims of copyright. Accordingly, the fourth factor disfavors a finding of fair use only when the immediate market is impaired because the copied material serves as a substitute for the consumer.⁸⁹ This factor also disfavors a finding of fair use when a potential market for a copyright holder is usurped by the secondary use.

i) The Immediate Market

Contrary to the publishers’ assertions, a court would likely find that this fourth factor weighs in favor of fair use. By leading users to the publishers or booksellers, Google—like Arriba Soft in *Kelly*—would actually guide users to legitimate sources of copyrighted material, likely driving sales of those titles.⁹⁰ Thus, the Google Library Project would not replace the need for physical print books, but would have a positive impact on the immediate market for physical books because users would buy more books, visit libraries, and use online bookseller sites.

87. 17 U.S.C. § 107(4). Prior to *Campbell*, the Supreme Court characterized the fourth factor as “the single most important element of fair use.” *Harper & Row, Publishers, Inc. v. Nation Enters.*, 471 U.S. 539, 566 (1985). Abandoning the idea that any factor enjoys primacy, *Campbell* instructs that “all [four factors] are to be explored, and the results weighed together, in light of the purposes of copyright.” *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 578 (1994).

88. See 4 NIMMER, *supra* note 50, § 13.05 [A][4].

89. Leval, *supra* note 57, at 1125 (citing *Salinger v. Random House*, 650 F. Supp. 413, 425 (S.D.N.Y. 1986)).

90. For example, sales of Amazon.com’s searchable titles are 9% higher than others that are not searchable. Dan Richman, *New Amazon Search Feature Angers Authors*, SEATTLE POST-INTELLIGENCER, Oct. 31, 2003, available at http://seattlepi.nwsourc.com/business/146262_amazon31.html.

The publishers' argument that the Google Library Project will replace the need for physical books is perplexing. The presence of the full-text copy on Google's internal database does not provide access to books. The database exists only so that it can be searched by the Google search engine in order to ultimately present snippets to users. While authors and publishers have argued that users could piece together snippets and eventually reproduce an entire work, that argument seems unrealistic, due to the difficulty and time-consuming nature of copying a work in such a manner. In addition, the Google Library Project creators have mitigated the possibility that users will reproduce works, through disabling the print, copy, and e-mail functions. Another counterargument that could be raised is that researchers may benefit from the snippets themselves, because they could glean valuable information from even the small amount of text presented. In such a case, in the absence of the Google Library search engine, a researcher would still likely not consult the actual books in the library, but rather rely on card catalogues or library computer databases to discover information similar to that which the Google Library would present.

It is plain that the Google Library Project does not replace the need for books; it merely indexes them. It does not serve the consumer as a substitute for books. If programs such as the Google Library Project can keep long-form written communication relevant, authors and book publishers will be better off.⁹¹ The pages and card catalog information can only make people aware of books, not steal sales from authors and book publishers.⁹² Historically, content owners, protective of their copyrighted works, often do not know what is good for their business. From John Philip Sousa opposing recorded music in the early 1900s,⁹³ to movie studios opposing the VCR nearly one century later,⁹⁴ content owners have opposed many new technologies that resulted in substantial profits in the long run.

91. See Maney, *supra* note 80.

92. *Id.*

93. John Philip Sousa warned in 1906 that:

[s]weeping across the country . . . comes now the mechanical device to sing for us a song or play for us a piano, in substitute for human skill, intelligence, and soul. . . . I foresee . . . injuries to music in its artistic manifestations by virtue—or rather by vice—of the multiplication of the various music-reproducing machines.

John Philip Sousa, *The Menace of Mechanical Music*, APPLETON'S MAG., Sept. 1906, at 278.

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

ii) The Practice Becoming Widespread

While companies like Yahoo! and Amazon may prefer the wait-and-see approach at this point, if the Google-Publisher litigations are adjudicated in favor of fair use, similar projects would stampede the market.⁹⁵ The possibility of widespread use, though intimidating to publishers and copyright holders, would still not have a negative impact on immediate or potential markets. Widespread development of copyright-compliant digitization projects would increase potential exposure of titles that Google's collection does not include. Accordingly, such projects would promote the sale of more and different books, while encouraging library patronage by making users aware of the library location of the physical books.⁹⁶

iii) Usurping Potential Markets

Courts also address the possibility that a secondary use usurps a potential market for copyrighted works.⁹⁷ In the instant case, the publishers cannot claim that Google is usurping their potential market because, while there is a market for the sale of e-books or full-text books online, there is simply no potential market for the uses Google makes of the books at issue. Google is not selling books online, but rather creating an electronic card catalogue. The two activities are distinct. Unlike MP3.com, which usurped a potential market for record companies by selling and sharing full content online—a potential market for record distribution—Google's impact on potential markets for copyrighted works is negligible because publishers and copyright owners have little interest in developing an electronic card catalogue. The book publishing business came to computerization late and still seems to distrust anything digital. Many book publishers copy-edit 500-page books by hand on printouts.⁹⁸ Assuming, *arguendo*, that publishers were interested in such a potential market, it is uncertain that publishers would have the right to claim that the electronic card catalogue market is theirs to harness. None of copy-

95. Yahoo!, hoping to oust rival Google, has so far digitized mounds of material on its own. *Yahoo! to Digitize Library Contents*, WEB HOST INDUST. REV., Oct. 11, 2005, available at <http://www.thewhir.com/find/articlecentral/story.asp?recordid=1460&page=1>.

96. Perhaps an increase in library patronage would increase library budgets, which have been on the decline for decades, and also increase the acquisition of print books commensurately.

97. See *Harper & Row, Publishers, Inc. v. Nation Enters.*, 471 U.S. 539, 565 (1985).

98. Maney, *supra* note 80.

right's exclusive rights suggest that publishers or authors should possess a monopoly over the indexing and searching of their works.⁹⁹

While digitization projects like the Google Library Project could facilitate the growth of e-book markets, the Google Library Project does not attempt to compete directly with such markets. In fact, there seems to be a market for licensed content alongside the Library Project.¹⁰⁰ Accordingly, widespread indexing of copyrighted books would not harm the immediate or potential markets for print books, and this factor would likely weigh in favor of Google.

e) Overall Balancing

It is likely that the Google Library Project could be deemed a fair use, but detailed analysis of the four fair use factors fails to provide certainty regarding the likely success of Google's defense. Ultimately, Google's product offers more than a digital reproduction of massive library collections, by allowing extensive searching capabilities and access that were impossible in the print context. Additionally, the Google Book Search Project provides an out for parties who do not want to be involved with its "opt-out" policy, which permits any copyright owner or holder to have its content permanently suppressed from any search result.¹⁰¹ Finally, there is a strong public interest in allowing this project to go forward.¹⁰²

In *Sony*, a case involving hotly contested innovative technology, the court ruled in favor of increasing the rights of the public and technology developers rather than those of the copyright holders.¹⁰³ Ultimately, both sides won—the public got its VCR and the copyright holders cashed in on the popularity of the machine. Perhaps a similar outcome will result from the Google litigation. The inherent unpredictability of fair use determinations, however, suggests another possible resolution. Congress could resolve the question with legislation that re-examines and revises copyright law.

99. See 17 U.S.C. § 106 (2000).

100. Band, *supra* note 47, at 5 ("The existence of the Print Publisher Program, which involves licensing, demonstrates that the Library Project does not preclude lucrative licensing agreements.").

101. Wu, *supra* note 31.

102. See Tim O'Reilly, *Search and Rescue*, N.Y. TIMES, Sept. 28, 2005, at A27 ("Obscurity is a far greater threat to authors than copyright infringement, or even outright piracy . . . Google promises an alternative to the obscurity imposed on most books.").

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

III. LAWMAKERS: LETTING OUT THE HEM

Copyright law developed in response to technological change, specifically the development of the printing press, and as innovations have occurred, “Congress . . . has fashioned the new rules that new technology made necessary.”¹⁰⁴ Perhaps this is what is needed now as well. Google’s project should serve as an impetus to “clean up the copyright system.”¹⁰⁵ While revamping copyright law in Congress, like litigation, would also be a time-consuming undertaking, it would allow a permanent policy change so that future projects by private parties would not face the uncertain legal status that Google’s project faces.¹⁰⁶

Legislators could provide initiatives like the Google Library Project with a little more breathing room by enacting legislation that would effectively create a narrow safe-harbor for digital library indexing projects. Congress should look to its own example of the Family Movie Act of 2005.¹⁰⁷ This Act permitted the makers of filtering software and components to manufacture and distribute their technologies without incurring liability. Congress could carve out a niche for indexing library collections as well. There is a pressing need for Congress to address a technological innovation that serves the public without harming copyright holders. Libraries exist to preserve society’s cultural artifacts and to provide access to them. If libraries are to continue to foster education and scholarship in this era of digital technology, it is essential for them to extend those functions into the digital world.¹⁰⁸ Congressional action would resolve the issue of intermediate copies in digitization projects, and allow socially beneficial projects to proceed.

A. Proposed Legislation: A Digital Library Safe Harbor

The Family Movie Act provides guidance in creating a safe harbor for digital indexing projects.¹⁰⁹ Rather than limiting the immunity of the Family Movie Act to specific companies or groups that were permitted to participate in creating and selling the filtering technology under the exemption, the Act defines the scope of the safe harbor by describing the precise

104. *Id.* at 431.

105. See Lawrence Lessig, *Let a Thousand Googles Bloom*, L.A. TIMES, Jan. 12, 2005, at B11.

106. See *id.*

107. Pub. L. No. 109-9, 119 Stat. 218 (2005).

108. Internet Archive, *supra* note 10.

109. See generally Alison R. Watkins, Note, *Surgical Safe Harbors: The Family Movie Act and the Future of Fair Use Legislation*, 21 BERKELEY TECH. L.J. 241 (2006).

action that is permitted.¹¹⁰ Similarly, a digital library safe harbor could permit not only Google but other companies like it to participate. An ideal safe harbor would immunize:

- 1) the creation of an intermediate copy of full text digital content, so long as the copy is not distributed and reasonable steps are taken to secure the full text digital content; and
- 2) the use of internet search engine technology to access and search said intermediate copy, so long as only small amounts of text ultimately are presented to search users.

Such a safe harbor would immunize internet search engines from claims of copyright infringement for copying, indexing, and distributing or displaying to end users so long as reasonable measures are taken to secure the full-text digital content. Failing to take reasonable measures to secure the intermediate copy, or failure to present only limited content to users would disqualify a company from the safe harbor, rendering it liable for its negligence or resulting infringement.

B. Addressing Security Concerns

To a greater extent than the technology at issue in the Family Movie Act, a digital library safe harbor generates serious concerns about security breaches of the full-text digital intermediate copy.¹¹¹ Google has announced that its digital copy will be kept in a safe archive utilizing advanced digital rights management technologies. In this archive, public domain works would be “lighted” and searchable by the public, whereas works under copyright would be kept in the “dark archive” until they become public domain.¹¹² Although the safe archive employs the latest advancements in anti-circumvention security, nothing digital is impervious to hackers who are intent on cracking security devices or strategies. To address such security issues, a hypothetical safe harbor could require that a certain percentage (e.g., 5%) of advertising revenues generated by the library projects be siphoned into an “insurance fund.”

First, such a fund would provide guaranteed financial recourse to a copyright holder whose copyrighted material was pirated or leaked. Sec-

110. *Id.* at 250-53.

111. *See Needless Fight Threatens Google's Online Library*, USA TODAY, Nov. 7, 2005, at 12A, available at http://www.usatoday.com/news/opinion/editorials/2005-11-07-our-view_x.htm; *see also Controversy Dogs Google's Book Search Library Project*, TAIPEI TIMES, Nov. 27, 2005, available at <http://www.asia-media.ucla.edu/article-us.asp?parentid=34337>.

112. *See* UM Library/Google FAQ, *supra* note 12.

ond, it would serve to insulate the search engine that took reasonable steps to secure its digital copy from liability, in case a hacker was able to penetrate it. Finally, such a requirement would impose a kind of “tax” on companies creating digital libraries, and thereby may dissuade smaller, less tech-savvy companies from participating in these projects, effectively discouraging the creation of unsecured intermediate copies. Such a fund has been integral in reaching legislative compromise in the past. Royalties were imposed on blank audio tapes, home recording devices, and other related products under the Audio Home Recording Act of 1992.¹¹³

C. Legislation Versus Litigation

A narrow safe harbor would not address copyright’s failure to keep pace with technology in its entirety. A legislatively enacted safe harbor is, however, a better solution than litigation under the current regime for a number of reasons. First, litigation is both costly and time-consuming, and the outcome is uncertain. Second, a project is more likely to be enjoined if the court finds against fair use.¹¹⁴ When a court rejects a fair use defense, it should deal with the issue of the appropriate remedy on its merits, granting or denying the injunction only for valid reasons, not simply as a mechanical reflex to a finding of infringement. Putting the brakes on digital library indexing this early in the game may stymie further innovation in the field.

Third, damages resulting from a court’s finding of massive copyright infringement could potentially bankrupt Google. Given the number of works at issue, the punitive effect of statutory damage awards could grow

113. 17 U.S.C. § 1008 (2000). The Audio Home Recording Act (AHRA) was a legislative compromise to deal with certain categories of digital audio copying. The Recording Industry Association of America (RIAA) was concerned that consumers could make perfect digital copies of music, thus destroying the market for audio recordings, and so it lobbied Congress to pass legislation. The AHRA required manufacturers of covered devices to (1) register with the Copyright Office; (2) pay a statutory royalty on each device and piece of media sold; and (3) implement a serial copyright management system which prevents all but first generation copies. In exchange for this, the manufacturers of the devices, which might have otherwise found themselves subject to liability for contributory copyright infringement, received a statutory immunity from suit. *See* RIAA Clarifies the Legality of the Home Audio Recording, <http://www.minidisc.org/ahra.html> (last visited Mar. 1, 2006).

114. *See* ALAN LATMAN, LATMAN’S THE COPYRIGHT LAW 278 n.105 (William F. Patry ed., 6th ed. 1986) (“Legal rhetoric has dulled thought on the injunction remedy. It is a vulnerable maxim that irreparable injury is ‘presumed’ in a case of copyright infringement.”).

excessive.¹¹⁵ Moreover, if a court were to find that Google's use was not fair, it would likely also deem Google's behavior to have been willful, which, in turn, requires an award of maximum damages to plaintiffs.¹¹⁶ Aggregated damages distort incentives to sue, and likely inform the publishers' decisions to bring suit against the Google Library Project. It is not that the publishers and copyright holders specifically object to Google's Project, as much as they object to being left out of their perceived share of the profits.¹¹⁷ In such a lawsuit, the copyright holders would have undue recourse. By asserting their right to damages, authors and publishers could ultimately be handsomely compensated by Google, to the ultimate detriment of both Google and the public.

Legislation, in contrast to litigation, could define clear-cut rules and require that companies like Google abide by them.¹¹⁸ A digital library safe harbor would solve the immediate question of how companies like Google, Yahoo!, Amazon, and others will proceed with their digital library projects today. However, such a fix will not solve a host of additional copyright issues that are perpetuated by the digital age and are certain to arise in the near future.

115. 17 U.S.C. § 504(b) grants the copyright owner his "actual damages suffered . . . and any profits of the infringer that are attributable to the infringement." 17 U.S.C. § 504(b) (West Supp. 2002). The copyright holder is permitted, however, to elect instead statutory damages of \$750 to \$30,000 per work infringed. *See id.* § 504(c)(1).

116. If the infringement was committed willfully, this statutory award may be increased to \$150,000. It may be reduced to \$200 if the infringer in certain narrow categories believed on reasonable grounds that his use was a fair use. *See id.*

117. Consumer book publishing is one of the most mature industries in media. *See Pulp Friction, supra* note 3. From 2003 to 2004, the number of books sold worldwide dropped by 44 million. Maney, *supra* note 80. Books are losing out to the internet, video games, DVDs, and podcasts, both in terms of the amount of time that people dedicate to them and the amount of money that people spend on them. *Pulp Friction, supra* note 3.

118. The likelihood that such legislative solutions will come to fruition is small. Publishers and copyright holders represent a powerful and institutional lobby on Capitol Hill, and former Congressional members are amongst the lobbyists fighting digitization for the publishers. Patricia Schroeder, President of the Association of American Publishers, one group that has brought a suit against Google for its library project is a near 20-year Congressional veteran. *See* Opensecrets.org, Former Members Turned Lobbyists, <http://72.14.207.104/search?q=cache:GhpGfvQPX0gJ:www.opensecrets.org/pubs/lobby00/former.asp+Members+of+Congress+Publishers+Lobbyists&hl=en> (last visited Jan. 23, 2006). Such a powerful presence might overshadow any efforts of companies like Google, who just sent its first lobbyist to Washington D.C. in early October 2005. *Mr. Google Goes to Washington*, RED HERRING, Oct. 6, 2005, <http://www.redherring.com/Article.aspx?a=13899&hed=Mr.+Google+Goes+to+Washington>.

IV. THE GOOGLE TECHNICOLOR DREAMCOAT: RETHINKING CURRENT COPYRIGHT LAWS

Rethinking copyright law—an ideal solution for Google—would serve to remedy a broad host of issues that have cropped up as technology has outgrown copyright law. More sweeping legislative reform—in keeping with the theoretical underpinnings of copyright law—could address a variety of situations outside this particular scenario. This Part advocates a colorful alternative to § 106’s black letter law. By eliminating the exclusive right to reproduce as an organizing principle of copyright law, and putting in its place the exclusive right to distribute, the “copy” would be taken out of copyright.¹¹⁹ Such restructuring would address the real commercial threat that unlicensed distribution of copyrighted works poses in the digital age.

A. The Purpose of Copyright

Any change in copyright law must maintain alignment with the purposes and goals of copyright protection. The Constitution grants Congress the power to enact laws that “promote the progress of Science and useful Arts.”¹²⁰ Promoting the creation and dissemination of knowledge furthers the public good. The copyright system, as Congress has styled it, aims to create incentives for authors to create and publishers to distribute new works. However, while these incentives are generally in the form of monetary remuneration, financial benefit derived by authors and publishers is not the end goal of copyright.¹²¹ Copyright protects the exclusive rights of authors in order to allow them to recoup the costs associated with creativity and publishers to pay for distribution costs.¹²² The mere occurrence of copying by users without distribution of those copies does not harm publishers and authors. Accordingly, distribution to the public is the necessary condition for harm to the publishers’ economic interests.

B. Reinvigorating Copyright by Focusing on Its Purpose

Before even the printing press, reproduction was a good predictor of intent to distribute.¹²³ Today, digital documents are easy to copy, and

119. See Ernest Miller & Joan Feigenbaum, *Taking the Copy Out of Copyright*, in SECURITY AND PRIVACY IN DIGITAL RIGHTS MANAGEMENT: ACM CCS-8 WORKSHOP DRM 2001, at 233, 238 (Tomas Sander ed., 2002), available at <http://www.cs.yale.edu/homes/jf/MF.pdf>.

120. U.S. CONST., art. I, § 8, cl. 8.

121. See Miller & Feigenbaum, *supra* note 119, at 234.

122. *Id.*

123. *Id.*

physical copies are easily digitized. In fact, in the computer world, copying is necessary in order to make any use of a work,¹²⁴ and allowing “normal use” of a work is a principle that copyright has traditionally supported. Reproduction in itself is no longer clearly indicative of intent to distribute. For example, people make copies of CDs that they have purchased as back-ups in case the original copy becomes scratched. This is distinct from making extra copies of purchased CDs to distribute to an entire group of friends, or worse yet, to sell to strangers on the subway. In the digital world, controlling copying is less important than controlling access to a work. Accordingly, copyright law should be rewritten to focus only on preventing distribution to the public, or to “a substantial number of persons outside of a normal circle of a family and its social acquaintances” borrowing from the language defining “to perform or display a work ‘publicly’” in the Copyright Act itself.¹²⁵ If the point of copyright is to prevent competition with those who have statutory rights, then legislation should protect that right (the right to distribute), and not promote a system that impedes “normal use” and technological advancement.

Replacing copyright with a distribution right would represent a significant change in intellectual property law and one that would not go uncontested. Content owners are possessive of their ownership interests in copyrights, and have made aggressive moves to protect them. The RIAA has considered a defense strategy which targets not just distributors, but also individual users who have copied MP3 files over the internet.¹²⁶ While the suggested alteration to copyright law seems dramatic, it would not undermine efforts of content owners to continue to seek out copyright infringers. For example, in the peer-to-peer context, most users distribute *and* copy. Targeting the distributors would also do away with a great majority of the users.

If Congress were to make such a change to the Copyright Act, Google would not face copyright infringement claims because its full-text digital copy would not be distributed to the public. Inaccessible to the public, Google’s intermediate full-text copy would not infringe any right of copyright. Beneficial library digitization projects could proceed without having to clear the substantial and outdated hurdles imposed by the current copyright regime.

124. See *Forget Google Print Copyright Infringement*, *supra* note 33.

125. 17 U.S.C. § 101 (2000).

126. See *RIAA’s Next Target Could Be You*, MEGAGAMES.COM, July 5, 2002, <http://www.megagames.com/news/html/pc/riaasnexttargetcouldbeyou.shtml>.

V. CONCLUSION

Chances are that the copyright issues at stake in the Google Library Project will be adjudicated in the near future and such litigation will be dominated by two major questions battled out before a judge: Is this copyright infringement? Or, is this fair use? And, unfortunately, due to the unpredictability of the fair use doctrine, and a lack of precedent, there is no certainty about how a court will resolve the matter. What is certain is that a publishing house bringing suit against Google is not in the battle to uphold its constitutional right “to promote the Progress in Science and useful Arts,” but rather to obtain what it perceives to be its fair share of the Google Library Project’s profits. Although financial remuneration is *not* the end goal of copyright, it is the standard incentive model pursuant to Congress’s enactment of the Copyright Act. Accordingly, under current copyright law, incentives and progress go hand-in-hand. Publishers publish books to make money. But those books only promote progress if we read them. We can only read them if we can find them. The Google Library Project advances the public interest by making information globally accessible regardless of a user’s income, geographic location, and proximity to a library. In this way, it facilitates progress in science and the arts. The Project also simultaneously drives publishers’ incentives to create by increasing their profits based on increased exposure to book titles. Thus, the Google Library Project is consistent with copyright law and deserves legislative consideration.

SURGICAL SAFE HARBORS: THE FAMILY MOVIE ACT AND THE FUTURE OF FAIR USE LEGISLATION

By *Alison R. Watkins*

The development of digital media technology has brought with it a corresponding evolution in consumer utilization of and interaction with new media. Consumers want increased access to and control over traditional forms of entertainment and educational media, such as books, magazines, music, movies, and television. Digital technology provides copyright industries with new modes of distribution, but also exposes them to higher levels of piracy due, in part, to the manipulability of the digital format.¹ In response, courts and Congress must grapple with determining the appropriate level of control for copyright owners over consumer use of and access to copyrighted works granted by copyright's limited monopoly.

Commentators have criticized Congress's various attempts to respond to the digital age for moving away from codifying general principles to instead regulating specific industries and technologies.² Specifically, commentators point to legislation like the Audio Home Recording Act (AHRA), the Digital Performance Right in Sound Recordings Act, and the Digital Millennium Copyright Act (DMCA) as needlessly complicating copyright law to the point of incomprehensibility, and lessening its predictability.³ This complexity can make the law less coherent, less transparent, and thus more susceptible to private interest manipulation.⁴ More than merely complicating copyright law, recent legislation has diminished the public domain in favor of protecting private property rights.⁵ These efforts

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1. Peter S. Menell, *Envisioning Copyright Law's Digital Future*, 46 N.Y.L. SCH. L. REV. 63, 108-14 (2002-2003).

2. See, e.g., David Nimmer, *Codifying Copyright Law Comprehensively*, 51 UCLA L. REV. 1233, 1282 (2004) ("[Judge-made law] has now been replaced with a body of detailed rules reminiscent of the Internal Revenue Code."); Joseph P. Liu, *Regulatory Copyright*, 83 N.C. L. REV. 87, 90 (2004) (assessing the strengths and weaknesses of the regulatory approach to copyright law making).

3. Nimmer, *supra* note 2, at 1331-32, 1336-39, 1342-43; see also JESSICA LITMAN, *DIGITAL COPYRIGHT* 25, 29 (2001) (noting that copyright law is difficult for individuals to understand and apply to everyday activities because they are constructed by lawyers for specific use in specific contexts).

4. Liu, *supra* note 2, at 135-136.

5. See Shubha Ghosh, *Deprivatizing Copyright*, 54 CASE W. RES. L. REV. 387, 475 (2003) ("The DMCA is arguably just another example in copyright's long history of the

to protect private property interests conflict with copyright's purpose "to promote Progress in Science and the useful Arts"⁶ by interfering with technological innovation.⁷

The response of the courts has been, at times, equally problematic. Courts can take years to reach a final verdict in a copyright case.⁸ Courts interpret copyright requirements, like the fixation requirement for derivative works,⁹ differently. They can also create a new theory of liability, as the Supreme Court did recently in *Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.*¹⁰ This lack of predictability can have a significant impact on existing technologies as well as those that might be developed.

Recently, the advent of new technologies forced Congress to confront these issues again. The introduction of a new digital media technology, which modifies playback of DVDs, gave rise to the *Huntsman v. Soderbergh*¹¹ litigation. In response, the Family Movie Act¹² ("FMA") resolved

devolution of government functions to a private right."); Mark Lemley, *Ex Ante Versus Ex Post Justifications for Intellectual Property*, 71 U. CHI. L. REV. 129, 135-36 (2004) ("It is hard to imagine senators, lobbyists, and scholars arguing with a straight face that the government should grant one company the perpetual right to control the sale of all paper clips in the country, on the theory that otherwise no one will have an incentive to make and distribute paper clips. . . . The market for paper clips functions just fine without this type of government intervention."); William F. Patry & Richard A. Posner, *Fair Use and Statutory Reform in the Wake of Eldred*, 92 CALIF. L. REV. 1639, 1640 (2004) ("To dispense with the requirement of renewal and extend the copyright term is to strike a double blow at the public domain.").

6. U.S. CONST. art. 1, § 8, cl. 8.

7. Menell, *supra* note 1, at 197 ("The effort to curtail piracy in the digital age has reveal an inherent conflict in Congress's mission "to promote the Progress of Science and the useful Arts": regulating digital devices in the name of content protection hinders progress of digital technology.").

8. Metro-Goldwyn-Mayer studios filed its initial complaint against Grokster in October 2001. Complaint for Damages and Injunctive Relief for Copyright Infringement, *Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.*, 243 F. Supp. 2d 1073 (2003) (CV 01-08541 SVW), available at http://www.eff.org/IP/P2P/MGM_v_Grokster/. The Supreme Court issued its decision in *MGM Studios Inc. v. Grokster, Ltd.* nearly six years later in June 2005. 125 S. Ct. 2764 (2005).

9. See *infra* Section I.B.1 for a discussion of derivative works.

10. 125 S. Ct. 2754 (2005).

11. No. 02-M-1662, 2005 WL 1993421 (D. Colo. 2005).

12. The Family Movie Act, Pub. L. No. 109-9 (2005) (codified in 17 U.S.C.A. § 110(11) (West 2005) and 15 U.S.C.A. § 1114(3)(A)-(D) (West 2005)). The FMA also amended the Lanham Act (15 U.S.C. §§ 1051-1141 (Supp. 2004)) to exclude from trademark infringement liability conduct described in paragraph (11) of § 110 so long as the individual also provides "a clear and conspicuous notice at the beginning of each performance" notifying the viewer that the performance has been altered from the version originally intended by the director or copyright holder. 15 U.S.C.A. § 1114(3)(A)-(D).

the disputed issue in *Huntsman* by creating a statutory “surgical safe harbor” for the technology that made imperceptible limited portions of motion pictures for home use. The term “surgical safe harbor” refers to a tailored legislative exemption from liability of a particular technology, use or class of users. The success of the FMA, and of Congress’s previous surgical safe harbors, suggests that Congress could employ surgical safe harbors more frequently to resolve fair use questions.

This Note discusses the benefits and limitations of the FMA in resolving the issues presented in *Huntsman*. It then suggests how and when legislation similar to the FMA—in the form of a surgical safe harbor from infringement liability—could provide for a fruitful determination of fair use issues arising in the future. Part I explains the technology at issue in the FMA and reviews the *Huntsman* litigation and the legal issues involved. Part II examines the Family Movie Act, its text, evolution, and impact as a surgical safe harbor resolving the issues in the *Huntsman* litigation. Part III analyzes the potential benefits and risks of using surgical safe harbor to resolve fair use cases. This Note concludes that surgical safe harbors may be a useful, if imperfect, ongoing tool for Congress to use in its efforts to maintain copyright’s balance between the interests of authors and those of the public.

I. DIGITAL FILTERING AND ITS LEGAL IMPLICATIONS

Representatives Lamar Smith and Randy Forbes introduced the Family Movie Act in Congress in 2004 in response to technology recently developed by a number of private companies that removed offensive scenes or language, including violence, sexual situations, nudity, and hard language, from films for home viewing.¹³ Consumers control over movies they watched, evinced by the growing market for “e-rated”¹⁴ movies. Firms in the e-rated business either used conventional mechanical editing techniques to remove the offending scenes¹⁵ or dialogue or used digital tech-

Because this Note focuses on the effect of the FMA within copyright law, the trademark provisions will not be discussed further.

13. H.R. REP. NO. 108-670, at 6 (2004).

14. “E-rated” refers to either “edited” or “everyone.” See, e.g., Sharon Weinberg Nokes, *E-Rated Movies: Coming Soon to a Homes Theater Near You?*, 92 GEO. L.J. 611, 612 n.9 (2004).

15. Kieth Merrill, *Cleaning Up the Movies, Part I*, MERIDIAN MAG. (June 4, 2002), <http://www.meridianmagazine.com/arts/020604clean.html>. The mechanical editing firms would purchase a copy of a movie, edit it to reflect the expected preference of the consumer (i.e., removing nudity, profanity, etc.) using standard editing techniques and then publish a catalogue of available movies (usually available on the internet) either for

nology to skip, mute, mask, or otherwise filter the offending scenes or dialogue. These two methods resulted in separate litigation with distinct legal issues. Litigation concerning the digital filtering technology,¹⁶ which was the subject of the FMA and this Note, gave rise to two copyright law issues: derivative works and fair use. The first Section below discusses the types of digital filtering technology and the second Section details how the technology implicates derivative works and fair use, focussing on the *Huntsman* litigation.

A. Digital Filtering Technology

In contrast to the mechanical editing firms, the digital filtering business model did not create a new fixed version of the film or change the physical copy of the movie owned by the customer.¹⁷ Instead, the customer purchased software (or a DVD player with the software built in to it¹⁸) that filtered R or PG-13 content while the movie played.¹⁹ The software worked by referring to a file created previously by the firms offering the product whose employees viewed the movie frame by frame and created commands to skip scenes and images or mute language. Thus, firms providing this software created distinct files for each movie. ClearPlay, for example, offered nearly 600 films.²⁰ Home users were unable to decide what to filter out, although some firms allow its customers to choose

consumers to rent or purchase. If purchasing, the consumer must send in a purchased copy of the movie (either DVD or VHS) and the editing company would returned the altered version in the same box as the original. Depending on the company, the consumer would receive the original back as well.

16. In their briefs the companies utilizing digital filtering software (ClearPlay, Family Shield, and Trilogy Studios) referred to themselves as the "Player Control Parties" whereas the motion picture studios referred to them as the "Electronic Editing Parties." Player Control Parties' Corrected Opening Brief in Support of Their Motion for Summary Judgment, *Huntsman v. Soderbergh*, No. 02-M-1662 at 3 (D. Colo. 2002) [hereinafter Summary Judgment Motion]; Motion Picture Studio Defendants' Response Brief in Opposition to Electronic Editing Parties Motion for Summary Judgment, *Huntsman v. Soderbergh*, No. 02-M-1662 at 3 (D. Colo. 2002) [hereinafter Response Brief]. Both names arise out of the parties' legal arguments about what the companies do with their technology. In trying to find a more neutral term, I have chosen "filtering companies," and will use it to refer to those companies for the remainder of the Note. The companies who rented or sold edited versions of movies will be referred to as the "editing companies."

17. Kieth Merrill, *Cleaning Up the Movies, Part II*, MERIDIAN MAG. (Sept. 4, 2004), <http://www.meridianmagazine.com/arts/020904clean.html>.

18. This is the ClearPlay model. ClearPlay, <http://www.clearplay.com> (last visited Feb. 19, 2006).

19. Merrill, *supra* note 17.

20. Nokes, *supra* note 14, at 620.

among filters with varying levels of “Language,” “Violence,” or “Sex & Nudity.”²¹ In addition to muting dialogue and skipping scenes, at least one company inserted images to mask nudity, most famously adding clothing to Kate Winslet’s character in the sole nude scene in the movie *Titanic*.²²

B. *Huntsman v. Soderbergh*: Derivative Works & Fair Use

The motion picture studios and the directors disapproved of third party companies making unauthorized changes to their works and objected to the possibility that consumers were watching modified versions unaware that the changes were unauthorized. Consequently, they prepared a lawsuit against both the mechanical editing and digital filtering companies. Preempting the lawsuit, the mechanical editing and digital filtering companies filed a suit seeking a declaratory judgment that their conduct did not infringe either the copyright or trademarks held in the motion pictures.²³ The Directors Guild of America (DGA) and motion picture studios responded by filing counterclaims alleging trademark and copyright infringement against both the mechanical editing and digital filtering firms.²⁴ The motion picture studios alleged copyright infringement under the theory that both the filtering companies and the editing companies had created unau-

21. See ClearPlay: The Technology of Choice, <http://www.clearplay.com/about.a.spx>, (last visited Feb. 19, 2006) (explaining filters). Other firms have since stopped operating. For description of their services see Press Release, Directors Guild of America, DGA Responds and Counterclaims Against Robert Huntsman and CleanFlicks; Adds Motion Picture Studios to Suit. (September 20, 2002), available at <http://www.dga.org/index2.php3?chg=>.

22. *Id.* at 622.

23. *Huntsman v. Soderbergh*, No. 02-M-1662, 2005 WL 1993421 (D. Colo. 2005). One of the filtering companies, Trilogy Studios, previewed the technology for representatives of the film industry who were unhappy about it. The editing and filtering companies were alerted to the Directors Guild of America’s plans to sue them when they posted their litigation announcement on their website. Michael P. Glasser, “*To Clean or Not to Clean*”: *An Analysis of the Copyright and Trademark Issues Surrounding the Legal Battle Between Third Party Film Editors and the Film Industry*, 22 CARDOZO ARTS & ENT. L.J. 129, 139 (2004).

24. The trademark infringement claims alleged that, because the directors’ and studios names were displayed on the altered DVDs, a viewer might not know the film differed from its original version, or that neither the director nor the studio had authorized the changes to the film. Directors Guild of America Defendant in Intervention Proposed Amended Counterclaim, *Huntsman v. Soderbergh*, No. 02-M-1662 (D. Colo. 2002); Response Brief, *supra* note 16. These trademark issues are beyond the scope of this Note.

thorized derivative works.²⁵ The following subsections discuss the derivative works and fair use issues implicated by the filtering technology.²⁶

1. *Derivative Works*

The motion picture studios' primary copyright infringement claims alleged that the digital filters were unauthorized derivative works of their motion pictures.²⁷ The right to make derivative works is one of the six exclusive rights held by copyright owners.²⁸ A derivative work is defined in § 101 as "a work based upon one or more preexisting works," or "consisting of editorial revisions, annotations, elaborations, or other modifications, which, as a whole, represent an original work of authorship."²⁹ Examples include "translation, musical arrangement, dramatization, fictionalization, motion picture version, sound recording, art reproduction, abridgement, condensation," as well as more generally "any other form in which a work may be recast, transformed, or adapted."³⁰

Relying on the Ninth Circuit's decision in *Lewis Galoob Toys, Inc. v. Nintendo of America, Inc.*³¹ and *Micro Star v. FormGen, Inc.*,³² the filtering companies argued that neither their software filter files nor the audio-visual display viewed by the consumer using the software were derivative works because they were not "fixed."³³ The Ninth Circuit first enunciated the fixation requirement³⁴ for derivative works in *Galoob*, in which the court construed the copyright statute to require that a derivative work must "incorporate a protected work in some concrete or permanent form."³⁵ The

25. *Id.*

26. The first sale doctrine was also implicated by the technology to the extent that consumers were modifying playback of a DVD they legally purchased. The first sale doctrine, however, is not significant because it would not be a defense if the consumers were indeed found to be making derivative works. *See, e.g.,* *Mirage Editions, Inc. v. Albuquerque A.R.T. Co.*, 856 F.2d 1341 (9th Cir. 1988). If the digital filtering were not a derivative work, then the consumers would not be liable for infringement and would not have need for the first sale defense.

27. Response Brief, *supra* note 16, at 22.

28. 17 U.S.C. § 106 (2000).

29. 17 U.S.C. § 101 (2000).

30. *Id.*

31. 964 F.2d 965, 967 (9th Cir. 1992).

32. 154 F.3d 1107 (9th Cir. 1998).

33. Summary Judgment Motion, *supra* note 16, at 27.

34. Some commentators disagree with the Ninth Circuit's fixation requirement for textual, purposive, and policy reasons. *See, e.g.,* Emilio B. Nicolas, *Why the Ninth Circuit Added Too Much to Subtract Add-On Software from the Scope of Derivative Works Under 17 U.S.C. §106(2): A Textual Argument*, 2004 SYRACUSE SCI. & TECH. L. REP. 1 (2004).

35. *Galoob*, 964 F.2d at 969.

Galoob court held that the product at issue, the Game Genie, which ran concurrently with a copyrighted video game to alter the speed of play and never incorporated any of the underlying game, was not a derivative work.³⁶ Six years later, the Ninth Circuit in *Micro Star* affirmed the requirement that a derivative work must incorporate the underlying work in concrete or permanent form and, with it, that the derivative work itself must exist in a concrete or permanent form.³⁷ The court found that, in contrast to the Game Genie, the product in *Micro Star*—a CD containing enhancements to a copyrighted video game—met the fixation requirement because the enhancements contained detailed descriptions of the audiovisual displays of the original games.³⁸

In *Huntsman*, the studios claimed that the filtering software was more like the product in *Micro Star* than that in *Galoob* and, thus, met the requirement of “fixation.”³⁹ In addition, the studios disputed the fixation requirement,⁴⁰ citing the statutory language and a Seventh Circuit case, *Midway Manufacturing Co. v. Artic International, Inc.*⁴¹ The defendants in that case sold “speed-up cards” which permanently replaced the original chips inside video arcade games and increased the speed of the games, making them more challenging for players.⁴² The Seventh Circuit reasoned that, although the video games at issue were merely enhancements of the original games, the increased demand for the sped-up videogames created additional value to the plaintiff’s copyrighted work.⁴³ Thus, the sped-up videogames were a “substantially different product from the original game”—one for which consumers were willing to pay extra, thereby providing an incentive for vendors to market them separately.⁴⁴ These “new” videogames constituted derivative works.⁴⁵ Under similar reasoning, the studios claimed in *Huntsman* that the filtered versions of the

36. *Id.*

37. *Micro Star*, 154 F.3d at 1111.

38. *Id.* at 1111-12 (“This raises the interesting question whether an exact, down to the last detail, description of an audiovisual display . . . counts as a permanent or concrete form for purposes of *Galoob*. We see no reason it shouldn’t. What, after all, does sheet music do but describe in precise detail the way a copyrighted melody sounds?”).

39. Response Brief, *supra* note 16, at 36-37.

40. *Id.* at 25.

41. 704 F.2d 1009 (7th Cir. 1983).

42. *Id.* at 1010-11.

43. *Id.* at 1013.

44. *Id.* at 1014.

45. *Id.*

copyrighted movies were a substantially different product from the original and, thus, were derivative works.⁴⁶

2. Fair Use

Fair use did not play a significant part in the *Huntsman* litigation. However, if the court had determined the digital filtering technology created a derivative work, the court would have turned next to whether it was protected by fair use, as the courts did in *Galoob* and *Micro Star*.⁴⁷ Section 107, which codified fair use, permits unauthorized use of a copyrighted work for limited purposes and provides four factors for courts to weigh in making their determination: (1) the purpose and character of the use, including whether it is for commercial or educational purposes; (2) the nature of the copyrighted work itself; (3) the amount of the copyrighted work that is used and how significant a portion of the work that amount represents; and (4) the effects of the allegedly infringing work on the value of or market for the copyright work, including potential market.⁴⁸

Even though the *Galoob* court determined that the Game Genie was not a derivative work, it discussed Galoob's fair use argument, finding that the Game Genie was also protected by fair use.⁴⁹ Because Nintendo had alleged only contributory infringement, the Ninth Circuit relied on the Supreme Court's analysis in *Sony Corp. of America v. Universal City Studios, Inc.*⁵⁰ The Ninth Circuit ignored Galoob's commercial purpose because the alleged underlying infringers were consumers, using the Game Genie in the privacy of their homes and, thus, made private and noncommercial uses of the allegedly infringing device.⁵¹ The court also determined that the Game Genie's alteration of Nintendo's games did not rise to the level of copying in *Sony* and that Nintendo could not demonstrate significant economic harm. Game Genie could only be used with Nintendo's game console, and Nintendo had not intended to market versions of its games with the features of the Game Genie.⁵²

In contrast, FormGen alleged direct infringement by Micro Star because the files creating the game enhancements encompassed the underlying game and were themselves derivative works; thus, the *Galoob* analysis

46. Response Brief, *supra* note 16, at 24.

47. *Galoob*, 964 F.2d at 970; *Micro Star*, 154 F.3d at 1113.

48. 17 U.S.C. § 107 (2000).

49. *Galoob*, 964 F.2d at 970.

50. 464 U.S. 417 (1984).

51. See Pamela Samuelson, *Fair Use for Computer Programs and Other Copyrightable Works in Digital Form: the Implications of Sony, Galoob and Sega*, 1 J. INTELL. PROP. L. 49, 77 (1993).

52. *Galoob*, 964 F.2d at 970

was not determinative.⁵³ The court found all of the factors weighed against fair use: Micro Star's use of FormGen's protected expression was made purely for financial gain,⁵⁴ FormGen's game was fictional rather than factual,⁵⁵ both the quantity and importance of the material Micro Star used were substantial,⁵⁶ and, finally, Micro Star had impinged on FormGen's ability to market new versions of the game.⁵⁷

Although the filtering companies raised the affirmative defense of fair use in their original complaint and in their answers to the motion picture studios' counterclaims, neither party argued fair use in the briefs regarding the filtering companies' motion for summary judgment.⁵⁸ Academic articles about *Huntsman* and the technology, however, often discussed the application of fair use.⁵⁹ Those analyses turned primarily on the fourth factor—the effect of the filtering technology on the market for the copyright movies. Because use of the filtering software required an original copy of the motion picture to be playing simultaneously, the digital filter was not serving as a market replacement for the original movie.⁶⁰ Moreover, customers who used the filtering software might not otherwise watch the movie if they could not filter it.⁶¹ However, as discussed in both *Galoob* and *Micro Star*, the modified versions could serve as market replacements for edited versions that the motion picture studios might intend to release themselves.⁶²

53. *Micro Star*, 154 F.3d at 1113.

54. *Id.*

55. *Id.*

56. *Id.*

57. *Id.*

58. Second Amended Complaint and Jury Demand, *Huntsman v. Soderbergh*, No. 02-M-1662 (D. Colo. 2002); ClearPlay Reply to Counterclaims at 10, *Huntsman v. Soderbergh*, No. 02-M-1662 (D. Colo. 2002); and *Huntsman Reply to Counterclaims at 8*, *Huntsman v. Soderbergh*, No. 02-M-1662 (D. Colo. 2002); Summary Judgment Motion, *supra* note 16; Response Brief, *supra* note 16.

59. Fair use in the *Huntsman* litigation has been the subject of at least ten articles, student notes, or comments. See, e.g., Ashley Kerns, Comment, *Modified to Fit Your Screen: DVD Playback Technology, Copyright Infringement or Fair Use?*, 24 LOY. L.A. ENT. L. REV. 483, 509-14 (2004); Michael Kurzer, Comment, *Who Has the Right to Edit a Movie?: an Analysis of Hollywood's Efforts to Stop Companies from Cleaning up Their Works of Art*, 11 UCLA ENT. L. REV. 41, 72-77 (2004); Christine McCarroll, *Morals, Movies, and the Law: Can Today's Copyright Protect A Director's Masterpiece from Bowdlerization?*, 5 J. HIGH TECH. L. 331 (2005).

60. See, e.g., Kerns, *supra* note 59.

61. See, e.g., Kerns, *supra* note 59.

62. See, e.g., Kerns, *supra* note 59.

The Colorado district court did not rule on the motion while the parties tried to negotiate a settlement agreement. In its final judgment, in August 2005, after the FMA had been enacted, the court declared the claims moot because “Congress ha[d] made a policy decision that those who provide the technology to enable viewers to edit films for their private viewing should not be liable to the copyright owners from infringing their copyright protections or to the directors for the Lanham Act claims.”⁶³

II. THE FAMILY MOVIE ACT

The purpose of the Family Movie Act was to protect the rights of parents “to shield their children from violence, sex, and profanity.”⁶⁴ The Act only addressed digital filtering technology and intended to preserve the availability of digital filtering technology.⁶⁵ In addition to family values advocates,⁶⁶ proponents of consumer rights favored the act as supporting consumers’ right to control private home viewing of media they purchase.⁶⁷

Opponents of the bill in the House Judiciary Committee criticized the legislation primarily on three grounds.⁶⁸ First, they argued that the legislation inappropriately interfered with the settlement talks connected with the *Huntsman* litigation.⁶⁹ Second, they maintained that the bill benefited one set of for-profit companies—the filtering companies—at the expense of another—the copyright holders and creators of the motion pictures.⁷⁰ Third, opponents pointed out that the FMA did not allow families to do

63. *Huntsman v. Soderbergh*, No. 02-M-1662, 2005 WL 1993421, at *2 (D. Colo. 2005).

64. *Derivative Rights, Moral Rights, and Movie Filtering Technology: Hearing Before the Subcomm. on Courts, the Internet, and Intellectual Prop. of the House Comm. on the Judiciary*, 108th Cong. 2 (2004).

65. *Id.*

66. Rep. Smith was the chairman of the Subcommittee on Courts, the Internet and Intellectual Property at the time. Co-sponsors of the bill included Rep. Rick Boucher (D-VA), Rep. Roy Blunt (R-MO), and Rep. Joseph R. Pitts (R-PA). With the exception of Rep. Boucher, these co-sponsors have not sponsored other copyright-related legislation. The remainder of the legislative agenda indicates that their support for the bill comes from the interest in allowing individuals to censor movies for themselves or their families.

67. H.R. REP. NO. 108-670, at 23 (statement of Rep. Lofgren).

68. *Id.* at 41. The Committee Report included a statement of the dissenting views which was signed by Representatives John Conyers, Jr. (D-MI), Howard L. Berman (D-CA), Robert C. Scott (D-VA), Sheila Jackson Lee (D-TX), Maxine Waters (D-CA), William D. Delahunt (D-MA), Robert Wexler (D-FL), and Tammy Baldwin (D-WI).

69. *Id.* at 28.

70. *Id.* at 20.

anything they were not already allowed to do, albeit without the aid of this technology, and that the copyright holders already produced edited versions of movies for television or airplane viewing.⁷¹

The sponsors in the House added the FMA to the Piracy Deterrence and Education Act,⁷² which was passed by the full House.⁷³ The Senate, however, chose to include the Family Movie Act, as well as a few other provisions from the Piracy Deterrence and Education Act, in the Family Entertainment and Copyright Act of 2004.⁷⁴ The Senate passed the Family Entertainment and Copyright Act late in the legislative session; however, the House failed to act upon it before the end of the 108th Congress. In January 2005, Senator Orrin Hatch reintroduced the Family Entertainment and Copyright Act in both the House and Senate with just four of the provisions from the previous version including the Family Movie Act.⁷⁵ With no substantive amendments, it quickly passed both the House and the Senate. It was signed by President Bush and became law in April 2005.⁷⁶

The following Sections will describe the FMA and how it addressed the copyright issues raised by the digital filtering technology. The first Section describes what activities the FMA protects from copyright liability, and the limits of those protections. The second Section explains how the FMA, as a surgical safe harbor, resolved the copyright issues and avoided some of the criticisms levied at modern copyright legislation.⁷⁷

A. The Text of the FMA

The FMA amended § 110,⁷⁸ which exempts “certain performances and displays” from the exclusive rights of the copyright holder.⁷⁹ The FMA expands the listed exemptions to include skipping audio and video content in motion pictures in private home viewing. The exemption is defined primarily in the new paragraph below:

(11) the making imperceptible, by or at the direction of a member of a private household, of limited portions of audio or video

71. *Id.* at 18 (citing the testimony of Marybeth Peters, Register of Copyrights).

72. H.R. 4077, 108th Cong. (2004).

73. 150 CONG. REC. H7654-60 (daily ed. Sept. 28, 2004).

74. S. 3021, 108th Cong. (2004).

75. The Family Entertainment & Copyright Act of 2005 included: The Artists' Rights and Theft Prevention Act of 2005 or ART Act (Title I), The Family Movie Act (Title II), National Film Preservation Act of 2005 (Title III), and The Preservation of Orphan Works Act (Title IV). S. 167, 109th Cong. (2005).

76. *Id.*

77. *See supra* notes 2-7 and accompanying text.

78. 17 U.S.C. § 110 (2000).

79. *Id.*

content of a motion picture, during a performance in or transmitted to that household for private home viewing, from an authorized copy of the motion picture, or the creation or provision of a computer program or other technology that enables such making imperceptible and that is designed and marketed to be used, at the direction of a member of a private household, for such making imperceptible, if no fixed copy of the altered version of the motion picture is created by such computer program or other technology.⁸⁰

The plain language of this new paragraph allows individuals to alter motion pictures they are viewing in their home by excluding limited portions of audio or video content—in essence, skipping or muting scenes or words. The FMA also protects those companies or individuals who create and provide the software or technology that allows consumers to make these alterations at home. In terms of the *Huntsman* litigation, the statute protects the filtering companies, but not the editing companies.

These alterations, however, are limited in three ways: (1) the filtering must occur during the viewing; (2) a tangible edited version (a “fixed copy”) cannot be created; and (3) the only place the filtered films can be seen is in a “private home” (i.e., no public performances of the version are permitted).⁸¹ The FMA also specifies that the term “making imperceptible” does not include “the addition of audio or video content that is performed or displayed over or in place of existing content in a motion picture.”⁸² The statute does not authorize broader activities like adding new material or rearranging the order of scenes or dialogue of the original work.⁸³

Despite the relatively precise and narrow language of the exemption, the FMA could be interpreted to allow more significant or creative changes to the work than merely muting or skipping curse words, sexual conduct, and violent actions. For example, in the legislative debate, opponents of the legislation cited examples of edited versions that did not show the racial conflict between the police and African-Americans in *The Hurricane* or the graphic violence of *Saving Private Ryan*.⁸⁴ Although propo-

80. 17 U.S.C. § 110(11) (Supp. 2005).

81. *Id.* (“making imperceptible, by or at the direction of a member of a private household, . . . during a performance in or transmitted to that household for private home viewing”).

82. *Id.*

83. *Id.* (“For purposes of paragraph (11), the term ‘making imperceptible’ does not include the addition of audio or video content that is performed or displayed over or in place of existing content in a motion picture.”).

84. H.R. REP. NO. 108-670, at 46.

nents of the bill described it primarily in terms of protecting parents' ability to modify the content of motion pictures for their children's consumption,⁸⁵ the House Committee rejected an amendment that would have limited the FMA to apply only to modifications made for the benefit of minor children.⁸⁶

It is important to note here that the Copyright Act defines the term "motion picture" more broadly than in the common vernacular, where the term refers to movies only. Section 101 defines a motion picture as "audiovisual works consisting of a series of related images which, when shown in succession, impart an impression of motion, together with accompanying sounds, if any."⁸⁷ In fact, the prospect that the FMA could legalize automatic skipping commercial advertisements (as motion pictures themselves) was of great concern to Congress during the legislative process.⁸⁸ The Register of Copyrights stated that the FMA would not permit commercial-skipping because each commercial was considered a separate "motion picture" for purposes of the FMA and skipping the entirety of an ad would go beyond the bill's authorization to make limited portions imperceptible.⁸⁹ One of the FMA sponsors, Senator Orrin Hatch (R-UT), reiterated this analysis, noting in his statement introducing the bill that "[a]n advertisement, under the Copyright Act, is itself a 'motion picture,' and thus a product or service that enables the skipping of an entire advertisement, in any media, would be beyond the scope of the exemption."⁹⁰ He concluded: "the phrase 'limited portions' is intended to refer to portions that are both quantitatively and qualitatively insubstantial in relation to the work as a whole."⁹¹

B. The FMA as a Surgical Safe Harbor

As a piece of legislation, and specifically as a surgical safe harbor, the FMA brings some advantages over other possible resolutions to the issues raised by digital filtering; in particular, it provided clarity and certainty to the parties and interested firms. First, the FMA promotes efficient resolution of disputes between content producers and digital filtering companies. Second, the FMA achieves this effect while minimizing impediments on future innovation through a narrow modification of copyright law.

85. *Id.* at 18-19.

86. *Id.* at 29. A three-year sunset provision was also rejected in committee.

87. 17 U.S.C. § 101 (2000).

88. H.R. REP. NO. 108-670, at 36.

89. See Letter from Marybeth Peters, Register of Copyrights, to the Honorable F. James Sensenbrenner, Jr., and the Honorable Lamar Smith (Nov. 15, 2004).

90. 151 CONG. REC. S495 (daily ed. Jan. 25, 2005) (statement of Sen. Orrin Hatch).

91. *Id.*

1. *Efficient Resolution*

The Family Movie Act provided a timely and definitive answer regarding the legality of the filtering technology, which was binding on all copyright holders and developers or users of the technology. The speed with which Congress enacted the FMA compared favorably against the uncertainty and slow pace of litigation. The *Huntsman* case was filed in 2002 and continued into 2005 when the FMA was eventually passed.⁹² Even if the litigation had reached a verdict at the trial court level, the losing party likely would have appealed the verdict. It could have taken years before any company utilizing or interested in the technology would have certainty that the procedure was legal. In the meantime, the technology might have become obsolete or the companies might have gone out of business, unable to continue with legal fees or unwilling to take on the risks of losing both their investment and any statutory damages that could be imposed.

The FMA struck a balance between the competing interests of the parties by permitting the technology to be distributed while allowing the copyright holders to retain significant rights. Although the FMA did not give the motion picture studios the exclusive right to distribute the filtering product, they were free to enter the market for filtering products themselves, and any consumer wishing to use a third party's filtering software was still required to rent or purchase an authorized copy of the motion picture. The legislation also required the firms providing the service to give notice to consumers using digital filtering that any changes made to the motion picture were not authorized by the director or copyright holder.⁹³ This notice provision addressed—although it did not entirely alleviate—the moral rights and trademark concerns of the directors. In contrast, the court in *Huntsman* would have been limited in its holding: finding either no infringement (or fair use) with no allowance for the moral rights or other legitimate concerns of the directors and copyright owners, or finding infringement (and no fair use), thereby putting an end to the industry and further narrowing the rights of consumers.

The FMA bypassed expensive drawn-out litigation or private settlement, benefiting both existing and prospective digital filtering companies (in contrast to the powerful major copyright holders) for whom delays and expenses of litigation could have made it difficult or impossible to take

92. The plaintiffs in *Huntsman* filed the initial complaint in August 2002. Complaint and Jury Demand, *Huntsman v. Soderbergh*, No. 02-M-1662 (D. Colo. 2002). The case ended when the court declared the claims mooted by the changes to the law introduced by the FMA. *Huntsman v. Soderbergh*, No. 02-M-1662, 2005 WL 1993421, at *2 (D. Colo. 2005).

93. 15 U.S.C. § 1114(3)(B).

advantage of the new technology. More generally, for the purpose of providing assurances to business, a legislative solution was also preferable to private settlement because it bound all developers of the technology and all copyright holders, not simply the parties to the settlement. Because a private settlement would not have resolved the legal issues surrounding the technology, anyone developing similar technologies would have risked the uncertainty of future lawsuits. In this regard, the FMA could be described as too narrow, because it did not provide certainty to firms other than the digital filtering industry.

In addition, the FMA's resolution of the issues in *Huntsman* anticipated the most likely legal outcome of the litigation. It is beyond the scope of this Note to analyze anew the legal positions of the parties prior to the FMA; however, some commentators believed that the filtering software was not a derivative work, nor did use of it by consumers in their private homes create a derivative work because the filtering did not meet the fixation requirement established in *Galoob*.⁹⁴ The Register of Copyrights, testified in the FMA hearings that she believed the conduct protected by the FMA was already lawful.⁹⁵ To that extent, the FMA merely clarified the law with regard to the digital filtering firms without addressing the fixation requirement.

2. *Narrow Exemption*

The FMA sidestepped both the derivative work and fair use questions by enacting a separate exemption from infringement for "making imperceptible . . . limited portions of . . . a motion picture . . . for performance in

94. The *Huntsman* case has been the subject of a several academic articles and numerous student notes and comments, the majority of which predicted that the filtering software would not constitute a derivative work because it did not meet the fixation requirement of *Galoob* and *Micro Star*. See, e.g., Nokes, *supra* note 14. Some commentators have disagreed with the Ninth Circuit's interpretation of the fixation requirement and have determined instead that derivative works were created. See, e.g., Gail H. Cline, *On a Clearplay, You Can See Whatever: Copyright and Trademark Issues Arising From Unauthorized Film Editing*, 27 HASTINGS COMM. & ENT. L.J. 567, 596-605 (2005).

95. *Family Movie Act of 2004: Hearing Before the Subcomm. on Courts, the Internet, and Intellectual Prop. Of the House Comm. on the Judiciary*, 108th Cong. 8-14 (2004) (statement of Marybeth Peters, Register of Copyrights) ("[T]here is every reason to believe that the proposed Family Movie Act is a solution to a problem that does not exist. . . . [I]t seems reasonably clear that such conduct is not prohibited under existing law. The exclusive rights of the copyright owner that might arguably be implicated are the reproduction, distribution, public performance and derivative work rights, but . . . it seems clear that there is no infringement . . . of those rights.")

a private home.”⁹⁶ The legislation did not refer to derivative works or fair use but simply added another exemption to § 110, joining the myriad other exemptions of certain performances and displays from copyright holders’ exclusive rights.⁹⁷ The FMA also explicitly limited the effect of the safe harbor on any other sections of the Copyright Act: “Nothing in paragraph (11) shall be construed to imply further rights under section 106 of this title, or to have any effect on defenses or limitations on rights granted under any other section of this title or under any other paragraph of this section.”⁹⁸

By avoiding derivative works or fair use, Congress missed an opportunity to clarify the fixation requirement, which would have provided certainty to firms beyond just those interested in digital filtering. As mentioned by the Register of Copyrights in her testimony on the FMA, Congress could have taken this opportunity to revisit the derivative work right or at least the fixation requirement rather than merely clarifying existing law for the benefit of one industry.⁹⁹ Drafting legislation regarding derivative works generally or even the fixation requirement, however, likely would have been significantly more difficult and time-consuming, and thus, detracted from its efficiency.

In addition to providing greater efficiency, creating a narrow exemption reduced the risk of interfering with technological development through over-regulation, a habit that plagued previous Congressional copyright legislation, such as the AHRA.¹⁰⁰ Similar to the FMA, the AHRA created a safe harbor for home audio recording using digital audio tape (“DAT”) recorders in response to litigation over the introduction of those digital recording devices. The DAT recorders were predicted to become widely used by consumers in their own homes and, thus, to cause considerable losses for the music industry.¹⁰¹ Under the regime set out by the AHRA, consumers were allowed to make unlimited analog and digital copies of music; however, all DAT recorders had to include a specific anti-copying technology that restricted consumers’ ability to make copies

96. 17 U.S.C. § 110(11) (Supp. 2005).

97. 17 U.S.C. § 110. (“Limitations on exclusive rights: Exemption of certain performances and displays”)

98. 17 U.S.C. § 110(11) (Supp. 2005).

99. *Family Movie Act of 2004: Hearing Before the Subcomm. on Courts, the Internet, and Intellectual Prop. Of the House Comm. on the Judiciary*, 108th Cong. 8-14 (2004) (statement of Marybeth Peters, Register of Copyrights).

100. Nimmer, *supra* note 2, at 1333.

101. Menell, *supra* note 1, at 130-31; Nimmer, *supra* note 2, at 1333.

beyond first generation copies.¹⁰² Congressional interference in this market turned out to be unnecessary and damaging to the technology market as DAT recorders failed to become a common consumer item. Instead, development occurred in the area specifically excluded from the AHRA—sound recordings accessed by computer.¹⁰³

In contrast to the AHRA, the FMA did not attempt to regulate the digital filtering technology while creating an exemption for consumer use. Instead, the FMA set out the exemption through the description of the permitted activities and the use of technology-neutral limitations. Moreover, it described the permitted digital filtering technology in general terms such as “a computer program or other technology.”¹⁰⁴ By being primarily permissive rather than regulatory, the FMA did not interfere with technological advances. The precision of the language of the narrow exemption preserved the flexibility of courts and of Congress to consider anew copyright implications of digital technologies as they might arise.

III. SURGICAL SAFE HARBORS & FAIR USE

A surgical safe harbor like the FMA can avoid many of the problems of modern copyright legislation raised by Professors Nimmer and Liu by being permissive rather than regulatory, by narrowly addressing a single issue, and by using precise language so as not to create substantially more confusion or incoherence in copyright law. Furthermore, as discussed above, a surgical safe harbor has the added benefit of providing certainty and an efficient resolution, while retaining more flexibility for future development than traditional copyright legislation. The 1976 Act provides a second (and earlier) example of a surgical safe harbor to protect fair use: § 108 which provides libraries and archives limited reproduction rights.¹⁰⁵ Like the FMA, libraries’ reproduction rights are limited, but exemption extends only to libraries with no effect on fair use copying generally.¹⁰⁶

102. 17 U.S.C. § 1008 (2000). The AHRA also imposed a royalty on the sale of devices and blank recording media as a means of compensating copyright owners from perceived inevitable lost revenue due to the copying devices, which were tied to the sale of devices and products that could be used to engage in copying the underlying copyrighted works rather than to actual songs being copied. *Id.*

103. Indeed the only case brought under the AHRA was the Recording Industry Association of America (RIAA) v. Diamond Multimedia Systems, Inc., 180 F.3d 1072 (9th Cir. 1999), in which the RIAA unsuccessfully challenged the legality of a portable MP3 player.

104. 17 U.S.C. § 110(11) (Supp. 2005).

105. 17 U.S.C. § 108(a)-(d) (2000).

106. *Id.*

Like the FMA, § 108 merely exempted specific activities from liability and in doing so provided clarity and certainty to libraries and archives without precluding flexibility insofar as courts remain free to create additional fair use exceptions.¹⁰⁷

A. Balancing Certainty and Flexibility

A surgical safe harbor presents a promising option to cope with the unpredictable nature of fair use cases. Judges possess individual theories about fair use, and the outcome of particular cases can vary greatly depending on the opinion of the judge about the alleged infringer or the value of the infringing activity.¹⁰⁸ The outcome of cases involving similar technologies can vary based on the jurisdiction,¹⁰⁹ and fair use decisions are often overturned on appeal.¹¹⁰ The potential for great economic loss from losing litigation inhibits investment in the development of new technologies. A business would rationally prefer legislation that permits the use of their product; however, even knowing what is not allowed (e.g., a fixed copy) informs a business in making investment decisions. As in *Huntsman*, the uncertainty of adjudication encourages interested parties to advocate for a legislative decision, particularly if a party believes it can obtain a favorable one.

To quote Judge Kozinski, "Fair use is conceptually a hard-edged box; either you're in it or you're out of it."¹¹¹ Unlike Congress, courts lack the ability to craft a solution that balances the interests of both parties, because they are restricted to binary holdings: either a use is fair or it is infringing.¹¹² In this respect, Congress is better positioned than courts to achieve fairness by balancing the equitable considerations involved in a particular clash of interests.¹¹³ To the extent a fair use case arises out of a

107. Liu, *supra* note 2, at 106-07.

108. See Pierre N. Leval, *Toward a Fair Use Standard*, 103 HARV. L. REV. 1105 (1990); Patry & Posner, *supra* note 5, at 1645.

109. See Leval, *supra* note 108, at 1106.

110. See Leval, *supra* note 108, at 1105.

111. Alex Kozinski & Christopher Newman, *What's So Fair About Fair Use?*, 46 J. COPYRIGHT SOC. U.S. 513, 515 (1999).

112. See *id.*

113. For example, the Second Circuit in *Salinger v. Random House, Inc.*, 811 F.2d 90, 92 (2d Cir. 1987) and *New Era Publications International, ApS v. Henry Holt & Co., Inc.*, 873 F.2d 576, 583 (2d Cir. 1989) both found that the unpublished nature of the work weighs against fair use because it is unpublished. Consequently, lobbied by the publishing industry, Congress added a sentence to § 107 which overruled the presumption excluding unpublished works from fair use: "Fair Use in Unpublished Works Provision" ("The fact that a work is unpublished shall not itself bar a finding of fair use if such finding is made upon consideration of all the above factors."). See 17

market failure, as with the digital filtering technology and the market for e-rated movies, a surgical safe harbor potentially provides an efficient resolution to that narrow and specific issue.¹¹⁴

Of course, even as a surgical safe harbor might present a possible or preferable alternative to litigation, it fails to resolve every fair use question. Digital copyright issues present specific challenges to the use of surgical safe harbors because the issues, technologies, and markets are often indeterminate and in flux, making less clear the case for market failure that would justify limiting a copyright holder's exclusive rights.¹¹⁵ The case for fair use and a surgical safe harbor weakens without a clear understanding of a new technology and its effect on existing copyright laws and markets.

As discussed in the context of the FMA, reliance on legislation can risk locking in a benefit or restriction that ceases to be appropriate as new technology develops; a particularly salient concern in the case of fair use legislation. Like most judge-made doctrines, the concept of fair use is flexible,¹¹⁶ and this flexibility represents one of its benefits. Were Congress to become the de facto arbiter of fair use questions, courts might begin to rely on Congress to make those decisions, thus losing some of that flexibility.

Furthermore, judicial deference to Congress on the question of fair use might lead to a presumptive negative inference that the activity or technology subject to the safe harbor was not fair use—otherwise it would not have needed a special safe harbor. Although this presumption wouldn't affect the activities protected by the safe harbor, it could influence the analysis of related or similar activities or technology. If Congress were to make more frequent fair use determinations, courts could draw a second negative inference that, absent a Congressional designation of fair use, a new activity or technology was not protected by fair use.

Courts might begin to extrapolate more general rules regarding the boundaries of fair use based on these surgical safe harbors despite Con-

U.S.C. § 107. Like the FMA, this brief provision was clear and precise and did not otherwise interfere with courts flexibility to find fair use. For further discussion, see Nimmer, *supra* note, at 1346 (citing Karen Burke LeFevre, *The Tell-Tale "Heart": Determining "Fair" Use of Unpublished Texts*, 55 LAW & CONTEMP. PROBS. 153 (1992)).

114. For a discussion of the market failure theory of fair use, see Wendy Gordon, *Fair Use as Market Failure: A Structural and Economic Analysis of the Betamax Case and Its Predecessors*, 82 COLUM. L. REV. 1600 (1982).

115. See Liu, *supra* note 2, at 142.

116. See Patry & Posner, *supra* note at 1645.

gress's stated intent to the contrary. Presumably Congress could address this problem by continuing to include a clause in the safe harbors provision, like that in the FMA and other recently-proposed legislation,¹¹⁷ stating explicitly that the safe harbor does not affect the other rights and defenses provided in of the Copyright Act. Previous exemptions for fair use, including those for libraries and archives, for unpublished works, for criticism or educational purposes, have not precluded flexibility in fair use analysis; courts and Congress have remained free to craft additional exceptions through fair use.

Despite their benefits, surgical safe harbors should not take the place of studied, comprehensive changes to copyright law. Rather, they provide an opportunity for Congress to clarify discrete questions.

B. Political Asymmetry

Interest groups can exert more pressure on the legislative process than on judicial interpretation, especially at the federal level where judges have secure tenure.¹¹⁸ Were Congress to become the primary arbiter of copyright disputes, interest groups would have greater opportunity to seek favorable treatment. And, with few exceptions, the pressures exerted by copyright owners overwhelms that exerted by consumers, technology companies, or public-domain publishers.¹¹⁹ Since the 1976 revisions, copyright legislation has consistently followed an expansive conception of copyright and a concomitant diminished scope of fair use.¹²⁰ This fact isn't surprising: both common sense and public choice theory predict that where a number of firms have aligned interests and deep pockets, they will be more effective in lobbying Congress to enact the stronger protections for their interests than the general public.¹²¹

117. Intellectual Property Protection and Courts Amendments Act of 2004, H.R. 3632 108th Cong. 2d Sess. (2004) (“[§103](b) Fair Use.—The amendments made by this title shall not affect the fair use, under section 107 of title 17, United States Code, of a genuine certificate, licensing document, registration card, similar labeling component, or documentation or packaging described in paragraph (4) or (5) of section 2318(b) of title 18, United States Code, as amended by this title.”)

118. Patry & Posner, *supra*, at 1645.

119. *Id.*

120. See Pamela Samuelson, *Should Economics Play a Role in Copyright Law and Policy?*, 1 U. OTTAWA L. & TECH. J. 1, 9 (2004).

121. See Samuelson, *supra* note 120, at 9 (“This mix of concentrated benefits and distributed costs is likely to yield the best laws money can buy.”) (citing Daniel A. Farber & Philip P. Frickey, *LAW AND PUBLIC CHOICE: A CRITICAL INTRODUCTION* (1991); William N. Eskridge, Jr., *Implications of Public Choice Theory for Statutory Interpretation*, 74 VA. L. REV. 275 (1988)); see also Daniel A. Farber & Philip P. Frickey, *The Jurisprudence of Public Choice*, 65 TEX. L. REV. 873 (1987).

Copyright owners, however, have not gotten all of the legislation that they wanted; the INDUCE Act,¹²² the PIRATE Act,¹²³ and Consumer Broadband and Digital Television Promotion Act¹²⁴ all failed to become law. Certainly, many factors influence the enactment of copyright legislation,¹²⁵ but the mobilization against the content industries' aggressive attempts to expand copyright protection has had a significant impact. A growing number of organizations opposed to these bills advocate for a range of public interest issues affecting copyright legislation.¹²⁶ Although these organizations do not wield the equivalent political influence of the content industries, they have had increasing success in raising public awareness through high-publicity litigation, policy papers, and op-ed pieces.¹²⁷ Technology companies and business associations advocate more actively for their interests in Congress, although they, too, have yet to rival the content industries' ability to lobby effectively.¹²⁸

Pro-consumer legislation has enjoyed no more success. The strongest consumer-rights legislation introduced in the past few years, the Digital

122. Inducing Infringement of Copyrights (INDUCE) Act of 2004, S. 3560, 108th Cong. (2004).

123. Protecting Intellectual Rights Against Theft and Expropriation (PIRATE) Act of 2004, S. 2237, 108th Cong. 2004. (The PIRATE Act would have granted the Attorney General the authority to bring a civil action for copyright infringement.)

124. Consumer Broadband and Digital Television Promotion Act of 2002. Sponsored by Rep. Fritz Hollings (D-SC), the Act was an attempt to increase the amount of digital content available to households via television and internet, thereby creating an increase in the number of subscribers to cable and digital media services by forcing device makers (i.e. tv set makers) to add content security capabilities to their devices. These devices would make digital content creators more comfortable in creating and disseminating digital media.

125. William F. Patry, *Copyright and the Legislative Process: A Personal Perspective*, 14 CARDOZO ARTS & ENT. L.J. 139, 144-45 (1996) (discussing the difficulties in passing copyright legislation, including reduced staff size, lack of expertise within Congress and its staff, and copyright law's discretionary nature).

126. These organizations include the Electronic Frontier Foundation (EFF), Public Knowledge, Public Citizen, Center for Democracy and Technology, Electronic Privacy Information Center, DigitalConsumer.org, Consumer Federation of America and the Home Recording Rights Coalition.

127. Menell, *supra* note 1, at 186-87.

128. For example, Google hired its first lobbyist in October 2005. Burt Helm, *Google Goes Inside the Beltway*, BUSINESSWEEK ONLINE (Oct. 10, 2005), http://www.businessweek.com/technology/content/oct2005/tc20051010_0156_tc024.htm. Verizon and other telecommunications companies are becoming politically active. Declan McCullagh, *Verizon's Copyright Campaign*, CNET NEWS.COM (Aug 27, 2002), http://news.com.com/Verizons+copyright+campaign/2008-1082_3-955417.html.

Media Consumers' Rights Act ("DMCRA"),¹²⁹ has been reintroduced into Congress three times without success.¹³⁰ The DMCRA would partially repeal the controversial anti-circumvention rules enacted in the DMCA by creating a fair use exception for "scientific research into technology protection measures" and in circumstances in which "such circumvention does not result in an infringement of the copyright of the work."¹³¹ The fair use section of the bill also would codify the *Sony* "significant noninfringing use" standard.¹³² The other main section of the legislation would require digital audio compact discs with copy controls on them to carry labels alerting consumers to the copy controls.¹³³ The most recent hearing on the legislation, however, indicated that other members of Congress would prefer not to use legislation to address the issue of fair use.¹³⁴

The FMA does not provide a good example of the balance of those forces in Congress currently. The FMA may seem like an example of the content industry's waning power, but as discussed earlier, the FMA was bolstered by its narrow scope, precise language and a coalition of supporters that went beyond the usual battle lines. Specifically, the narrow scope and precise language of the FMA—that it only regulates technology used for modifying the playback of motion pictures—limited the list of those who might oppose it to copyright owners. In addition, proponents of the legislation came from three camps: those asserting parental control, those

129. The Digital Media Consumers' Rights Act of 2005, H.R. 1201, 109th Cong. (2005).

130. Declan McCullagh, *Tech Heavies Support Challenge to Copyright Law*, CNET NEWS.COM (June 21, 2004), http://news.com.com/Tech+heavies+support+challenge+to+copyright+law/2100-1028_3-5242774.html. This legislation was sponsored by Rep. Rick Boucher (D-VA) and was initially supported by a coalition of consumer groups and technology companies, including a new alliance (called the Personal Technology Freedom Coalition or PTFC) formed to coordinate lobbying efforts in opposition to the anti-circumvention section of the DMCA. Members included Sun Microsystems, Verizon Communications, SBC, Qwest, Gateway, BellSouth, Philips Consumer Electronics North America, the Consumer Electronics Association, the American Library Association, the Electronic Frontier Foundation, Consumers Union, the Consumer Federation of America, Public Knowledge, the American Foundation for the Blind, the United States Telecom Association, and the Computer and Communications Industry Association. More recently, the PTFC has opposed the same legislation on the grounds that it fails to provide enough clarity on fair use.

131. The Digital Media Consumers' Rights Act of 2005, H.R. 1201, 109th Cong. (2005).

132. *Id.*

133. *Id.*

134. Anne Broache, *Politicos Wary of Changes to Copyright Law*, CNET NEWS.COM (Nov. 16, 2005), http://news.com.com/Politicos+wary+of+changes+to+copyright+law/2-100-1030_3-5956328.html.

favoring consumer rights, and those protecting the interests of technology companies. The involvement of the legislators in favor of parental controls, legislators not often involved in disputes over copyright legislation,¹³⁵ was a strong force in getting the FMA passed. Moreover, the FMA's proponents strategically attached it to legislation also supported by the FMA's proponents.¹³⁶

IV. CONCLUSION

Congress passed the FMA as a reaction to the *Huntsman* litigation that exemplified the current conflict among consumer groups, the technology industry, and the content industries over access and control of copyrighted works. By amending copyright law to allow individuals to alter the performance of motion pictures in their private homes, the FMA provided certainty and clarity to the parties. By limiting the exemption to only that activity the FMA preserved the flexibility of copyright law to adapt to future technological development. The features embodied in the FMA—clarity, precision, and equity—exemplify a model of a surgical safe harbor that shows promise for addressing narrow questions of fair use.

135. Co-sponsors of the bill included Rep. Rick Boucher (D-VA), Rep. Roy Blunt (R-MO), and Rep. Joseph R. Pitts (R-PA). With the exception of Rep. Boucher, these co-sponsors have not sponsored other copyright-related legislation. The remainder of the legislative agenda indicates that their support for the bill comes from the interest in allowing individuals to censor movies for themselves or their families.

136. In the House, the FMA was initially combined with the Piracy Deterrence and Education Act, which included provisions heavily favored by the motion picture industry. H.R. 4077, 108th Cong. (2004); H.R. REP. NO. 108-805, at 121 (2005). The Piracy Deterrence and Education Act would have strengthened penalties for infringement, counterfeiting, and trafficking in counterfeit goods and increased government spending on enforcement and education regarding counterfeiting and infringement. The bill was sponsored by Rep. Howard Berman, one of the strongest opponents of the FMA. *Id.* A similar strategy was employed in the Senate, however, the Family Movie Act and other provisions from the Piracy Deterrence and Education Act were included instead in a bill titled the Family Entertainment and Copyright Act of 2004. S. 3021, 108th Cong. (2004) The Senate version of the Family Entertainment and Copyright Act of 2004 also included provisions to reauthorize the National Film Preservation Board, for the preservation of orphan works, the CREATE Act, and a Boxing Safety Act. *Id.* The Family Entertainment and Copyright Act was re-introduced in both the House and Senate in January of 2005 and was passed by both the House and Senate by April of 2005. S. 167, 109th Cong. (2005). Because the Senate did not pass the Family Entertainment and Copyright Act until late in the legislative session, there was no opportunity to reconcile it with the House Piracy Deterrence and Education Act. The 2005 Family Entertainment and Copyright Act contained just four of the provisions from the previous version: the ART Act, the Family Movie Act, the Re-authorization of the National Film Preservation Archive and the Preservation of Orphan Works.

If the course of common law rulemaking is thought too slow or too fraught with uncertainty, or if placing the burden of proof on the fair use claimant is thought too great a deterrent in light of the asymmetry of stakes to which we have pointed, then serious consideration should be given to a statutory solution.¹³⁷

Large-scale reform of the Copyright Act is unlikely to occur soon, yet new legal questions regularly arise with the expansion and development of digital technology.¹³⁸ As this Note demonstrates, many of these issues would be well-served by Congressional action that is carefully designed to provide a precise resolution without significantly changing the existing rights and defenses under copyright law.

137. Patry & Posner, *supra* note 5, at 1659.

138. Liu, *supra* note 2, at 134 (“[A]s the prospect of another wholesale revision of the copyright act grows dimmer, this type of complex political compromise may be the only way to effect change in the future.”).

U.S. COPYRIGHT OFFICE ORPHAN WORKS INQUIRY: FINDING HOMES FOR THE ORPHANS

By Olive Huang

Copyright holders have exclusive rights to reproduce, distribute, perform, display, or prepare derivative works of their copyrighted work.¹ Any person who wants to use or copy the work must seek permission from the copyright holder. However, ownership information for a copyrighted work is sometimes hard to find, and tracking down the owner to ask permission presents daunting challenges for potential users. If the copyright owner cannot be found, the potential licensee faces the choice of either using the work and risking an infringement suit should the owner come forward, or scrapping the project entirely. “Orphan works,” then, are those whose rights holders cannot be located.

In January 2005, the United States Copyright Office initiated an inquiry into the orphan works issue, calling for public comments and policy proposals for increasing public access to the use of “copyrighted works whose owners are difficult or even impossible to locate.”² Individual creators, libraries and museums, nonprofit organizations, and some of the largest players in the entertainment industry filed over 850 initial and reply comments between January and May 2005.³ In addition, the Copyright Office held roundtable discussions on the issue in Washington, D.C., and Berkeley, California.⁴

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1. 17 U.S.C. § 106 (2000).

2. See Notice of Inquiry, 70 Fed. Reg. 3739 (Jan. 26, 2005), available at <http://www.copyright.gov/fedreg/2005/70fr3739.pdf>.

3. See Orphan Works Initial Comments, <http://www.copyright.gov/orphan/comments/index.html> (last visited Jan. 30, 2006); Orphan Works Reply Comments, <http://www.copyright.gov/orphan/comments/reply> (last visited Jan. 30, 2006).

4. See Orphan Works Washington, D.C., Roundtable Transcript (Jul. 26-27, 2005), available at <http://www.copyright.gov/orphan/transcript/0726LOC.pdf>, <http://www.copyright.gov/orphan/transcript/0727LOC.PDF>; Orphan Works Berkeley, CA, Roundtable Transcript (Aug. 2, 2005), available at <http://www.copyright.gov/orphan/transcript/0802LOC.pdf>.

Though the comments submitted in response to the inquiry highlight the broad scope of the orphan works problem, many of the proposed solutions address only some of its causes while ignoring other considerations that would continue to plague the copyright system. Nonetheless, these proposals provide a good starting point for a discussion that requires much more information on the scope of the issue before an adequate resolution may be reached. An adequate solution cannot be reached unless more information is gathered on how many original authors' rights are involved, how often the problem arises, and how difficult it is for potential users of original works to negotiate around the problem.

This Note will discuss the debate that ensued from the Copyright Office's inquiry. Part I discusses the scope of the inquiry and the various players that have been impacted by the orphan works problem. Part II outlines the various causes of the orphan works problem and discusses the issues that a viable solution must resolve. Part III analyzes some of the major proposals submitted to the Copyright Office and illuminates their implications for the U.S. copyright system. Part IV highlights some additional developments regarding orphan works that have followed the conclusion of the inquiry. Part V concludes with a brief discussion of what common ground, if any, has been reached.

I. SCOPE OF THE ORPHAN WORKS PROBLEM

Despite the multitude of comments filed in response to the Copyright Office inquiry, comprehensive data on the frequency with which orphan works impede creative efforts—how many unsuccessful searches potential users perform, how irreplaceable the works sought after are, how often users decide to risk infringement and use the work anyway—does not exist. As a result, some commenters have characterized the orphan works problem as merely creating inconvenience for others to usurp copyrighted works.⁵ Other commenters caution against formulating policies that would stymie copyright protections based solely on anecdotes.⁶

5. See, e.g., Comment of Graphic Artists Guild, *In re Orphan Works*, No. 547, at 2 (Mar. 22, 2005) (“From the point of view of individual creators, this whole argument has nothing to do with copyright and everything to do with money. The EXPENSE of tracking down the owner of a copyright is the big issue, and this argument falls in line with the general attempt by art users to cheapen the cost of using created material.”), available at <http://www.copyright.gov/orphan/comments/OW0547-GAG.pdf>.

6. See Reply Comments of the Am. Soc’y of Composers, Authors and Publishers Regarding Orphan Works, *In re Orphan Works*, No. 106 (May 9, 2005), available at <http://www.copyright.gov/orphan/comments/reply/OWR0106-ASCAP.pdf>.

The degree to which orphan works present a problem varies greatly across different forms of copyrighted works. In the music industry, statutory copyrights only subsist in sound recordings if they were recorded after February 15, 1972.⁷ Label information that accompanies most sound recordings identifies the owner of the copyright. The recording industry has taken particular care to create databases with owner information for works still under copyright protection.⁸ Furthermore, compulsory licensing under § 115 of the Copyright Act grants users some rights to use the recording even if the copyright owner cannot be located so long as the user files a notice of intent to obtain compulsory license with the Copyright Office.⁹

Forms of copyrighted works that have no such statutory provisions, such as books, create greater orphan work concerns. Carnegie Mellon University Libraries conducted a study to determine the feasibility of acquiring copyright permission to digitize their collection. This study illustrates the orphan works problem libraries and archives face.¹⁰ Of the initial sample, 11% of the books (consisting of only copyrighted books) were taken out of the study as too complicated to even pursue because of third-party copyright ownership.¹¹ On average, the researchers could not find 22% of the publishers of the remaining books in the sample.¹² In general, the older the book was, the more difficult it was to find the copyright owner, and the more likely that the book was out of print and neither generating revenues nor aiding scholars.¹³ In the study, 36% of the publishers successfully located did not respond to multiple letters of inquiry.¹⁴ Approximately 79% of the books printed by these publishers were books that

7. 17 U.S.C. § 115(a)(1)(ii) (2000). However, creators of pre-1972 sound recordings might still seek protection through state common law copyright. See *Capitol Records, Inc. v. Naxos of America, Inc.*, 830 N.E.2d 250 (N.Y. 2005).

8. See Comment of the Recording Indus. Ass'n of Am., *In re Orphan Works*, No. 687 (Mar. 25, 2005) [hereinafter RIAA Comment], available at <http://www.copyright.gov/orphan/comments/OW0687-RIAA.pdf>; Reply Comments of the Nat'l Music Publisher's Ass'n, Inc. and the Harry Fox Agency, Inc., *In re Orphan Works*, No. 120 (May 9, 2005), available at <http://www.copyright.gov/orphan/comments/reply/OWR0120-NM PA-HFA.pdf>.

9. 17 U.S.C. § 115(b) (2000).

10. Comment of the Carnegie Mellon Univ. Libraries, *In re Orphan Works*, No. 537 (Mar. 22, 2005) [hereinafter Carnegie Mellon Initial Comment], available at <http://www.copyright.gov/orphan/comments/OW0537-CarnegieMellon.pdf>.

11. *Id.* at 3.

12. *Id.*

13. *Id.*

14. *Id.*

were already out of print.¹⁵ Even when the publishers responded, some were uncertain about what types of rights they had, and some did not even have records of having published the book.¹⁶

Other types of copyrighted works do not typically present copyright information regardless of publication status, making them virtually impossible to trace. Graphical works present unique sets of problems. Photographs, for example, often lack even basic information about who owns the photograph, who took it, or even who is in it, rendering the clearance of the copyright in the photograph virtually impossible. Duke University conducted a project in 1998 to digitize and provide access to over 7,000 advertisement images that had been created between 1911 and 1955, but the copyright search process only yielded contacts for less than half of the companies whose advertisements were involved.¹⁷

II. CAUSES OF THE ORPHAN WORKS PROBLEM

The orphan works problem is largely a by-product of developments in U.S. copyright laws that have increased the strength and duration of protection for primary creators. The abolition of registration and renewal requirements, while insuring against the inadvertent loss of copyright protection for newly-created works, has also made it more difficult for potential users and licensees to locate the owners of copyrighted works. Also, longer copyright terms create longer periods over which copyright ownership can change hands and become even more difficult to trace. By making original works more accessible and derivative works easier to create, extrinsic factors such as technological advancements have expanded the number of users that are affected by the problem. This Section explores these causes in more detail.

A. Structural Causes

To a large extent, expansions in copyright law in the past few decades have led to the orphan works problem: the elimination of the registration, renewal, and notice requirements for copyright protection, retroactive protection of foreign works that were previously in the public domain in the United States, and extensions of copyright duration. Prior to the enactment of the Copyright Act of 1976, copyright protection lasted for twenty-eight

15. *Id.*

16. *Id.* at 3-4.

17. See Lynn Pritcher, *Ad*Access: Seeking Copyright Permissions for a Digital Age*, D-LIB MAGAZINE (Feb. 2000), http://www.dlib.org/dlib/february00/pritcher/02_pritcher.html.

years from the date of publication, with a twenty-eight year renewal term conditional upon the registration of the work with the Copyright Office.¹⁸ Works that were not registered at the end of the initial term automatically fell into the public domain.¹⁹ The 1976 Copyright Act abolished the renewal and registration requirements for works created prior to 1978, and the 1992 amendments automatically renewed all works created between 1964 and 1978.²⁰ From 1992 on, registration of a copyrighted work was only required prior to bringing an infringement suit, even for infringements that occurred prior to the actual registration.²¹ Registration prior to the actual infringement, however, does entitle the copyright holder to statutory damages and attorneys' fees.²²

Because rights holders receive benefits in the form of licensing royalties from these arrangements, they have an incentive to make their ownership information known. However, the efficacy of such incentives depends on factors such as the commercial value of the work in question, the ease of making such information found, and the amount of time that has transpired between the fixation of the work and the point at which ownership information is sought.²³ Because of these varying factors, the extent to which ownership information is available for different categories of works varies significantly. Landes and Posner's study reflects these variations in incentives by showing that copyright renewal rates were the highest for musical works (32%), but much lower for books (8%) and graphic-arts works (3%).²⁴ Thus, while some rather sophisticated organizations devoted to collecting registration information even above and beyond that of the Copyright Office exist for some industries, these organizations are lacking for others.

The difficulty of finding copyright ownership information is not limited to domestic works. Section 514 of the Uruguay Round Agreements Act restored full protection to foreign works that previously had been in the public domain in the United States.²⁵ Because many of these works

18. See Notice of Inquiry, 70 Fed. Reg. 3739, 3740 (Jan. 26, 2005), available at <http://www.copyright.gov/fedreg/2005/70fr3739.pdf>.

19. *Id.*

20. Copyright Renewal Act of 1992, Title I of the Copyright Amendments Act of 1992, Pub. L. No. 102-307 (1992) (codified at 17 U.S.C. § 304 (2000)).

21. 17 U.S.C. § 411 (2000).

22. 17 U.S.C. § 412 (2000).

23. See William M. Landes & Richard A. Posner, *Indefinitely Renewable Copyright*, 70 U. CHI. L. REV. 471, 477-80, 496-513 (2003).

24. *Id.* at 506.

25. Pub. L. No. 103-465 (1994) (codified at 17 U.S.C. § 104A(a)(1) (2000)).

were never subject to registration or renewal requirements under U.S. law, there are no formal records identifying the copyright owners.²⁶

In addition to the elimination of registration and renewal requirements, the 1976 Copyright Act increased the duration of a copyright from an initial term of twenty-eight years to the life of the author plus fifty years for works created after January 1, 1978.²⁷ Copyrights existing in 1978 were extended for a renewal term of forty-seven years.²⁸ The Sonny Bono Copyright Term Extension Act extended copyright duration for both new and subsisting works by an additional twenty years.²⁹ The sheer length of the copyright term reduces the likelihood that the owner will be found in the later years of the copyright, since existing records, if any, would become more obsolete with time.

One of the motivations behind the extensions of copyright protection and elimination of the formalities requirements was Congress's desire to gain access to the Berne Convention.³⁰ This treaty provides the basis for most international copyright law.³¹ The United States had resisted joining the Berne Convention until 1988, when a growing appreciation of the global media market spurred Congress to pass the Berne Convention Implementation Act.³² Berne harmonizes international copyright law by simultaneously requiring signatories to provide specific minimum rights, and requiring that each nation treat a foreign rights holder as it would treat a domestic one.³³ While not a direct cause of the orphan works problem,

26. Comment of College Art Ass'n, *In re Orphan Works*, No. 647, at 6-7 (Mar. 25, 2005) [hereinafter College Art Ass'n Comment], available at <http://www.copyright.gov/orphan/comments/OW0647-CAA.pdf>; see also Comment of Save the Music / Creative Commons, *In re Orphan Works*, No. 643, at 3 (Mar. 25, 2005) [hereinafter Creative Commons Comment], available at <http://www.copyright.gov/orphan/comments/OW0643-STM-CreativeCommons.pdf>.

27. Pub. L. No. 94-553 (codified as amended by the Sonny Bono Copyright Term Extension Act, title I of Pub. L. No. 105-298 (1998) at 17 U.S.C. § 302 (2000)). In the case of anonymous works and institutional copyright holders, 75 years from the date of publication or 100 years from the date of creation, whichever comes first. 17 U.S.C. § 302(c).

28. Pub. L. No. 94-553 (codified as amended by the Sonny Bono Copyright Term Extension Act, title I of Pub. L. No. 105-298 (1998) at 17 U.S.C. § 304(a)-(b) (2000)).

29. Sonny Bono Copyright Term Extension Act, title I of Pub. L. No. 105-298 (1998) (codified at 17 U.S.C. § 302 (2000)).

30. See Christopher Sprigman, *Reform(al)izing Copyright*, 57 STAN. L. REV. 485, 489 (2004).

31. 1 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 17.01[B] (2005).

32. Pub. L. No. 100-568, 102 Stat. 2853 (Oct. 31, 1988).

33. PAUL GOLDSTEIN, COPYRIGHT § 16.5 (2d ed. 2002).

certain aspects of the Berne Convention bear directly on the orphan works issue, and therefore limit the types of solutions that may solve the problem. For example, the Convention prescribes a minimum protection term of the life of the author plus fifty years.³⁴ Also, Article 5(2) of the Berne Convention dictates that “the enjoyment and the exercise of [copyright] shall not be subject to any formality.”³⁵ While the Berne Convention does not explicitly define what rights must be guaranteed so as to protect the “enjoyment and exercise of [copyright],” at its core, it at least protects the right to authorize reproduction and control the creation of derivative works.³⁶ Berne does not purport to regulate the standards that a country implements to control copyrights of its own nationals, but merely requires that member countries provide protection to nationals of other signatory countries without any formalities.³⁷ Still, subjecting domestic copyright protection to formalities such as registration and renewal while not requiring it for foreign creators may create concerns of forum shopping.³⁸

These changes to the protection structure of current copyright law create many holes through which creative works may slip and become orphan works. The comments submitted to the Copyright Office illustrate the various ways in which different types of works become orphaned. For example, copyrights may belong to corporate entities that go out of business, leaving no means of identifying the successor of the copyrights.³⁹ Sometimes businesses selectively abandon copyrights to certain titles in their catalogs, yet maintain sparse records on exactly which titles have been abandoned and which titles have been maintained.⁴⁰ Other times, a work may possess no signature or other imprint of the owner’s identity. The concern is that, in the long run, repeated experiences with orphan works will discourage potential users, causing them to turn to other kinds of crea-

34. *Id.* § 16.5.2.

35. Berne Convention for the Protection of Literary and Artistic Works art. 5(2), Sept. 9, 1886, revised in Paris July 24, 1971, amended in 1979, 25 U.S.T. 1341, 828 U.S.T.S. 221 (text revised in Paris) [hereinafter Berne Convention].

36. GOLDSTEIN, *supra* note 33, § 16.5.3.

37. 1 NIMMER, *supra* note 31, § 17.01.

38. See Comments of Jane C. Ginsburg & Paul Goldstein, *In re Orphan Works*, No. 519 (Mar. 18, 2005) [hereinafter Ginsburg & Goldstein Comment], available at <http://www.copyright.gov/orphan/comments/OW0519-Goldstein-Ginsburg.pdf>.

39. See College Art Ass’n Comment, *supra* note 26, at 20–22 (listing examples of individuals who are unable to find successors to copyrights owned by corporate entities).

40. See Comment of Prelinger Library, *In re Orphan Works*, No. 593, at 3–4 (Mar. 14, 2006) (providing an example of when corporate transitions result in the loss of copyright ownership information), available at <http://www.copyright.gov/orphan/comments/OW0593-PrelingerLibrary.pdf>.

tive efforts or give up creative efforts entirely.⁴¹ The greater the risk that an absent copyright owner will deny permission or bring an infringement suit if the user decides to go forward with the project anyway, the more creative projects will be abandoned or substituted with works whose authors are more easily found.

Studies conducted on the copyright clearance process indicate that clearance costs are extremely high, and have been increasing in the past twenty years.⁴² These costs comprise not only the monetary costs of time and effort spent in locating the copyright owners, but also the costs of negotiating and paying for the licensing fees after finding the owners. Many orphan works respondents stated that the high costs of even conducting the search meant that they avoided them altogether.⁴³ Though high search costs are not unique to orphan works but are rather a characteristic of the overall copyright licensing system, the prevalence of orphan works in the system increases the risk that the search will not be fruitful, thereby increasing the intangible search costs. As a result, a reduction in the monetary and transaction costs of conducting a search, either through the Copyright Office or through private industry, could help to alleviate disillusionment with copyright licensing for all users, regardless if the work for which they seek rights is orphaned.

Though the fair use exemptions described under 17 U.S.C. § 107 allow for some uses even without permission,⁴⁴ they give insufficient protection to creators seeking to use orphan works. In gathering comments from its members on the orphan works problem, the College Art Association found that a lack of understanding about fair use allowances, lack of access to

41. See College Art Ass'n Comment, *supra* note 26, at 22-27.

42. See generally PATRICIA AUFDERHEIDE & PETER JASZI, UNTOLD STORIES: CREATIVE CONSEQUENCES OF THE RIGHTS CLEARANCE CULTURE FOR DOCUMENTARY FILM-MAKERS (2004), http://www.centerforsocialmedia.org/rock/backgrounddocs/printable_rightsreport.pdf.

43. See Comment of the Ctr. for the Study of the Pub. Domain, Duke Law School, *In re Orphan Works*, No. 597, at 4 (Mar. 2005) [hereinafter Ctr. for the Study of the Pub. Domain Comment], available at <http://www.copyright.gov/orphan/comments/OW0597-CPD2.pdf>.

44. Fair use exemptions require courts to take into account the following factors:

- (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 (2000).

legal resources for information, “uncertainties of the application of the fair use doctrine,” and a significant desire among many art publishers “to eliminate the risk of an infringement suit entirely” rendered fair use an imperfect solution.⁴⁵ Moreover, fair use would be insufficient to shield certain types of orphan work uses from liability. For example, the commercial sale of a photographic collage would probably fail the fair use test because a court must consider factors such as whether the derivative work is being used for commercial purposes⁴⁶ and the substantiality of the portion used in relation to the copyrighted work as a whole.⁴⁷

The Copyright Act also attempts to alleviate the burden on public access to copyrighted works through its exemptions for libraries and archives under § 108.⁴⁸ However, the exemptions do not apply to musical works, pictorial, graphical, or sculptural works, or audiovisual works.⁴⁹ Also, libraries and archives are only allowed to make one copy,⁵⁰ or three copies for preservation purposes,⁵¹ and then only upon a reasonable determination that the copyrighted work cannot be obtained at a fair price.⁵² These conditions are eased only in the last twenty years of the copyright term.⁵³ Because of the difficulty of determining when the copyright term began and the sparseness of ownership records, libraries must assume that the work has the longest possible copyright term, with the benefits for library and archive use only covering the last twenty years of it.⁵⁴ Even then, § 108(h)(2)(B) also requires a library or archive to determine if a copy of a work can be obtained at a “reasonable price.” Since this determination is largely subjective, libraries and archives fear that such a judgment call would expose them to liability.⁵⁵ Furthermore, while the exemptions provided to libraries and archives for the preservation of copyrighted works at risk of deterioration may have sufficed for more traditional forms of media, they are inadequate for libraries and archives to adapt to the changing technological forms of copyrighted works.

45. College Art Ass’n Comment, *supra* note 26, at 23.

46. 17 U.S.C. § 107(1).

47. *Id.* § 107(3).

48. *Id.* § 108.

49. *Id.* § 108(i).

50. *Id.* § 108(a).

51. *Id.* § 108(b).

52. *Id.* § 108(e).

53. *Id.* § 108(h)(1).

54. Comment of Stanford Univ. Libraries, *In re Orphan Works*, No. 457, at 2-3 (Mar. 18, 2005) [hereinafter Stanford Univ. Libraries Comment], available at <http://www.copyright.gov/orphan/comments/OW0457-StanfordUniversity.pdf>.

55. *Id.* at 3.

B. Extrinsic Causes

1. Technological Changes

Because the development of digital technologies has facilitated access to and use of copyrighted works, orphan works potentially impede more creative efforts than ever before. Technology has encouraged the creation of many more primary works than before, resulting in an even greater set of works that are potentially orphaned.⁵⁶ Therefore, although technology has the potential of promoting more creative efforts, orphan works hamper the creative potential that new technologies could unleash.

Easy and inexpensive access to digital technologies has encouraged new forms of creative works that are based entirely on incorporating existing works into visual and audio collages. As Professor Van Houweling argues, “the cultural importance and ubiquity of copyrighted texts, images, and sounds may make multimedia collage and other forms of creativity that incorporate existing copyrighted works even more vital forms of cultural commentary than they have been in the past.”⁵⁷ The documentary film *Tarnation*, the surprise hit of the 2004 Cannes Film Festival, exemplifies how technology has facilitated this form of cultural expression. The film was made by piecing together photographs, home videos, and footage of individual interviews on the Apple Macintosh software package iMovie, for a total budget of \$218.32.⁵⁸

Traditionally, researchers could only use a copyrighted work if they had access to a physical copy. Technology breaks down these limitations by enabling the wide-ranging dissemination of nonphysical digital copies.⁵⁹ People seeking to access or use a copyrighted work no longer have to travel to its physical location. The internet and advancements in digital publishing have also facilitated the distribution of these works.

The prevalence of orphan works undermines the benefits that these digital technologies provide. The new forms of derivative works can only legitimately progress with the copyright permissions of the works incorporated into them. Also, the difficulty of obtaining permission to copy materials still under copyright protection has impeded the digitization efforts

56. Ctr. for the Study of the Pub. Domain Comment, *supra* note 43, at 2.

57. Molly Shaffer Van Houweling, *Distributive Values in Copyright*, 83 TEX. L. REV. 1535, 1539 (2005).

58. Charlotte Higgins, *Cannes 2004: \$200 Family Film Is Festival Hit*, GUARDIAN, May 18, 2004, at 6, available at http://www.guardian.co.uk/uk_news/story/0,3604,1219070,00.html.

59. Stanford Univ. Libraries Comment, *supra* note 54, at 1-2.

libraries have made to create digital library collections.⁶⁰ In addition, though the Digital Millennium Copyright Act allows libraries and archives to make a digital copy under some circumstances, that digital copy must remain within the confines of the library in which the physical copy is located.⁶¹ Therefore, the digital copy is even more constrained than the physical, which can at least be checked out of the library. These barriers confine a large body of works to the physical environment “just at the time when digital technologies offer the capacity to ‘liberate’ the world’s collective scholarly record.”⁶²

2. Institutional Changes

Another extrinsic cause of the orphan works problem has been the development of institutional safeguards against the risk of infringement, particularly in the film industry. Many movie studios require that a film carry infringement liability insurance before they will agree to distribute and market the film.⁶³ Often, these liability insurers have minimum thresholds of risk that are higher than what the derivative work creator may be willing to undertake and may not be met if large numbers of orphan works are involved in the making of the film.⁶⁴ Other movie studios even require that the copyrights of all the works involved in a film be cleared before the movie can be distributed.⁶⁵ Therefore, even if the owner of the derivative work is willing to risk infringement and continue with the use of the orphan work, that owner may not be able to clear the thresholds established by the liability insurers and market distributors. This barrier further exacerbates the deterrent effect that orphan works have on the cumulative use of creative works.

Creators traditionally have been able to leverage their copyright interest to secure resources for a creative work by granting some portion of the

60. See Comment of MIT Libraries, *In re Orphan Works*, No. 515 (Mar. 14, 2006) [hereinafter MIT Libraries Comment], available at <http://www.copyright.gov/orphan/comments/OW0515-MIT-Libraries.pdf>; Comment of the Library of Congress, *In re Orphan Works*, No. 630 (Mar. 25, 2005), available at <http://www.copyright.gov/orphan/comments/OW0630-LOC.pdf>; Comment of Sidney Verba, Harvard Univ. Libraries, *In re Orphan Works*, No. 639 (Mar. 25, 2005), available at <http://www.copyright.gov/orphan/comments/OW0639-Verba.pdf>. See generally Alicia Ryan, *Contract, Copyright, and the Future of Digital Preservation*, 10 B.U.J. SCI. & TECH. L. 152 (2004); Peter B. Hirtle, *Digital Preservation and Copyright*, http://fairuse.stanford.edu/commentary_and_analysis/2003_11_hirtle.html.

61. See 17 U.S.C. § 108(b)(2) (2000).

62. MIT Libraries Comment, *supra* note 60, at 1.

63. AUFDERHEIDE & JASZI, *supra* note 42, at 9-10.

64. AUFDERHEIDE & JASZI, *supra* note 42, at 9-10.

65. AUFDERHEIDE & JASZI, *supra* note 42, at 9-10.

rights guaranteed under copyright to film studios and other like institutions.⁶⁶ In the film industry, where many studios require infringement insurance, the risk that a copyright interest will be void because the copyrights of the underlying works have not been cleared severely undermines this ability.⁶⁷ This risk can prevent a film project, regardless of how valuable it is, from being distributed or marketed.⁶⁸

C. Individual Uses versus Libraries and Archives

The orphan works problems affect two main categories of creative functions. The underlying concerns of—and therefore solutions for—these two categories differ and must be analyzed accordingly. The first category is the cumulateness problem; that is, the extent to which orphan works construct barriers to the creation of works that seek to build upon copyrighted works. The second category is the issue of maintaining public access to copyrighted works. This category has more to do with the extent to which orphan works are inhibiting libraries and archives from using current technologies to maximize public access capabilities. A subset of this group includes the archiving of purely digital information that is transient in nature, such as webpages. For each of these categories, the balance among the rights of cumulative creators, the original creators, and the public good that copyright law promotes varies, rendering a one-size-fits-all approach unsatisfying to all parties involved.

Orphan works have more of a system-wide impact on the decision to provide public access to all copyrighted works. Allowing access to digitized copies of archived materials often involves computer networks that may expose libraries and archives to additional legal liability.⁶⁹ Uncertain legal standing for making copies, even for preservation purposes, discourages libraries from engaging in the venture at all.⁷⁰ What hinders these libraries and archives in their attempts to digitize copyrighted works and provide public access to them is the cumulative uncertainty that their searches will prove fruitful, which is a combination of both the orphan works problem and the denial of permission problem. The aim of a feasibility project like the one Carnegie Mellon conducted is to determine whether the cost of such a project is even feasible, given the prevalence of

66. See Van Houweling, *supra* note 57, at 1540-42.

67. See AUFDERHEIDE & JASZI, *supra* note 42, at 9-10.

68. AUFDERHEIDE & JASZI, *supra* note 42, at 9-10.

69. Comment of Internet Archive / Samuelson Law, Tech. and Pub. Policy Clinic, *In re Orphan Works*, No. 657, at 2 (Mar. 25, 2005) [hereinafter Internet Archive Comment], available at <http://www.copyright.gov/orphan/comments/OW0657-InternetArchive.pdf>.

70. *Id.* at 1.

orphan works and denial of permission.⁷¹ Whereas in the derivative use context failed searches may result in a scrapped project while successful searches could result in the grant of permission (and therefore the rate of use will be directly related to the rate of successful searches), a significant probability of failed searches on a cumulative level would lead a library to abandon digitization efforts of both orphan works and works where the owner is identifiable.⁷²

There is some overlap between the policy considerations for orphan works in the cumulative creation and public access contexts, since a reduction in individual transaction costs leads to a reduction in cumulative transaction costs. For libraries and archives, though, the deterrent cumulative costs of search mean that non-orphan works contribute to the problem just as much as orphan works do.⁷³

III. ANALYSIS OF THE PROPOSALS AND IMPLICATIONS

The Copyright Office Notice of Inquiry laid out a series of questions regarding the orphan works problems that the office hoped to answer:

- [1.] What are the difficulties faced by creators or other users in obtaining rights or clearances in pre-existing works?
- [2.] How should an “orphan work” be defined?
- [3.] Should a certain amount of time have elapsed since first publication or creation in order for a work to be eligible for “orphaned” status?

71. CARNEGIE MELLON UNIV. LIBRARIES, EXPLORING THE FEASIBILITY OF SEEKING COPYRIGHT PERMISSIONS (2002), <http://www.library.cmu.edu/Libraries/FeasibilityStudy-FinalReport.pdf>.

72. See MIT Libraries Comment, *supra* note 60, at 1.

73. The Copyright Office has established a separate working group that aims specifically to look at changes to the copyright regime that should be made in order to bring § 108, dealing with exemptions for libraries and archives, in line with digital technologies of the present day. See Section 108 Study Group (Library of Congress), <http://www.loc.gov/section108> (last visited Jan. 26, 2006). There has also been a bill introduced in the House of Representatives that would attempt to solve the problem by extending the library and archive right to reproduce in the last twenty years of a copyright term to musical, pictorial, graphical works, and motion pictures. See Preservation of Orphan Works Act, H.R. 5136, 108th Cong. (2004), available at <http://www.govtrack.us/congress/bill.xpd?bill=h108-5136>.

[4.] Should the status of “orphan works” only apply to published works, or are there reasons for applying it to unpublished works as well?

[5.] However a work is identified and designated as “orphaned,” what would be the effects of such designation?

[6.] How would the proposed solutions comport with existing international obligations regarding copyright?⁷⁴

At a minimum, according to commenters, a web-based, centralized database of all existing registration information should be created.⁷⁵ The Recording Industry Association of America, for example, argues that digitizing pre-1978 registration records at the Copyright Office would be a great first step since those records are currently only available on-site at the Copyright Office in Washington, D.C.⁷⁶ Beyond this minimum step, however, the proposals diverge in their approaches to the solution, with each proposal emphasizing different policy concerns.

Though technological advancements have increased the incidence of orphan works serving as a barrier to creative efforts, they have also made solving the problem of orphan works more feasible.⁷⁷ For example, databases that keep track of owner information are easier to create. Also, security technologies may alleviate concerns about abuse of unauthorized copies by making specific uses of orphan works easier to track and contain.

A. Method of Identifying Orphan Works

Since the elimination of formalities has contributed to the orphan works problem, some commenters have advised the reinstatement of some form of formalities. The biggest proponent behind this proposal is Stanford’s Center for Internet and Society, which filed comments with the Copyright Office on behalf of Save the Music and Creative Commons.⁷⁸

74. Notice of Inquiry, 70 Fed. Reg. 3739, 3741-43 (Jan. 26, 2005), available at <http://www.copyright.gov/fedreg/2005/70fr3739.pdf>.

75. See, e.g., Reply Comment of Carnegie Mellon Univ. Libraries, *In re Orphan Works*, No. 49, at 2 (May 4, 2005), available at <http://www.copyright.gov/orphan/comments/reply/OWR0049-CarnegieMellon.pdf>; RIAA Comment, *supra* note 8, at 3-5.

76. RIAA Comment, *supra* note 8, at 2.

77. See Ginsburg & Goldstein Comment, *supra* note 38, at 2.

78. See Creative Commons Comment, *supra* note 26; Reply Comment of Save the Music / Creative Commons, *In re Orphan Works*, No. 114 (May 9, 2005), available at <http://www.copyright.gov/orphan/comments/reply/OWR0114-STM-CreativeCommons.pdf>. For more information on Save the Music, a nonprofit group dedicated to the preser-

Its proposal calls for a mandatory registration of copyrighted works after the initial twenty-five years of protection, with an additional renewal requirement after the first fifty years of protection.⁷⁹ Works that fail to be registered or renewed will automatically be designated orphan works, which can be used without prior permission upon the payment of a default licensing fee into an “orphan fund.”⁸⁰ Owners of these unregistered works who discover uses of their work after the fact can subsequently claim any orphan fund payments that were submitted for the use of their work.⁸¹

The majority of commenters, however, have proposed identifying orphan works based on the failure of a “reasonable search” to locate the copyright owner. These commenters fall into two categories: those who would prefer a formal definition of “reasonable search” through statute, administrative rulemaking, or industry roundtables,⁸² and those who propose that the reasonableness of a search be determined on a case-by-case basis.⁸³ Yet another proposal that falls into the category of reasonable search solutions is the Canadian model, whereby the copyright office grants a de facto license upon finding that the search record presented by the potential user is sufficient.⁸⁴

The Canadian model exemplifies an overextension of administrative burden in creating certainty. Anyone who seeks to use a work but cannot find the copyright owner can petition the Canadian Copyright Board for a license, which is granted upon a finding by the Board that the applicant

vation of Jewish cultural music, see Save the Music, <http://savethemusic.com> (last visited Dec. 13, 2005). For more information on Creative Commons, a nonprofit group that offers a set of tools for creators to signal how they want their works used, see Creative Commons, <http://creativecommons.org> (last visited Jan. 20, 2006). One form of this proposal has been submitted to Congress in the form of a bill, where it is currently making its way through chambers. See Public Domain Enhancement Act, H.R. 2408, 109th Cong. (2005), available at <http://www.govtrack.us/congress/bill.xpd?bill=h109-2408>.

79. Creative Commons Comment, *supra* note 26, at 16-18.

80. Creative Commons Comment, *supra* note 26, at 16-18.

81. Creative Commons Comment, *supra* note 26, at 17.

82. See Ctr. for the Study of the Pub. Domain Comment, *supra* note 43, at 9-10; RIAA Comment, *supra* note 8, at 3-5; Comment of the Motion Picture Ass’n of Am., *In re Orphan Works*, No. 646, at 4-5 (Mar. 25, 2005) [hereinafter MPAA Comment], available at <http://www.copyright.gov/orphan/comments/OW0646-MPAA.pdf>.

83. See Comment of the Copyright Clearance Initiative / Glushko-Samuelson Clinic, *In re Orphan Works*, No. 595, at 3-6 (Mar. 24, 2005) [hereinafter Copyright Clearance Initiative Comment], available at <http://www.copyright.gov/orphan/comments/OW0595-Glushko-Samuelson.pdf>; Comment of Pub. Knowledge, *In re Orphan Works*, No. 629, at 5-6 (Mar. 25, 2005) [hereinafter Pub. Knowledge Comment], available at <http://www.copyright.gov/orphan/comments/OW0629-PublicKnowledge.pdf>.

84. Copyright Act, R.S.C., ch. C-42, § 70.7 (1985).

has conducted a reasonable search.⁸⁵ The Board defines a reasonable license fee, collects it from the user, and deposits the fee into a fund from which the copyright owner can collect should she later appear.⁸⁶ Though obtaining a definitive decision on the reasonableness of the copyright search protects potential users against infringement suits, the Canadian system has had limited success. The Canadian system requires that potential users actually summon all the paperwork collected during the reasonable search for a finding of reasonableness in front of an administrative panel.⁸⁷ The complexity and burden of this task likely daunts potential users of copyrighted works. Since its inception in 1985, only 171 licenses have been issued,⁸⁸ and six applications denied.⁸⁹

These proposals illustrate a tradeoff between certainty and flexibility. The variance in the severity of the orphan works problem across different copyright industries suggests that a flexible approach would be less intrusive on the rights of the primary creators. However, the increased certainty from a fixed approach might ease individual decision-making for the derivative users. The Copyright Clearance Initiative argues that, although the case-by-case proposal does not completely eliminate uncertainty, the gatekeepers of the copyright licensing world—the publishing companies, music studios, and liability insurers that require clearance before allowing a project to go forward—do not require absolute certainty, but rather a mere reduction in uncertainty.⁹⁰ Still, completely leaving the determination of a reasonable search up to the individual user's conscience leaves more room than necessary for abuse of the system. Duke University's Center for the Public Domain proposes a reasonable search definition that would be defined specific to the class of work, presumably through discussion of major industry players, and would also be tiered according to the type of use (e.g., educational, noncommercial, or commercial), thus balancing specificity and flexibility. Though this proposal would also be more expensive to implement upfront, given the degree of information-gathering necessary, this expense would be justified because the definition of the orphan work is crucial to the success of the solution.

85. *Id.*

86. *Id.*

87. *Id.*

88. See Unlocatable Copyright Owners: Licenses Issued, <http://www.cb-cda.gc.ca/unlocatable/licences-e.html> (last visited Jan. 31, 2006).

89. See Unlocatable Copyright Owners: Other Decisions, <http://www.cb-cda.gc.ca/unlocatable/otherdecisions-e.html> (last visited Jan. 31, 2006).

90. See Copyright Clearance Initiative Comment, *supra* note 83, at 9.

Professor Sprigman argues that the registration and renewal system may be the most efficient system, since it would only require a natural selecting of works into valuable and non-valuable categories.⁹¹ However, its validity under the Berne Convention is dubious, not only because registration after twenty-five years may be interpreted as violating the no-formalities requirement, but also because it could result in the loss of protection after only fifty years, which is shorter than the life plus fifty-year requirement of the Berne Convention. Creative Commons argues that registration would not violate the no-formalities requirement of the Berne Convention, primarily because noncompliance with the formalities would not vitiate copyright entirely, but would rather subject the copyright holder to a default license fee:

Failure to register a work in the Orphan Works Registry would not remove the work's copyright protection; it would, rather, serve as a signal that the unregistered work was an orphan, and, therefore, that the rightsholder was no longer exploiting the work through any of the channels—customized licensing, infringement damages, injunctions—that the copyright laws currently offer. Rightsholders who fail to register their works would be choosing to exploit their works through a lower-cost system of one-size-fits-all default licenses with no need to identify a rightsholder and ask permission.⁹²

Professor Sprigman further argues that an “author who fails to comply with new-style formalities is merely converting an entitlement that is initially protected by a property right . . . into an entitlement protected by a liability right,” which is not prohibited under Berne.⁹³ However, regardless of the validity of the Creative Commons proposal under Berne, there are other reasons to believe that a formalities solution based on the age of the work would not suffice to remedy the causes behind the orphan works problem.

Because the age of copyrighted works bears a direct relationship to many causes of the orphan works problem, many commenters other than Creative Commons have suggested that an orphan works designation be based on the age of the work in question. The more time that has passed

91. See Sprigman, *supra* note 30, at 519-21 (describing formalities as an “ex post test of commercial viability”); see also Landes & Posner, *supra* note 23, at 517-18 (arguing that even a system of indefinite renewals would be efficient because only the most commercially valuable works would be renewed, while the remainder would fall into the public domain).

92. Creative Commons Comment, *supra* note 26, at 20.

93. Sprigman, *supra* note 30, at 557.

between the initial fixation of the copyrighted work and the seeking of permission, the more likely it is that the copyright has been transferred, the ownership records are outdated, and the more uncertainty there may be over who owns the rights.⁹⁴ Furthermore, the more time that has passed, the greater the chances are that changes and extensions in copyright law will create more uncertainty as to whether or not the copyright remains valid.⁹⁵ On the other hand, because of the discounting of future revenue streams, the value of commercial works that is realized further along in the life of the copyright will provide increasingly smaller increases in the incentives for an increase in creative effort.⁹⁶ These relationships between time and orphan works suggest to many commenters that twenty-five to twenty-eight years is the optimum period of unrestricted copyright protection, after which a work will be presumed orphaned unless the owner registers and renews their interest in the copyright.⁹⁷

A determination based on age, however, would not suffice to protect newly-created digital works. Works such as computer software and the webpages that the Internet Archive is trying to preserve⁹⁸ have much shorter life spans, with computer software rarely having a useful life beyond ten years⁹⁹ and webpages even shorter than that. Furthermore, many of the comments submitted by users of copyrighted works describe frustrating experiences tracking down the owners of even very recent works, for which a twenty-five-year threshold would not solve the orphan works problem.¹⁰⁰

Thus, while time may serve as an adequate proxy for the difficulty of locating a copyright owner, it is imperfect, and any proposal based on the age of a work alone would result in unintended exclusions from orphan works. To the extent possible, then, solutions that are tailored to the source of the problem—the difficulty of finding ownership information—would do best in solving the problem without inflicting collateral damage. Because the difficulty of finding ownership information would vary across industries, as discussed above, efforts targeted at defining what would

94. See Joseph P. Liu, *Copyright and Time: A Proposal*, 101 MICH. L. REV. 409, 434-35 (2002).

95. *Id.*

96. *Id.* at 417; cf. Landes & Posner, *supra* note 23, at 481-82.

97. See, e.g., Creative Commons Comment, *supra* note 26, at 16-18; Stanford Univ. Libraries Comment, *supra* note 54, at 3.

98. See Internet Archive Comment, *supra* note 69.

99. Liu, *supra* note 94, at 474.

100. See College Art Ass'n Comment, *supra* note 26, at 9, 14, 19, 22 (citing anecdotes from members who have had difficulty locating ownership information for works created in the past twenty years).

constitute a reasonable search in each industry, as proposed by the Center for the Public Domain and RIAA, would provide a more narrowly-tailored solution.

B. Effect of Owner Reappearance

Most commenters agree that the exchange of information to facilitate licensing exchange must exist in both directions.¹⁰¹ If registries and databases provide ownership information to potential users, then users should also provide usage information to owners who might resurface. As a result, many proposals have a “notice of intent to use” database.¹⁰² Though this notice facilitates the reappearance of copyright owners to police their rights, it also raises the question of what to do with the derivative work once the owners make their voices heard.

Almost all commenters agree that the appearance of the owner should prevent any future uses of the copyrighted work.¹⁰³ However, a closer inspection shows diverging views on what effect the reappearance should have on ongoing uses that commenced prior to the reappearance. The Copyright Clearance Initiative proposal suggests that the derivative use should continue without interruption, so long as the derivative work owner makes attribution adjustments accordingly.¹⁰⁴ Other proposals suggest that the ongoing uses should be subject to a notice and takedown provision; that is, an ongoing use should cease at the moment the copyright owner makes clear her intentions.¹⁰⁵ However, notice and takedown would also be problematic in instances where the derivative user has invested large amounts of time, money, and marketing in creating the derivative work.

The proposal submitted by the Duke Center for the Study of the Public Domain attempts to balance the rights of primary and derivative users

101. See, e.g., RIAA Comment, *supra* note 8, at 3-7; Creative Commons Comment, *supra* note 26, at 16-19 (discussing notice of intent to use database for unpublished works).

102. See, e.g., MIT Libraries Comment, *supra* note 60, at 2; Ctr. for the Study of the Pub. Domain Comment, *supra* note 43, at 10.

103. See, e.g., Stanford Univ. Libraries Comment, *supra* note 54, at 3; RIAA Comment, *supra* note 8, at 6 (discussing need for removing work from “orphan” registry upon owner reappearance); Comment of Soc’y of Am. Archivists, *In re Orphan Works*, No. 620, at 11-12 (Mar. 25, 2005) [hereinafter Soc’y of Am. Archivists Comment], available at <http://www.copyright.gov/orphan/comments/OW0620-SAA.pdf>.

104. See Copyright Clearance Initiative Comment, *supra* note 83, at 4.

105. See, e.g., Stanford Univ. Libraries Comment, *supra* note 54, at 3 (proposing that a take-down request by the author should cut off orphan work protections); Carnegie Mellon Initial Comment, *supra* note 10, at 8.

rather than categorically determine *ex ante* what those rights should be. The proposal establishes a tiered remedy approach:

[1.] Absolute immunity is retained if the user takes down or refrains from further use of the orphan work. . . .

[2.] The user may, at his or her discretion, continue to use the orphan work, provided he or she pays predetermined royalties going forward [subject to] a reasonable cap that will both encourage uses . . . while providing remuneration should a lost copyright owner reappear. . . .

[3.] The above cap would be applied for uses of a single orphan work in its entirety. When an individual chooses option 2, but makes use of only a portion of an orphan work or uses multiple orphan works or portions of multiple works the royalty calculation should be discounted by the substantiality of the orphan work in proportion to the finished project and the number of orphan works owners seeking royalties.¹⁰⁶

This approach effectively provides the derivative user with choices that allow her to recoup the desired amount of the effort spent on the derivative work while adequately compensating the reappearing copyright owner. The absolute immunity provision shields potential users from infringement suits after they have used an original work, and the certainty of absolute immunity reduces the risk that the user has to face prior to the work's use. The reasonable royalty option and the requirement that the original work's importance to the derivative work be taken into account simulates the licensing negotiations that might have taken place had the owner been found in the first place.

However, since the work has already been used, the bargaining leverage of the original owner is significantly reduced, and the reasonable royalty is left purely to the discretion of the derivative user. Therefore this proposal, while flexible enough, does require a further enforcement mechanism that protects the original owner should the derivative user choose the reasonable royalty option but fail to offer a royalty that is truly reasonable given the circumstances. A separate arbitration or dispute resolution mechanism may suffice as an objective determinant of what a reasonable royalty is after the owner reappears. This safety net is necessary to the proposal to guard against holdouts, though the additional administrative resources it requires may be a significant consideration.

106. Ctr. for the Study of the Pub. Domain Comment, *supra* note 43, at 11.

C. Limitations on Remedies

While there is considerable agreement that the forms of remedies available to copyright holders should be limited in some manner, specific proposals of ways to implement these limitations vary widely. Most commenters agree that injunctions, statutory damages, and attorneys' fees should not be available as remedies to the copyright owner upon reappearance.¹⁰⁷ However, the monetary compensation that proposals advise for the copyright owner range across a spectrum from a flat per-use rate¹⁰⁸ to reasonable royalties to be determined either through private negotiation or by a judicial body.¹⁰⁹

Some commenters have proposed that uses of orphan works should be conditioned on the payment of a default license fee into an escrow account¹¹⁰ or "orphan fund"¹¹¹ from which reappeared copyright owners can collect monetary remedies. Escrow accounts and default licenses may be inefficient, however, since most orphan works likely will not be reclaimed by their original owners. Many of these funds will, therefore, sit unused and are essentially wasted. Furthermore, setting a single default fee for uses that range in value could still result in litigation, since some reappeared owners may argue that they are entitled to more than the default fee for uses that are commercially valuable.¹¹² Still, upfront payments of a default license fee could serve as an indication that the search was conducted in good faith and therefore act as an enforcement mechanism.

Since the derivative user has contributed to the rebirth of the original work and has played a part in making the work commercially viable once again, she should be rewarded for her efforts. The original copyright holder still receives the benefit of future licensing arrangements that result from this new exposure. Therefore, monetary remedies against the derivative user should be limited to actual damages suffered by the copyright

107. See, e.g., Creative Commons Comment, *supra* note 26, at 16; MPAA Comment, *supra* note 82, at 5-6; RIAA Comment, *supra* note 8, at 8; Soc'y of Am. Archivists Comment, *supra* note 103, at 11.

108. See, e.g., Pub. Knowledge Comment, *supra* note 83, at 6-7 (capping per-use recoveries at \$200); see also Copyright Clearance Initiative Comment, *supra* note 83, at 5 (proposing an award cap of \$100 per work used as an alternative to actual damages).

109. See, e.g., MPAA Comment, *supra* note 82, at 6.

110. Copyright Act, R.S.C., ch. C-42, sec. 77 (1985).

111. Creative Commons Comment, *supra* note 26, at 17.

112. See Reply Comment of the Electronic Frontier Found., *In re Orphan Works*, No. 142, at 2-3, available at <http://www.copyright.gov/orphan/comments/reply/OWR0142-EFF.pdf>.

holder, which indicate situations where the derivative user has usurped part of the market of the original copyright holder.¹¹³

IV. FURTHER DEVELOPMENTS

The Copyright Office inquiry was merely the first step in addressing the orphan works problem. By drawing attention to the issue, the inquiry has sparked various other approaches. In fact, the Copyright Office has established a separate working group to address the issue of orphan works as applied to libraries and archives.¹¹⁴ The § 108 working group is notable for the fact that its members come from many of the libraries and archives that submitted comments during the inquiry, as well as prominent industry players.¹¹⁵ At the time of writing, proposals for registration and other amendments to the Copyright Act were circulating in Congress.¹¹⁶ The Stanford Center for Internet and Society has even filed suit in federal court requesting declaratory judgment that copyright restrictions on orphan works resulting from the copyright term extensions are unconstitutional.¹¹⁷ These developments further highlight the scope of the problem, and the desire from both government and industry to reach amenable solutions.

In January 2006, the Copyright Office issued its report and findings from the orphan works inquiry.¹¹⁸ The Copyright Office noted that, although the evidence submitted by the commenters suggested the orphan works problem was real, the magnitude of the problem remained difficult to quantify.¹¹⁹ It found that only 24% of the comments submitted presented enough information for the Office to categorize it as a true orphan works situation; many of the comments presented situations where the copyright owner was identifiable and locatable, but where other impedi-

113. See Copyright Clearance Initiative Comment, *supra* note 83, at 5 (proposing that remedies be limited to either actual damages or an award of \$100 per work used); RIAA Comment, *supra* note 8, at 8.

114. See The Section 108 Study Group Homepage, <http://www.loc.gov/section108> (last visited Jan. 26, 2006).

115. See The Library of Congress, Members of the Section 108 Study Group, <http://www.loc.gov/section108/members.html> (last visited Mar. 17, 2006).

116. See Preservation and Restoration of Orphan Works for Use in Scholarship and Education Act, H.R. 24, 109th Cong. (2005), available at <http://www.govtrack.us/congress/bill.xpd?bill=h109-24>; Public Domain Enhancement Act, H.R. 2408, 109th Cong. (2005), available at <http://www.govtrack.us/congress/bill.xpd?bill=h109-2408>.

117. See *Kahle v. Ashcroft*, No. C-04-1127 MMC, 2004 WL 2663157 (N.D. Cal. Nov. 19, 2004) (order granting motion to dismiss; vacating hearing).

118. See U.S. COPYRIGHT OFFICE, REPORT ON ORPHAN WORKS (2006), available at <http://www.copyright.gov/orphan/orphan-report-full.pdf>.

119. *Id.* at 21-23.

ments to copyright clearance arose.¹²⁰ The Copyright Office also discussed the various historical and legal factors that affect the orphan works problem,¹²¹ and concluded that “[t]he orphan works problem is thus a by-product of the United States’ modern copyright system, and has been with us since at least the day the 1976 Act went into effect.”¹²² It found that, though many solutions to certain orphan works situations exist in the current copyright framework, they are insufficient to resolve the issue.¹²³

Based on these findings, the Copyright Office recommended a legislative remedy in the form of an amendment to Chapter 5 of the Copyright Act.¹²⁴ The remedy would allow a user to proceed with the use of a copyrighted work, provided that she has performed a “reasonably diligent search” in “good faith” prior to commencement of use.¹²⁵ The Office also recommended an additional requirement that the user provide attribution to the author and copyright owner as long as the copyrighted work is being used.¹²⁶ The burden of showing that these two conditions have been met rests on the user.¹²⁷ The satisfaction of these two conditions would mean that, in an infringement suit brought by a reappeared copyright owner, monetary damages would be limited to “reasonable compensation” (equivalent to a reasonable licensing fee in most cases), or none at all in cases of noncommercial use and where the user ceases use upon owner reappearance.¹²⁸ Also, injunctive relief would be limited to situations where the user has not incorporated a “substantial” amount of her own expression into the derivative work, provided the user pays reasonable compensation; in all other situations, the court must account for any reliance interest of the user that might be harmed by injunctive relief.¹²⁹ The Office rejected the idea of a centralized user registry of intent to use as costly and placing too great of a burden on a potential user.¹³⁰ It also rejected the Canadian escrow account; it concluded that the system would be highly inefficient because, in the large majority of cases, no copyright owner would actually reappear to claim the funds.¹³¹ Notably, the Copyright Office ul-

120. *Id.* at 21-23, 34-36.

121. *Id.* at 41-44.

122. *Id.* at 44.

123. *Id.* at 92.

124. *Id.* at 93. For the recommended statutory language, see *id.* at 127.

125. *Id.* at 96-109.

126. *Id.* at 110-12.

127. *Id.* at 115.

128. *Id.* at 115-19.

129. *Id.* at 119-21.

130. *Id.* at 113.

131. *Id.* at 113-14.

timately recognized the lack of information on the orphan works problem and recommended that the proposed provisions sunset after ten years, giving Congress an opportunity to revisit the issue and examine the system's efficacy.¹³²

V. CONCLUSION

The wide range of responses to the Copyright Office inquiry demonstrates the wide-ranging effects of the orphan works problem. Inevitably, the viewpoints of the various players involved do not extend much beyond the agreement that there is a problem. Still, all sides have devoted genuine efforts to decreasing uncertainty in the licensing process and reducing the costs of searching and licensing. Technology plays a large role in most of the proposals, suggesting that the time is now ripe for effective change. At a minimum, the use of technologies to facilitate the exchange of information between potential users and copyright owners must be implemented, regardless of whether any structural changes are made to the copyright system.

As technology advances and as people gather more information about the scope of the problem, one can expect even more proposals to surface. The myriad of developments that have followed the Copyright Office inquiry will contribute to a deeper understanding of the problem and potential solutions. Even the Copyright Office Report accounts for the inadequate information currently available on the issue. The orphan works inquiry, therefore, serves as a starting point for ongoing investigation and discussion of this issue.

132. *Id.* at 121.

***BRIDGEPORT MUSIC, INC. v. DIMENSION FILMS:* HAS UNLICENSED DIGITAL SAMPLING OF COPYRIGHTED SOUND RECORDINGS COME TO AN END?**

By M. Leah Somoano

The practice of analog “sampling” arose in the 1970s as a result of technological advancement in the field of musical recording.¹ Sampling is the process of integrating a short clip of recorded sound, the sample, into a new sound recording.² In the 1980s, further technological advancements spawned the practice of digital sampling, a technology which gave sampling artists more flexibility in creating new works using samples. Today, sampling remains a common practice in the music industry, but until recently, it was unclear whether a license was required to sample a small portion of a protected work. Thus, while some artists sought licenses to sample from existing copyrighted works, others took their chances and went ahead with the sampling, merely waiting for an infringement suit to be filed.

In *Bridgeport Music, Inc. v. Dimension Films*,³ the Sixth Circuit faced an issue head-on that previous courts tended to dodge, attempting to set forth clear guidelines regarding the copyright implications of digital sampling. The Sixth Circuit addressed the application of the de minimis exception to digital sampling of copyrighted sound recordings, and after a literal reading of the copyright statute and an examination of numerous policy arguments in favor of a bright-line rule, concluded that one may not “lift” or “sample” a portion of a sound recording without a license.⁴

Part I of this Note examines the emergence of copyright protection for sound recordings and compares the rights granted therein to those granted for musical compositions in light of the established legal principle of de minimis. Part II explores the effects of digital sampling in the music industry as well as existing case law on sampling. Part III presents the *Bridgeport* case and Part IV considers both the flaws in the court’s statu-

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1. See Robert M. Szymanski, *Audio Pastiche: Digital Sampling, Intermediate Copying, Fair Use*, 3 UCLA ENT. L. REV. 271, 277 (1996).

2. See, e.g., Sampling (music), WIKIPEDIA: THE FREE ENCYCLOPEDIA, http://en.wikipedia.org/wiki/Sampling_%28music%29 (last visited Jan. 25, 2006).

3. 410 F.3d 792 (6th Cir. 2005).

4. *Id.* at 800.

tory interpretation by failing to consider legislative history as well as the implications of its ruling on courts and litigants. This Note concludes with a summary of the arguments presented.

I. LEGAL BACKGROUND

The granting of federal copyright protection to sound recordings led, predictably, to a series of questions regarding the nature and scope of those rights. This Part will first discuss the evolution and scope of copyright protection for sound recordings, followed by an exploration of the differences in the protections afforded to musical compositions and sound recordings. It concludes with a summary of the long-established legal principle of *de minimis*, which is, at least on its face, very relevant to the sampling debate.

A. Copyright Protection for Sound Recordings

The Copyright Act of 1909 granted copyright protection only to specific categories of works, including musical compositions, books, periodicals, lectures, sermons, addresses, dramatic compositions, maps, works of art, models/designs, reproductions of a work of art, certain drawings, photographs, prints, and pictorial illustrations.⁵ Although the 1909 Act was amended in 1912 to grant protection to motion pictures,⁶ sound recordings remained excluded from federal statutory copyright protection until 1972.⁷ The difference between musical compositions and sound recordings is material: a “musical composition” consists of a work’s musical score and lyrics which produce a sound when played; a “sound recording” consists of the sounds when actually fixed in a phonorecord or other medium.⁸

Concerned with the rise in the prevalence of “record and tape ‘piracy’ (i.e., unauthorized duplication of sound recordings),” Congress undertook to extend copyright protection to sound recordings.⁹ According to Congress, such infringement resulted in the loss of over \$100 million annually.¹⁰ On October 15, 1971, the 1909 Act was again amended to afford

5. See Copyright Act of 1909, ch. 320, § 5, 35 Stat. 1075, 1076-77 (1909).

6. See 1912 Amendment of 1909 Copyright Act, ch. 356, § 5, 37 Stat. 488 (1912).

7. See Sound Recording Copyright Act, Pub. L. No. 92-140, 85 Stat. 391 (1971) (incorporated as an amendment to the 1909 Act).

8. See 17 U.S.C. § 101 (2000) (defining sound recordings as “the fixation of a series of musical, spoken, or other sounds”).

9. See 1 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT, § 2.10[A] (2005).

10. See *id.* (citing H.R. REP. NO. 92-487 (1971)).

sound recordings federal statutory copyright protection.¹¹ This amendment took effect on February 15, 1972 and granted protection to sound recordings fixed on or after that date.¹² This protection was later incorporated into the Copyright Act of 1976 (“The Act”), and continues today.¹³ The Act defines a sound recording as a work that results “from the fixation of a series of musical, spoken, or other sounds, but not including the sounds accompanying a motion picture or other audiovisual work, regardless of the nature of the material objects, such as disks, tapes, or other phonorecords, in which they are embodied.”¹⁴

B. Sound Recordings Versus Musical Compositions: Exclusive Rights and Compulsory Licenses

Although both musical compositions and sound recordings are now protected by federal copyright, the copyright in the former is distinct from that in the latter.¹⁵ The rights vested in a sound recording copyright owner are limited to the right to reproduce, prepare derivative works, distribute copies and perform the work publicly by means of a digital audio transmission.¹⁶ Ownership of the sound recording copyright varies depending on the employment relationship or agreed upon contract between the record label and performer.¹⁷ Absent either of these circumstances, the copyright will initially vest in either the performer solely or the record label and performing artists jointly.¹⁸

Of particular importance, the right to reproduce a sound recording is “limited to the right to duplicate the sound recording in the form of phonorecords or copies that directly or indirectly recapture the actual sounds fixed in the recording.”¹⁹ Therefore, a copy is not infringing unless it physically copies the sounds in the recording, such as by copying a store bought compact disc or recording a song played on the radio. As a

11. See Pub. L. No. 92-140, *supra* note 7.

12. See 1 NIMMER, *supra* note 9, § 2.10[A][1].

13. Copyright Act of 1976, Pub. L. No. 94-553, 90 Stat. 2541 (1976) (codified as amended at 17 U.S.C. §§ 101-810).

14. 17 U.S.C. § 101.

15. See *id.* § 106.

16. *Id.* § 114(a) (referencing the rights enumerated in § 106(1)-(3), (6)).

17. See 1 NIMMER, *supra* note 9, § 2.10[A][3]; see also COHEN ET AL., COPYRIGHT IN A GLOBAL INFORMATION ECONOMY 149 (2002) (explaining that “record labels typically require recording artists to sign contracts that state their contributions are works for hire . . . and assign the copyright in their sound recording to the record company.”).

18. See 1 NIMMER, *supra* note 9, § 2.10[A][3].

19. 17 U.S.C. § 114(b).

corollary,

[t]he exclusive rights of the owner of copyright in a sound recording . . . do not extend to the making or duplication of another sound recording that consists entirely of an independent fixation of other sounds, even though such sounds imitate or simulate those in the copyrighted sound recording.²⁰

Thus, an independently made work that imitates the sounds of the original sound recording is not an infringement of the copyright in that sound recording. Additionally, a derivative work of a sound recording is created when the actual sounds in the original sound recording are “rearranged, remixed, or otherwise altered in sequence or quality.”²¹ If these requirements are not met, then a derivative work is not created.

In contrast, musical composition copyrights²² grant all of the rights as sound recordings as well as the right to perform and display the work in public.²³ Furthermore, a musical composition copyright initially vests in the creator of the composition, although contractual agreements between the author and a publishing entity often transfer ownership to the latter.²⁴

Another major difference between copyrighted musical compositions and sound recordings is the availability of a compulsory license (also known as a mechanical license) for the former but not the latter.²⁵ A compulsory license allows a person to pay a statutory fee and record a song without seeking permission from the copyright owner if certain conditions are met.²⁶ The provision of compulsory licenses for musical compositions was intended to protect against “a great music monopoly”—in other words, a situation in which owners of musical compositions are able to prevent re-recording of their songs by demanding exorbitant licensing fees or by merely forbidding the re-recording.²⁷ A copyrighted musical composition is subject to a compulsory license if (1) “phonorecords of [the] nondramatic musical work have been distributed to the public in the

20. *Id.*

21. *Id.*

22. *See id.* § 102 (granting copyright protection to musical works, including any accompanying words).

23. *See id.* § 106(4)-(5).

24. *See* 1 NIMMER, *supra* note 9, § 30.02.

25. *Id.* § 8.04[A] (citing *Staggers v. Real Authentic Sound*, 77 F. Supp. 2d 57, 64 (D.D.C. 1999) and explaining the principle that the application of a compulsory license solely to nondramatic musical works makes it inapplicable to sound recordings).

26. *Id.* § 8.04[A]-[D].

27. *See id.* § 8.04[A] (citing H.R. Rep. No. 60-2222, at 6 (1909)); *see also id.* App. 13.

United States under the authority of the copyright owner” and (2) the licensee’s “primary purpose in making phonorecords is to distribute them to the public for private use.”²⁸

Where a musical work exists only in a sound recording,²⁹ or when a compulsory licensee wishes to duplicate the work in the exact form in which it is embodied, a sound recording, one must take further steps not to infringe the copyright in the sound recording. The requirements for use of a sound recording through a compulsory license are that (1) the sound recording be lawfully fixed³⁰ and (2) the copyright owner of the sound recording authorize the making of the phonorecord by the licensee.³¹ If the sound recording was fixed before February 15, 1972, the person who fixed the original sound recording, with an express license from the copyright holder of the musical composition, must give permission for the licensee to make a sound recording pursuant to a compulsory license.³² If one cannot obtain permission to use the sound recording, then one can only exercise his rights in the musical composition compulsory license by re-recording the work with his own musicians, singers, etc.³³ Once a compulsory license to re-record (not merely reproduce in the exact original form) is obtained, the licensee can only adapt the original work to the extent that it embodies a new “style or manner of interpretation”;³⁴ the licensee may not alter the basic melody or fundamental character of the original work.³⁵ Obtaining a compulsory license in a musical composition serves as a limitation on the exclusiveness of the right of the original copyright holder to make and distribute phonorecords, since the licensee is also able to make and distribute phonorecords pursuant to the compulsory license.³⁶

Royalty rates for use of the original work through the compulsory license are set by statute, and vary depending on when the original work

28. 17 U.S.C. § 115(a)(1). This includes distribution of works to dealers who then sell to private users. *See* 1 NIMMER, *supra* note 9, § 8.04[D].

29. For example, an artist sits down with his guitar and records himself playing onto a compact disc. The only embodiment of the musical composition is in the sound recording since the artist never wrote down the music and lyrics.

30. *See* 17 U.S.C. § 115(a)(1); *see also* 1 NIMMER, *supra* note 9, § 8.04[E][2] (explaining that a sound recording is not lawfully fixed if such fixation constitutes copyright infringement under federal law, or common law copyright infringement, unfair competition, or other violations of state law).

31. *See* 17 U.S.C. § 115(a)(1).

32. *See id.*

33. *See* 1 NIMMER, *supra* note 9, § 8.04[A].

34. 17 U.S.C. § 115(a)(2).

35. *See id.*

36. *See id.* § 115.

was created.³⁷ This rate generally functions as a maximum that can be charged by the copyright owner via a more traditional copyright license, because a potential licensee can merely invoke the compulsory license without permission from the copyright owner; thus in practice, agreements are reached for licenses at a rate lower than that prescribed in The Act.³⁸ A contractual agreement benefits the copyright owner in that it allows for the owner to potentially control the duration of the use, the context of the use, and any other limitations that could be negotiated, whereas a compulsory license leaves the owner with no control over the re-recording.

C. De Minimis Use

A long established principle that has particular relevance in this area of copyright law is *de minimis non curat lex*—the law does not concern itself with trifles.³⁹ The *de minimis* principle is invoked when a violation of a law is so minimal that it does not rise to the level necessary to impose legal consequence.⁴⁰ The United States Supreme Court has declared that the *de minimis* rule “is part of the established background of legal principles against which *all* enactments are adopted, and which *all* enactments (absent contrary indication) are deemed to accept.”⁴¹

At a general level, *de minimis* in the copyright context “can mean what it means in most [other] legal contexts: a technical violation of a right so trivial that the law will not impose legal consequences.”⁴² More specific to copyright law, the *de minimis* principle applies when “copying has occurred to such a trivial extent as to fall below the quantitative threshold of substantial similarity, which is always a required element of actionable copying.”⁴³ One should note that the term “substantial similarity” is used in many different contexts. First, it is used “as the threshold to determine the degree of similarity that suffices, once access has been shown, as indirect proof of copying.”⁴⁴ More relevant here, however, a substantial similarity analysis is undertaken “after the fact of copying has been established, as the threshold for determining [whether] the degree of

37. *See id.* § 115(c).

38. *See* 1 NIMMER, *supra* note 9, § 8.04[I] (citing Recording Indus. Ass’n v. Copyright Royalty Tribunal, 662 F.2d 1, 4 (D.C. Cir. 1981)).

39. BLACK’S LAW DICTIONARY 8 (8th ed. 2004).

40. *See* Ringgold v. Black Entm’t Television Inc., 126 F.3d 70, 74 (2d Cir. 1997).

41. Wis. Dep’t of Revenue v. William Wrigley, Jr., Co., 505 U.S. 214, 231 (1992) (emphasis added).

42. *Ringgold*, 126 F.3d at 74.

43. *Id.*

44. *Id.*

similarity suffices to demonstrate actionable infringement.”⁴⁵ A determination of substantial similarity requires an analysis of the quantitative amount used of a protected work—it seems only logical, then, that defendants be permitted to argue the amount used was *de minimis* and that no actionable infringement exists.⁴⁶ Finally, substantial similarity is relevant to the fair use defense.⁴⁷ One factor in evaluating the defense of fair use is “the amount and substantiality of the portion used in relation to the copyrighted work as a whole.”⁴⁸ Consequently, a defendant may argue that this factor weighs in favor of a fair use defense because the amount used is *de minimis*. Courts apply a fair use defense to discard liability in cases where the plaintiff has established a *prima facie* case of infringement, but the defendant’s use is trivial.⁴⁹

II. DIGITAL SAMPLING TAKES THE LEAD

Digital sampling allows artists to easily sample pre-recorded music, and leaves the courts to determine if such action constitutes copyright infringement. This Part presents a history of digital sampling and its perception as a threat to the music industry, and concludes with a survey of the caselaw involving digitally sampled works.

A. Digital Sampling Threatens Sound Recordings

Sampling is the process of integrating a short clip of recorded sound, the sample, into a new sound recording.⁵⁰ Digital sampling of sound recordings first occurred in the 1980s,⁵¹ although other forms of sampling

45. *Id.*

46. *See id.* at 75.

47. Section 107 of the Copyright Act provides for a fair use defense utilizing a four factor test: (1) the purpose and character of the use; (2) the nature of the copyrighted work; (3) the amount and substantiality of the portion used; and (4) the effect upon the plaintiff’s potential market. *See* 17 U.S.C. § 107 (2000). While these factors are suggestions for the court to consider, it can also consider other factors that “may prove to have a bearing upon the determination of fair use.” 1 NIMMER, *supra* note 9, § 13.05[A]. A commercial use is said to cut against a finding of fair use and over time, factor two has been determined to be irrelevant. *See id.* § 13.05(A)(1)(c), (2)(a). Factor three requires both a quantitative and qualitative analysis. *See id.* § 13.05(A)(3) (citing *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 586 (1994)). 17 U.S.C. § 107 provides illustrations of where a fair use defense may be applicable, but the statute text reads “such as” and is thus not an exhaustive list.

48. *Ringgold*, 126 F.3d at 75 (citing 17 U.S.C § 107(3)).

49. *See, e.g.*, *Berlin v. E.C. Publ’g, Inc.*, 219 F. Supp. 911 (S.D.N.Y. 1963).

50. *See, e.g.*, Sampling (music), WIKIPEDIA: THE FREE ENCYCLOPEDIA, http://en.wikipedia.org/wiki/Sampling_%28music%29 (last visited Jan. 25, 2006).

51. *See generally* Szymanski, *supra* note 1, at 278.

existed prior to this time.⁵² In the early days of sampling, artists would sample traditional instruments, such as pianos, drums, and wind instruments, or other ambient sounds to incorporate into their music.⁵³ With the advent of digital sampling, it was not long before artists strayed from sampling traditional or ambient sounds, a practice which was rarely if ever challenged as infringing, and began sampling copyrighted pre-recorded sound recordings by other artists.⁵⁴ The switch in sources of works for sampling presumably occurred because digital sampling, unlike analog sampling, allows artists to easily sample from commercially available digital media, such as compact discs, while gaining a greater ability to alter the speed, pitch, and other characteristics of a sample.⁵⁵

This practice of digitally sampling sound recordings led to an increase in litigation in the 1990s, and remains a hotly contested issue today.⁵⁶ Owners of the sampled sound recordings often maintain that an “unauthorized use of a previously recorded song constitutes copyright infringement.”⁵⁷ Despite this objection, digital sampling has many advantages for the artist who uses samples. If an artist wishes to sample a particular sound found in another song in his own recording, the savings in production costs can be significant, since it is usually more expensive to record in a studio with live musicians than to digitally sample from other media.⁵⁸ Whereas a single compact disc usually costs no more than twenty dollars, it may cost hundreds if not thousands of dollars to hire musicians and pay for studio time. A “sampler,” the device most commonly used for sampling, records sound through a microphone or a direct source, such as a compact disc, and digitally stores the information to produce a perfect reproduction that can be manipulated and inserted into a new song.⁵⁹ Furthermore, a digital sampler released in 1975 for a price of \$30,000 had

52. *Id.* at 277 (explaining that sampling was occurring during the 1960s).

53. See, e.g., Danielle L. Gilmore & Kenneth L. Burry, *Healthy Sampling: Digital Music Sampling Creates High-Stakes Challenges to Existing Copyright Law for the Recording Industry*, 20 L.A. LAW. 40, 42, Apr. 1997.

54. See *id.*

55. See *id.*

56. See generally Astride Howell, *Sample This! A Ninth Circuit Decision Seems to be in Harmony with the Sixth Circuit's Bright-Line Rule on what Constitutes Infringement in Digital Sampling*, 28 L.A. LAW. 24, 26, Sept. 2005 (explaining that litigation began in the 1990s).

57. Gilmore, *supra* note 53, at 42.

58. See Sandra L. Brown, *Sound Recording Advances Call for Change in Law*, N.Y. L.J., July 14, 1995, at 5 (noting that practice of using samples to achieve “desired sound” is “becoming increasingly popular” in order to save money).

59. Gilmore, *supra* note 53, at 42.

dropped in price to \$1,500 by 1986.⁶⁰ Today, one can purchase a digital sampler on Amazon.com for less than \$200.⁶¹ Many see this trend as one that replaces live performances by musicians with cheaper versions of themselves—usually, their own compact discs.⁶²

B. Digital Sampling: The Caselaw

The rise of the practice of digital sampling has led to many cases dealing with this issue. *Grand Upright Music Ltd. v. Warner Brothers Records, Inc.*⁶³ was one of the first cases to address digital sampling, and is famous for its opening sentence: “Thou shalt not steal.”⁶⁴ In *Grand Upright*, defendants admitted to use of three words and the accompanying background music from plaintiffs’ sound recording.⁶⁵ Although the main issue in the case was one of ownership of the sound recording, unrelated to sampling, the court assumed that a license was required to sample, stating that defendants “knew they were violating the plaintiff’s rights” by not securing a proper license.⁶⁶ Despite the court’s failure to fully address whether the sampling at issue was a de minimis use that did not constitute infringement, *Grand Upright* is credited for marking “the ‘end of the days of casual sampling’ and the beginning of widespread licensing of samples.”⁶⁷

In *United States v. Taxe*, defendants purchased eight-track stereo tape recordings from a retail outlet.⁶⁸ Defendants took samples from these recordings, altered them, included them in a new recorded work, and sold the new eight-track stereo tapes to the public.⁶⁹ The Ninth Circuit held that

60. Jon Pareles, *Digital Technology Changing Music*, N.Y. TIMES, Oct. 16, 1986, at C23 (explaining that “the original Fairlight sampler, introduced in 1975, cost \$30,000; the same level of sampling technology now costs about \$1,500”); see also Fairlight CMI, WIKIPEDIA: THE FREE ENCYCLOPEDIA, http://en.wikipedia.org/wiki/Fairlight_CMI (last visited Feb. 22, 2006).

61. See, e.g., Amazon.com, http://www.amazon.com/gp/search.html/ref=xs_ap_1_xglna/104-78479522824719?index=mi&node=11965861&keywords=digital%20sampler (last visited Nov. 25, 2005).

62. See, e.g., Pareles, *supra* note 60.

63. 780 F. Supp. 182 (S.D.N.Y. 1991).

64. *Id.* at 183.

65. See *id.*

66. *Id.* at 184-85.

67. Christopher D. Abramson, Note, *Digital Sampling and the Recording Musician: A Proposal for Legislative Protection*, 74 N.Y.U. L. REV. 1660, 1673 (1999) (quoting DONALD S. PASSMAN, ALL YOU NEED TO KNOW ABOUT THE MUSIC BUSINESS 296 (1997)).

68. 540 F.2d 961, 964 (9th Cir. 1976).

69. *Id.*

the trial judge's jury instruction was incorrect to the extent that it characterized all re-recordings as infringement, but that its subsequent inclusion of a substantial similarity consideration was correct.⁷⁰ The proper rule, according to the court, is that a sound recording copyright owner's right to reproduce "can be infringed by an unauthorized re-recording which, despite changes in the sounds duplicated, results in a work of 'substantial similarity.'"⁷¹ Thus, while the *Taxe* court's analysis allowed for an exploration of substantial similarity, it too remained silent as to whether sampling was a de minimis use, and whether such use would constitute infringement.

More recently, in *Newton v. Diamond*,⁷² the court addressed whether digital sampling requires a license for *both* the sound recording and the musical composition.⁷³ Since the defendants, Beastie Boys, had obtained a license for use of plaintiff's copyrighted sound recording,⁷⁴ the only question remaining was whether the Beastie Boys also needed a license for the musical composition to digitally sample.⁷⁵ Defendants sampled a six-second, three-note segment of Newton's composition "Choir" and included it in their recorded song "Pass the Mic."⁷⁶ The court concluded that it was not necessary to obtain a license for use of the musical composition embodied in the sound recording.⁷⁷ Since the digitally sampled portion was so minimal as to constitute a de minimis use of the musical composition, no actionable infringement existed.⁷⁸ While the case demonstrates that the de minimis principle applies to determining infringement of a copyright in a musical composition, it is not instructive in determining whether the same rule also applies to sound recordings. This precise issue was addressed by the Sixth Circuit in *Bridgeport*.⁷⁹

III. *BRIDGEPORT MUSIC, INC. V. DIMENSION FILMS*

Despite previous cases involving both sampling and copyrighted sound recordings, *Bridgeport* was the first case to directly address the legal consequences of digital sampling of sound recordings. When the *Grand Up*-

70. *Id.* at 965.

71. *Id.* at n.2.

72. 388 F.3d 1189 (9th Cir. 2003).

73. *See id.* at 1190.

74. *Id.*

75. *Id.*

76. *See id.* at 1190-91.

77. *Id.* at 1190.

78. *Id.*

79. *Bridgeport Music, Inc. v. Dimension Films*, 410 F.3d 792 (6th Cir. 2005).

right decision came down in 1991, there was an increase in the prevalence of licensing for samples of sound recordings, probably caused by fear of the possible legal repercussions of not seeking permission.⁸⁰ Nevertheless, as evidenced by *Bridgeport*, some artists continued to sample without licenses.⁸¹

A. Facts and Procedural History

Plaintiff, Westbound Records, Inc. (“Westbound”), filed suit against defendant, No Limit Films LLC (“No Limit”), for copyright infringement after No Limit digitally sampled a portion of a sound recording owned by Westbound, “Get Off Your Ass and Jam” (“Get Off”) by George Clinton, Jr. and the Funkadelics.⁸² Recording artist N.W.A. inserted this sample into its song “100 Miles and Runnin” (“100 Miles”), which was owned by No Limit and subsequently used in the soundtrack of a movie.⁸³ Specifically, 100 Miles included a two second guitar riff consisting of three notes played consecutively at a quick pace.⁸⁴ The recording artist lowered the pitch of the sample, looped the copied piece to extend to sixteen beats which lasted seven seconds, and repeated this seven second segment five times in the song.

No Limit moved for summary judgment on the grounds that the sample taken was unoriginal and thus unprotected, and even if it were protected, that the sample constituted a de minimis use, and therefore was not infringing.⁸⁵ Although the court determined that the sample was original and entitled to copyright protection, it granted summary judgment to No Limit, finding that under either a de minimis analysis or a “fragmented literal similarity” test,⁸⁶ No Limit’s sampling did not “rise to the level of a legally cognizable appropriation.”⁸⁷ Concluding that no reasonable juror would recognize the sample and its source, the court held that the alleged infringement was de minimis and not actionable.⁸⁸ Westbound appealed,

80. *See id.* at 803 n.16.

81. *See id.* at 796.

82. *Id.* at 795-96.

83. *Id.*

84. *Id.* at 796.

85. *Id.* at 796-97.

86. 1 NIMMER, *supra* note 9, § 13.03[A][2] (explaining that fragmented literal similarity means that a work was copied virtually word for word but the part that was copied is not the essence or fundamental substance of the original work).

87. *Bridgeport*, 410 F.3d at 797.

88. *Id.* at 798.

arguing that the district court erred in its interpretation of the applicable standard and in its finding that there was no genuine issue of fact.⁸⁹

B. The Sixth Circuit's Opinion

The Sixth Circuit reversed the district court's ruling, finding that a de minimis analysis applies only to liability for copying musical compositions, not sound recordings.⁹⁰ The court concluded that a substantial similarity or de minimis inquiry is inappropriate when the defendant admits to digitally sampling a protected work.⁹¹ The Sixth Circuit acknowledged that there was no precedent for it to follow, and thus grounded its analysis on a "literal reading" of the applicable statutes, supported by law review articles and other writings.⁹² The court first closely examined the statutory definition of the exclusive rights of the owners of sound recording copyrights granted by § 106 and § 114(a).⁹³ It reasoned that since the owner of a sound recording copyright is granted the right to create derivative works, which encompasses rearranging, remixing, or otherwise altering the actual sounds,⁹⁴ to avoid infringement an artist who digitally samples a copyrighted sound recording is required to "[g]et a license or do not sample."⁹⁵ Thus, even a de minimis use will constitute a derivative work and infringe the rights of a copyright owner. The court went on to explain that insertion of the word "entirely" in § 114(b) meant that Congress intended that recording *any part* of another's sound recording would constitute infringement, and that only a sound recording copyright owner could sample his own work without a license.⁹⁶ In support of its conclusion, the court relied on literature stating that:

89. *Id.* at 797.

90. *See id.* at 798.

91. *Id.* The court also agreed that "the only issue is whether the actual sound recording has been used without authorization." *Id.* at 798 n.6 (quoting Bradley C. Rosen, 22 CAUSES OF ACTION § 12 (2d ed. 2003)).

92. *Id.* at 805; *see id.* at 802-03.

93. *See supra* Sections I.A-B.

94. *Bridgeport*, 410 F.3d. at 800 (referencing 17 U.S.C. § 114(b)); *see supra* Sections I.A-B.

95. *Id.* at 801. The court found support for this conclusion in a law journal article that explained a license was required regardless of "how much a digital sampler alters the actual sounds or whether the ordinary lay observer can or cannot recognize the song." *See id.* at 801 n.10 (quoting Susan J. Latham, *Newton v. Diamond: Measuring the Legitimacy of Unauthorized Compositional Sampling—A Clue Illuminated and Obscured*, 26 HASTINGS COMM. & ENT. L.J. 119, 125 (2003)).

96. *Id.* at 801; *see supra* Sections I.A-B.

By using the words ‘*entirely* of an independent fixation’ in referring to sound recordings which may imitate or simulate the sounds of another, Congress may have intended that a recording containing *any* sounds of another recording would constitute infringement. Thus, it would appear that *any* unauthorized use of a digital sample taken from another’s copyrighted recording would be an infringement of the copyrighted recording.⁹⁷

The court also addressed policy rationales in support of its holding—namely that a bright-line rule accomplishes ease of enforcement without stifling creativity.⁹⁸ First, the court declared that the market will control the price of licenses, and that this price should never exceed the cost of duplicating the sound in a studio.⁹⁹ Creativity, the court reasoned, is left to flourish because one can always imitate the sound of any sound recording on one’s own, so long as they do not physically duplicate the original sound recording.¹⁰⁰ The court noted that their rule protects the value in sound recordings by preventing artists who sample from directly benefiting from another’s recording without compensating the author of the original work.¹⁰¹ The court also reasoned that its rule was economically efficient, as it is cheaper to obtain a sound recording license than to litigate disputed takings.¹⁰² Lastly, the court pointed out that there is a benefit to judicial economy in employing a bright-line rule as opposed to a de minimis analysis since the former eliminates the need for an individual analysis of the multiple differences in each of future cases.¹⁰³ A bright-line test limits judicial inquiry to two questions: whether there was sampling and whether a license was obtained.¹⁰⁴

Finally, it is important to note that the court explicitly entertained the idea that the fair use defense might still be considered by the district court on remand.¹⁰⁵

97. *Bridgeport*, 410 F.3d at 804 n.18 (quoting AL KOHN & BOB KOHN, KOHN ON MUSIC LICENSING 1486-87 (3d ed. 2002) (footnotes omitted)).

98. *Id.* at 801.

99. *Id.*

100. *Id.*

101. *See id.* at 802.

102. *Id.*

103. *See id.*

104. *See id.* at 804. The court is careful to acknowledge, however, that judicial economy is not what drove its decision. *See id.* at 802.

105. *Id.* For a discussion of the relevance of the applicability of the fair use defense, *see infra* Section IV.B.

IV. ANALYSIS

The *Bridgeport* court's analysis of The Act as it pertains to sound recordings is contrary to legislative history and unjustifiably departs from the well-established doctrine of *de minimis*. Nonetheless, defendants may still be able to sample without a license by utilizing the fair use doctrine.

A. Statutory Interpretation Gone Awry

In *Bridgeport*, the court departed from *de minimis* and substantial similarity principles, the use of which is well-established in the analysis of musical compositions and copyright infringement,¹⁰⁶ holding that these principles are not applicable where there has been direct copying of a sound recording.¹⁰⁷ This divergence is questionable in light of prior cases and the legislative history of § 114. The following Section will evaluate the court's analysis in relation to established rules of statutory interpretation, and provide an alternative interpretation of The Act in light of evident Congressional intent.

When interpreting a statute to determine its proper application, courts must generally start with the plain meaning of the text.¹⁰⁸ If the "terms of a statute [are] unambiguous, judicial inquiry is complete"¹⁰⁹ and the "sole function of the court is to enforce it according to its terms."¹¹⁰ The *Bridgeport* court used a literal approach to interpret Section 114(b) of The Act, which states that:

[t]he exclusive rights of the owner of copyright in a sound recording . . . do not extend to the making or duplication of another sound recording that consists *entirely* of an independent fixation of other sounds, even though such sounds imitate or simulate those in the copyrighted sound recording.¹¹¹

Based on this interpretation, the court concludes that Congress intended that any unauthorized sampling is infringement.¹¹²

106. See, e.g., *Copyright Law—Sound Recording Act—Sixth Circuit Rejects De Minimis Defense to the Infringement of a Sound Recording Copyright*, 118 HARV. L. REV. 1355 (2005).

107. See *Bridgeport*, 410 F.3d at 798.

108. See, e.g., *Mansell v. Mansell*, 490 U.S. 581, 588 (1989).

109. *Taylor v. Freeland & Kronz*, 938 F.2d 420, 424 (3d Cir. 1991) (quoting *Demarest v. Manspeaker*, 498 U.S. 184, 190 (1991)), *aff'd*, 503 U.S. 638 (1992).

110. *Caminetti v. United States*, 242 U.S. 470, 485 (1917).

111. 17 U.S.C. § 114(b) (emphasis added).

112. *Bridgeport*, 410 F.3d at 804 n.18 (quoting AL KOHN & BOB KOHN, KOHN ON MUSIC LICENSING 1486-87 (3d ed. 2002) (footnotes omitted)).

The court's reliance on the word "entirely" is flawed. The sentence containing this word, when read in context, describes a limitation on the rights of a copyright owner insofar as it explains that a sound recording copyright owner has *no recourse* against a new work that is an entirely independent fixation despite imitating the sounds of the original sound recording. The statute does not state that a sound recording copyright owner *does* have undeniable recourse against a new work that is *not* an entirely independent fixation, as the court concludes. The text itself is silent as to the rights of a copyright owner of a sound recording when it comes to works that are *not* entirely independently fixed, including where the work makes de minimis uses, as the use in *Bridgeport* arguably is. Digital sampling by nature requires the taking of some portion of a previously recorded work, which means the new work is not entirely independently fixed. However, the quantity of the original work used in the new work is what lays the foundation for a de minimis argument. The language of the statute does not demonstrate a congressional intent to confer a benefit on sound recording copyright owners by making the de minimis doctrine, which normally would apply to activities which would constitute infringement but for the minimal use, unavailable to defendants in sampling cases.

The *Bridgeport* court also employed a literal interpretation of the statute in its treatment of derivative works. It found that a sound recording copyright owner has the exclusive right to prepare derivative works and accordingly, "[a] recording that embodies samples taken from the sound recording of another is by definition a 'rearranged, remixed, or otherwise altered in sequence or quality.'"¹¹³ The court reasoned that a new work which digitally samples from a protected sound recording, even if de minimis, is considered a derivative work and therefore infringes on the sound recording copyright owner's right to prepare derivative works.¹¹⁴ This finding departs from current judicial practice in copyright law, which accepts the well established de minimis principle in light of the derivative work right.¹¹⁵ The court fails to explain why the de minimis principle is available when determining infringement of a musical composition copyright regardless of the derivative work right granted therein, yet is not

113. *Id.*

114. *Bridgeport*, 410 F.3d at 800-01.

115. *See, e.g., Newton*, 388 F.3d 1189, 1196-97 (9th Cir. 2004) (finding that a three note use of the musical composition was a de minimis use and did not constitute infringement).

available to derivative works of sound recordings.¹¹⁶ In essence, by excluding the use of de minimis doctrine, and by characterizing the alleged infringing work in sound recording sampling cases as a derivative work, the *Bridgeport* court grants to sound recording copyright owners a stronger right to prepare derivative works than it does to musical composition copyright owners. The court does not provide any justification for these disparate levels of protection, stating only that a digital sample fits the definition of a derivative work for a sound recording, “a rearranged, remixed, or otherwise altered in sequence or quality.”¹¹⁷ Furthermore, the court did not analyze whether the sample in this case was “rearranged, remixed, or otherwise altered in sequence or quality,” leaving future courts in the dark as to the contours of this standard. Given the absence of any details in the statute, the exemption of sound recordings from a de minimis analysis based on an argument that it infringes the derivative work right is unjustified.

Absent a finding of ambiguity, the court can still consult legislative history if a literal reading produces a result at “odds with the intentions of its drafters.”¹¹⁸ The Supreme Court has stated, “that the authoritative source for finding the Legislature’s intent lies in the Committee Reports on the bill.”¹¹⁹ The *Bridgeport* court determined that “[t]he legislative history [was] of little help because digital sampling wasn’t being done in 1971.”¹²⁰ The court is incorrect—the legislative history is relevant and reveals that the court’s conclusions regarding de minimis and derivative works are contrary to congressional intent.

The committee reports from prior to passage of the Copyright Act of 1976 illuminate Congress’s intentions regarding the rights and limitations conferred on a sound recording copyright owner. These reports suggest Congress did not intend for sound recording copyright owners to be exempt from a de minimis analysis or afforded more protection than musical composition copyright owners. The House report reveals that Congress envisioned a test of substantial similarity to determine if a sound recording is infringed. The record clearly states that sound recording “infringement

116. See Harvard Law Review, *supra* note 106, at 1359 (explaining that Section 114 of Title 17 should not be interpreted to grant a sound recording copyright holder a stronger or additional right).

117. *Bridgeport*, 410 F.3d at 800.

118. *United States v. Ron Pair Enters., Inc.*, 489 U.S. 235, 242 (1989) (quoting *Griffin v. Oceanic Contractors, Inc.*, 458 U.S. 564, 571 (1982)).

119. *Eldred v. Ashcroft*, 537 U.S. 186, 210 n.16 (2003) (quoting from prior Supreme Court opinions).

120. *Bridgeport*, 410 F.3d at 805.

takes place whenever *all or any substantial portion* of the actual sounds that go to make up a copyrighted sound recording are reproduced in phonorecords . . . or by reproducing them in the soundtrack or audio portion of a motion picture or other audiovisual work.”¹²¹ The Senate Report equally supports this proposition regarding the reproduction right in copyrighted works and reads, “[a]s under the present law, a copyrighted work would be infringed by reproducing it in whole or in any substantial part.”¹²² Thus, it is known that Congress considered infringement actionable when a substantial part of the original is copied. The report is silent when it comes to determining if a de minimis use is actionable infringement for sound recordings; two inferences can be made from this silence. First, Congress’s intent that substantial similarity results in infringement inherently assumes that the opposite is equally true: if there is not substantial similarity, then there is not infringement. Second, Congress may have assumed that given the relatively broad acceptance of the de minimis principle, there was no need to explicitly confirm its applicability. Hence, by not explicitly eliminating its application to sound recordings, it can be implied that de minimis was expected to apply to sound recordings as it does in other legal areas. Read against the background of existing law at the time Congress granted sound recordings copyright protection, it is odd that the *Bridgeport* court concluded that a de minimis analysis is unavailable for sound recordings merely because digital sampling did not exist at the time.

The legislative history of the Copyright Act of 1976 illuminates a similar problem with regard to the *Bridgeport* court’s conclusions about derivative works. The House Report does not explicitly state whether a de minimis use can be characterized as a derivative work. Perhaps Congress did not explicitly state that a de minimis use should not be characterized as a derivative work because it assumed that the derivative work right for sound recordings would be applied in the same manner as that for musical compositions, where a de minimis use is not considered a derivative work and does not infringe the right of the copyright owner to create derivative works.

In its entirety, it appears that the *Bridgeport* court’s reasoning is subject to justifiable counterarguments. The court’s focus on the word “entirely” in the statute failed to account for the context in which the word appeared. Furthermore, the legislative history of The Act suggests that the

121. H.R. REP. NO. 94-1476 (1976), *reprinted in* 1976 U.S.C.C.A.N. 5659, 5721 (emphasis added).

122. S. REP. NO. 94-473, at 58 (1975).

legal principle of de minimis is equally applicable to sound recordings as it is to musical compositions regardless of a derivative work right.

B. The Impact of a Fair Use Defense

Although the court's ruling cuts against clearly established judicial principles regarding de minimis use and the derivative work right, the impact of its holding remains to be seen. The following Section explores the likely impact of the court's holding on both courts and potential litigants.

The *Bridgeport* court eliminated the application of the de minimis use exception at the stage where it is determined whether works are sufficiently similar to constitute actionable copying. The court appeared to have been compelled by "a rare opportunity to follow a 'bright line' rule . . . [that] would promote a faster resolution of [sampling] disputes,"¹²³ and follows a much simpler approach by asking whether a license was obtained to sample; if not, then actionable infringement exists. Although the court offers a judicial economy argument to promote its bright-line rule, its retention of the fair use defense in copyright sound recording cases¹²⁴ arguably both mitigates the potential practical impact of the court's decision, and undercuts its arguments for judicial economy.

By eliminating the ability to argue de minimis at the substantial similarity stage but allowing a fair use defense, the *Bridgeport* court has paradoxically created more work for courts, as a fair use defense requires more analysis than does the defense of de minimis for actionable infringement. At the substantial similarity stage, the finding that a defendant's use was de minimis would end the inquiry. Under fair use, a finding of de minimis use would only be one factor to be weighed against three others.¹²⁵ However, caseloads may be reduced somewhat to the extent that potential litigants may be unsure about their ability to make a fair use defense. In this scenario, samplers may prefer to get a license before digitally sampling and avoid litigation altogether.

The *Bridgeport* ruling may also have significant effects on litigants, with correlating effects on judicial caseloads. Litigants may be reluctant to enter into litigation regarding the complex, uncertain, and fact-intensive inquiry under the four-factor fair use analysis.¹²⁶ A fair use defense re-

123. *Bridgeport*, 410 F.3d at 804 n.18 (quoting AL KOHN & BOB KOHN, KOHN ON MUSIC LICENSING 1486-87 (3d ed. 2002) (footnotes omitted)).

124. *Id.* at 805 (noting that on remand the trial judge is free to consider a fair use defense).

125. See *Ringgold*, 126 F.3d at 76 (explaining that it makes more sense to reject a claim because the use is quantitatively insubstantial than undergo a fair use analysis).

126. See *supra* note 47 and accompanying text for a description of fair use analysis.

quires an analysis of four factors. In most cases, the first factor, purpose and character of the use, will likely weigh against the defendant, since most digital sampling is incorporated into commercially produced and released works.¹²⁷ The second factor, nature of the copyrighted work, would likely be moot.¹²⁸ The third factor, amount and the substantiality of the portion used, should almost always weigh in favor of the defendant, since sampling typically involves only a minimal taking from the original work. Furthermore, given the quantitative amount artists sample from protected works, it would be difficult to ever conclude that such a minimal taking also constituted the “heart of the original work,” a finding which would weigh against the defendant.¹²⁹ The fourth factor, effect on the market for the original work, depends largely on the genres of the two works involved in the case.¹³⁰ Where the two works are from different genres, this factor should weigh in favor of the defendant, as the new work will probably not impact the market for the original if the audiences for each genre do not overlap.¹³¹ Overall, although there is good reason to believe that a defendant can successfully tilt the balance of fair use in his favor, the effort and expense that would likely go into litigating the fair use issue is great, especially in light of the difficulty of winning a summary judgment motion on fair use.¹³²

Overall, courts will have to exert more effort in undergoing the analysis of a fair use defense rather than extinguishing the case on the basis of the *de minimis* principle. Similarly, litigants will have an uphill, although not unconquerable, battle in winning a sampling case on the basis of fair use.

C. The Future of Licensing for Digital Samples

The *Bridgeport* case effectively compels mandatory licensing for digital samples of sound recordings protected by copyright. Such a system has met with both criticism and praise from observers.

127. See 1 NIMMER, *supra* note 9, § 13.05[A][1][c].

128. See *id.* § 13.05[A][2][a].

129. See *id.* § 13.05[A][3].

130. See *id.* § 13.05[A][4] (explaining that the assessment is of the effect on the market for the copyrighted work).

131. If both works are from the same genre, however, the fourth factor may present more of an obstacle to a sampler. One argument available to a defendant in such a case is that the new work would not replace the original work because fans of a particular genre of music may still purchase the works of both artists.

132. See, e.g., *Harper & Row, Publishers, Inc. v. Nation Enters.*, 471 U.S. 539, 560 (1985) (explaining that fair use is a mixed question of law and fact). Rarely is there ever no genuine issue of material fact with regard to the four factors of a fair use defense.

In the genre of rap music, for example, a single album may include multiple samples ranging from instruments to spoken phrases. Some argue that obtaining licenses for each sample would be time consuming and increase production costs by tens of thousands of dollars,¹³³ while others go as far as to say that the *Bridgeport* decision will result in the death of the art form of hip-hop.¹³⁴ Requiring a license to digitally sample may also stifle creativity by impeding the entrance of artists into the field who cannot afford to obtain the license, but could afford to purchase a sampler and sample the sound recording.¹³⁵

Comprehensive licensing systems exist in other contexts and have succeeded without any major hindrances or clear evidence of impaired creativity.¹³⁶ Many major record labels have also established clearance departments to facilitate the implementation of licensing.¹³⁷ A mandatory licensing system also allows for musicians and record companies who have already invested in the production of the sound recording, with both their time and money, to be compensated by those who want to digitally sample the work. Furthermore, a licensing scheme would not necessarily stifle creativity, as the market would regulate the price of obtaining this license since the license would have to be cheaper than the cost of imitating the sound by re-recording it in a studio or the cost of defending a suit under a fair use theory.

One problem, however, that still exists with a mandatory sound recording licensing scheme is that the price of the license is not the only means by which creativity may be stifled. Non-economic reasons may also provide obstacles to obtaining licenses. For example, suppose the rap artist Eminem sought a license to sample from best-selling gospel singer Mahalia Jackson, but Jackson refused to grant such permission based on conflicting moral and political views. A compulsory license for sound re-

133. See, e.g., Sheila Rule, *Record Companies are Challenging 'Sampling' in Rap*, N.Y. TIMES, Apr. 21, 1992, at C13.

134. See, e.g., Gary Young, *6th Circuit Clamps Down on 'Sampling'*, NAT'L L.J. (Sept. 30, 2004) (quoting Lawrence E. Feldman of Feldman & Associates, who represent hip-hop musician Jazzy Jeff), available at <http://www.law.com> (registration required).

135. See generally Howell, *supra* note 56.

136. See U.S. COPYRIGHT CIRCULAR 73: COMPULSORY LICENSE FOR MAKING AND DISTRIBUTING PHONORECORDS 1 (2003), available at <http://www.copyright.gov/circs/circ73.pdf>; see also 17 U.S.C. § 115 (providing for a compulsory license system for phonorecords).

137. See, e.g., Young, *supra* note 134 (quoting Richard S. Busch of Nashville, Tennessee's King & Ballow law firm, which represented plaintiff Westbound Records, Inc. in *Bridgeport*).

cordings, as exists for musical compositions, would help avoid this type of situation.

In support of a mandatory licensing system, many “clearinghouses” for sampling have developed to ease the process of obtaining a license.¹³⁸ Clearinghouses usually work for the artist and are responsible for negotiating the license fee for sampling.¹³⁹ These clearinghouses would also be very familiar with the work of many artists. Therefore, they could advise artists seeking samples by indicating which works could likely be sampled and which works could not.¹⁴⁰ A good clearinghouse would also be able to ascertain the proper owner in the sound recording and therefore obtain a valid clearance on the sample.

On the whole, licensing, as long as rates are reasonable, seems to be a fair way to compensate artists who have already invested in creating a sound recording, while allowing others to make use of that work for a small price.

V. CONCLUSION

While many have criticized the *Bridgeport* court for departing from the basic principle of law of de minimis and carving out an exception to its use for digital sampling of sound recordings, the *Bridgeport* decision still allows defendants to argue fair use and potentially defeat an infringement claim on that ground. Had the court chosen to follow other areas of law, including copyright law for musical compositions, it could have applied the de minimis use exception to sound recordings. Instead, the court used a literal reading of the copyright statute to support a ruling that questionably contravenes congressional intent. In the end, mandatory licensing may represent a fair balance between promoting the goals of copyright law and protecting the work of others. Despite the criticism the *Bridgeport* court has received, it remains to be seen if its ruling will actually impact the way digital sampling occurs—after all, requiring licenses by law does not necessarily mean that artists will cease sampling without a license.

138. See Gilmore, *supra* note 53, at 68.

139. *Id.*

140. See *id.* (explaining that for example, Deborah Mannis-Gardner, of DMG, Inc., knows that Led Zeppelin samples “are not for sale at any price”).

TONEY V. L'OREAL USA, INC.: PERSONA AND THE UNFETTERED RIGHT OF PUBLICITY

By Farbod Moridani

When L'Oreal used pictures of June Toney to market its hair products after its contract with her had expired, it should have expected a lawsuit for breach of contract. But Toney did not file a breach of contract claim; she filed a right of publicity action, alleging that L'Oreal had misappropriated the commercial value of her image.¹ In response, L'Oreal claimed that Toney's right of publicity claim under state law was preempted by the Copyright Act under 17 U.S.C. § 301.² In the ensuing litigation, both the District Court for the Northern District of Illinois and the Seventh Circuit struggled to determine when § 301 preempts a right of publicity claim.³

Due to its inherently amorphous nature, the scope of the right of publicity and its relationship to copyright law has been a subject of debate ever since Congress passed the Copyright Act of 1976. The right of publicity, if never preempted, can interfere with rights traditionally exercised under copyright law such as distribution and performance.⁴ Such a conflict would occur when, for example, an individual purchases an exclusive-use license from a copyright holder to use material from a television show, but is prevented from using the material because the actors who appear in it claim a right to the commercial value of their persona as portrayed in the show.⁵ A copyright license would be of little value if anyone whose likeness appeared in the work could preclude its use. Congress's decision to delete language from the final version of § 301 that specifically enumerated which kinds of state claims federal copyright preempts forced the

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1. *Toney v. L'Oreal USA, Inc.*, No. 02 C 3002, 2002 U.S. Dist. LEXIS 21229 (N.D. Ill. Oct. 30, 2002) [hereinafter *Toney I*].

2. *See id.*; 17 U.S.C. § 301 (2000).

3. *Toney I*, 2002 U.S. Dist. LEXIS 21229; *Toney v. L'Oreal USA, Inc.*, 384 F.3d 486 (7th Cir. 2004) [hereinafter *Toney II*]; *Toney v. L'Oreal USA, Inc.*, 406 F.3d 905 (7th Cir. 2005) (rehearing) [hereinafter *Toney III*].

4. 17 U.S.C. § 106 (2000).

5. *See, e.g., Wendt v. Host Int'l, Inc.*, 125 F.3d 806 (9th Cir. 1997).

courts to decide whether § 301 preempted the right of publicity.⁶ This lack of definition has led to disparate interpretations across the circuit courts, and some confusion as to where the preemption line should lie for right of publicity claims.

Some commentators argue that § 301 should always preempt right of publicity claims, if only because the right is already protected in other ways.⁷ Others advocate merely a narrowing of the right of publicity rather than total preemption.⁸ An essential question underlies these critiques: what does the right of publicity accomplish, and can its protections remain robust without contradicting the goals of copyright law? The Supremacy Clause⁹ might provide some assistance by preempting the right of publicity where it conflicts with federal copyright law,¹⁰ yet courts have tended not to adopt this reading of the Supremacy Clause. As a result, the question remains: where should the law draw the line in preempting the right of publicity? The answer necessarily lies in balancing the goals of copyright against the underlying premise of the right of publicity.

This Note explores the implications of the Seventh Circuit's holding in *Toney III* that § 301 does not preempt right of publicity claims arising out of the unauthorized use of an individual's persona.¹¹ Part I explores the origins of the right of publicity under state law, and the assumptions on which the right is based. It then recounts the development of copyright preemption as it has applied to right of publicity claims, and discusses the different approaches scholars have taken in limiting or preserving the right of publicity. Part II presents the factual background of *Toney*, including a comparison of the logical rationales of each of the reviewing courts, up through the case's rehearing in the Seventh Circuit. Examining each of these courts' rationales illuminates the difficult task of balancing copyright concerns with publicity interests. Part III discusses the implications of *Toney III*, and the questions that remain regarding its effect on creative expression and the scope of § 106 rights. Finally, Part IV concludes that the *Toney III* court may have fashioned an unreasonably narrow preemp-

6. H.R. REP. NO. 94-1476, at 24 (1976).

7. See, e.g., Lee Goldman, *Elvis is Alive, But He Shouldn't Be: The Right of Publicity Revisited*, 1992 BYU L. REV. 597, 601-02 (1992).

8. See David W. Melville & Harvey S. Perlman, *Protection for Works of Authorship Through the Law Of Unfair Competition: Right of Publicity and Common Law Copyright Reconsidered*, 42 ST. LOUIS U. L.J. 363 (1998).

9. U.S. CONST. art. VI, cl. 2.

10. See Jennifer E. Rothman, *Copyright Preemption and the Right of Publicity*, 36 U.C. DAVIS L. REV. 199, 236-44 (2002) (advocating use of the Supremacy Clause as a test for when federal copyright law should preempt copyright claims).

11. *Toney III*, 406 F.3d 905, 910 (7th Cir. 2005).

tion rule and suggests that future cases must preempt a broader class of right of publicity claims in order to best effectuate traditional copyright principles.

I. BACKGROUND

A. The Evolution of Copyright Preemption

Prior to Congress's passage of the Copyright Act of 1976, copyright was a creature of both state and federal law.¹² Federal copyright protected published works, and state common law provided quasi-copyright¹³ protection for unpublished works.¹⁴ This dual system of copyright resulted in a lack of uniformity since state law provided perpetual protection for unpublished works,¹⁵ while federal protection was subject to a finite term of years.¹⁶ Further, the moment a work was published, state protection vanished,¹⁷ and the work either gained federal protection¹⁸ or fell into the public domain. The Copyright Act of 1976 sought to resolve this lack of uniformity by, among other things, expressly preempting all state laws that provide protections for copyrightable subject matter that are "equivalent to any of the exclusive rights within the general scope of copyright" as provided in the Copyright Act.¹⁹ However, Congress specifically excluded from the scope of preemption laws with respect to:

(1) subject matter that does not come within the subject matter of copyright as specified by sections 102 and 103, including works of authorship not fixed in any tangible medium of expression; or

12. H.R. REP. NO. 94-1476, at 129-33 (1976).

13. State protection of copyright works is often mistakenly referred to as "common law copyright." This is in fact incorrect, given that common law protection did not prevent copying of a work after publication. *See* *Batjac Prods. Inc. v. Goodtimes Home Video Corp.*, 160 F.3d 1223, 1225 n.1 (9th Cir. 1998). Further, state protection was not always by means of common law; it was often provided for by statute. *See, e.g.*, CAL. CIV. CODE § 980(a) (Supp. 2006).

14. *See* *Goldstein v. California*, 412 U.S. 546 (1973); *Wheaton v. Peters*, 33 U.S. 591 (1834).

15. *See* An Act to Amend and Consolidate the Acts Respecting Copyright, Act of March 4, 1909, ch. 320, § 2, 35 Stat. 1075, 1076 (codified at 17 U.S.C. §§ 1-62 (2000)).

16. 17 U.S.C. § 106A(b) (2000); *see* U.S. CONST. art 1, § 8, cl. 8.

17. *See* *Magnuson v. Video Yesteryear*, 85 F.3d 1424, 1428 (9th Cir. 1996) ("Under the 1909 Act, common law copyright terminated when a work was published, at which point the work became eligible for federal statutory copyright.").

18. *See* 17 U.S.C. §§ 102-106 (2000).

19. 17 U.S.C. § 301(a).

- (2) any cause of action arising from undertakings commenced before January 1, 1978;
- (3) activities violating legal or equitable rights that are not equivalent to any of the exclusive rights within the general scope of copyright as specified by section 106; or
- (4) State and local landmarks, historic preservation, zoning, or building codes, relating to architectural works protected under section 102(a)(8).²⁰

Courts have struggled to determine when protection afforded by a particular state law is “equivalent to any of the exclusive rights within the general scope of copyright”²¹ such that it should be preempted by federal copyright law under § 301(a). This struggle has been particularly pronounced with respect to right of publicity claims.

B. The Right of Publicity

The right of publicity, though implemented through statute,²² arises from two principles embedded in the common law: the right of privacy and the commercial exploitation of property. The typical right of publicity statute protects individuals’ “marketable identities from commercial misappropriation by recognizing their right to control and profit from the use of their names and nicknames, likenesses, portraits, performances (under

20. 17 U.S.C. § 301(b). Section 102 enumerates the following works as copyrightable subject matter:

- (1) literary works;
- (2) musical works, including any accompanying words;
- (3) dramatic works, including any accompanying music;
- (4) pantomimes and choreographic works;
- (5) pictorial, graphic, and sculptural works;
- (6) motion pictures and other audiovisual works;
- (7) sound recordings; and
- (8) architectural works.

17 U.S.C. § 102 (2000). Section 103 extends copyrightable subject matter to include compilations and derivative works. 17 U.S.C. § 103 (2000).

21. 17 U.S.C. § 301. Exclusive rights afforded by the Copyright Act include the rights of reproduction, creation of derivative works, distribution, public performance, and public display. *See* 17 U.S.C. § 106 (2000).

22. *See* CAL. CIV. CODE § 3344 (West 1997); FLA. STAT. § 540-08 (West 2002); 765 ILL. COMP. STAT. 1075/10 (West 2001); NEV. REV. STAT. § 597.790 (2004); OHIO REV. CODE ANN. §§ 2741.01-.02 (Supp. 2005); OKLA. STAT. tit. 12, § 1449 (1993); 42 PA. CONS. STAT. § 8316 (Supp. 2004); TENN. CODE ANN. § 47-25-1105 (Supp. 2001).

certain circumstances), biographical facts, symbolic representations, or anything else that evokes [their] marketable identity.”²³

The right of privacy is based on the principles embodied in Samuel Warren and Louis Brandeis’s seminal law review article of 1890, in which the authors called for a “right to be let alone” in an age where technological advancements made the dissemination of private facts increasingly onerous.²⁴ The first case to apply this “right to be let alone” in a way that resembles the modern right of publicity, *Pavesich v. New England Life Insurance Co.*, involved a newspaper published in Atlanta, Georgia that printed an advertisement for the New England Mutual Life Insurance Company (“N.E. Mutual”).²⁵ The newspaper used a picture of Paolo Pavesich in the advertisement along with a caption underneath the picture which read: “In my healthy and productive period of life I bought insurance in the New England Mutual Life Insurance Co., of Boston, Mass., and to-day my family is protected and I am drawing an annual dividend on my paid-up policies.”²⁶ N.E. Mutual acquired and used Pavesich’s picture without his consent.²⁷ Pavesich filed suit, and the Supreme Court of Georgia held that “the publication of one’s picture without his consent by another as an advertisement, for the mere purpose of increasing the profits and gains of the advertiser, is an invasion of [the] right” to privacy.²⁸ As a result, Pavesich had a valid claim for damages.²⁹

In *Pavesich*, the prohibition against using an individual’s likeness for profit without consent was intended merely to protect a private individual from “wounded feelings.”³⁰ However, over the next fifty years, with the rise of movies, television shows, sports, and the celebrities that came along with them, courts became wary of “wounded feelings” claims arising every time the media covered celebrity news.³¹ In response, courts began limiting celebrities’ right to preclude unauthorized use of their like-

23. Pamela Edwards, *What's the Score?: Does the Right of Publicity Protect Professional Sports Leagues?*, 62 ALB. L. REV. 579, 581 (1998); see, e.g., CAL. CIV. CODE § 3344 (West 1997).

24. Samuel D. Warren & Louis Brandeis, *The Right to Privacy*, 4 HARV. L. REV. 193 (1890).

25. 50 S.E. 68 (Ga. 1905).

26. *Id.* at 68-89.

27. *Id.*

28. *Id.* at 81.

29. *Id.*

30. *Id.* at 73.

31. See Goldman, *supra* note 7, at 603-07.

nesses, holding that celebrities and other public figures had by virtue of their celebrity consented to use of their likeness.³²

In an effort to recoup their newly-limited ability to control the use of their images, celebrities began claiming a property interest in the commercial value of their likenesses. The first court to recognize such an interest was the Second Circuit in *Haelan Laboratories, Inc. v. Topps Chewing Gum, Inc.*³³ Haelan Laboratories ("Haelan") had a contract with several Major League Baseball players, acquiring exclusive permission to use their photographs on chewing gum wrapping.³⁴ A competing chewing gum company thereafter used the same photographs on its own wrapping without Haelan's permission,³⁵ and Haelan sued, claiming an exclusive right to the commercial value of the baseball players' likenesses in the photographs.³⁶ The Second Circuit held that individuals have the right to control the commercial use of their likenesses and to assign that right to others through contract.³⁷ The court rejected the contention, made by other courts at the time,³⁸ that a "right of publicity" claim was merely an attempt to prevent hurt feelings resulting from unauthorized publication of one's picture.³⁹ Rather, the court reasoned that individuals whose identities carried economic value should not be deprived of "money for authorizing advertisements, popularizing their countenances, displayed in newspapers, magazines, busses, trains and subways."⁴⁰ The court likened the right to

32. See Melville B. Nimmer, *The Right of Publicity*, 19 LAW & CONTEMP. PROBS. 203, 204-06 (1954).

33. 202 F.2d 866 (2d Cir. 1953).

34. *Id.* at 867.

35. *Id.*

36. *Id.*

37. *Id.* at 868.

38. The district court for the Eastern District of New York had held earlier that: The rights and remedies of the persons aggrieved are purely personal and not assignable. Rights for outraged feelings are no more assignable than would be a claim arising from a libelous utterance. The alleged agreements made between the actresses in question and the plaintiff, under which the plaintiff was given the exclusive right to publish the portraits, may have conferred rights which the plaintiff might have protected by copyright, but none in favor of the plaintiff against the defendants under the Civil Rights Law of Privacy.

Bowman Gum, Inc. v. Topps Chewing Gum, Inc., 103 F. Supp. 944, 951 (E.D.N.Y. 1952).

39. *Haelan Labs*, 202 F.2d at 868.

40. *Id.*

control one's identity to a property interest that can be negotiated, licensed, and assigned.⁴¹

The principles underlying *Pavesich* and *Haelan Laboratories* together formed the modern right of publicity. Courts since have consistently protected individuals' right to preclude the use of their likeness, especially when that likeness has inherent economic value.⁴² However, the scope of this right has come into question because it primarily benefits celebrities and, in its broadest application, conflicts with fundamental principles underlying copyright law.

C. Balancing the Right of Publicity with Copyright

Commentators disagree about the general validity and proper scope of the right of publicity.⁴³ A broad interpretation of the right of publicity can result in interference with, or even abrogation of, copyrights. For example, if any person whose face appears in a film could prevent distribution of the movie through a right of publicity claim, the movie industry would be brought to its knees. Conversely, a very narrow construction of the right of publicity leaves private individuals vulnerable to exploitation of their likenesses for the profit of others. This Section provides a brief overview of scholarly attempts to deal with these issues, and to balance the right of publicity with copyright. These attempts include suggesting complete elimination of the right of publicity, limiting the scope of the right, and limiting it so far as it conflicts with federal law.

1. *Eliminating the Right of Publicity*

Professor Lee Goldman advocates abandoning the right of publicity altogether.⁴⁴ Goldman argues that neither an incentive rationale, a personal autonomy rationale, nor an unjust enrichment rationale for the right of publicity justifies giving people, in the end mostly celebrities, a property

41. *See id.*

42. An individual does not need to be a celebrity in order to state a right of publicity claim. Neither must the individual's likeness have significant inherent economic value. *See, e.g., CAL. CIV. CODE* § 3344 (2000). But those bringing right of publicity claims today overwhelmingly tend to be celebrities seeking to protect the value of their likenesses. *See Goldman, supra* note 7, at 604-07. This marks a departure from the origins of the right of publicity. What originally protected a private individual's right "to be let alone," now primarily protects the economic interests of those who profit most from not being private individuals. *Compare Pavesich v. New England Life Ins. Co.*, 50 S.E. 68 (1905), with *Midler v. Ford Motor Co.*, 849 F.2d 460 (9th Cir. 1988).

43. *See generally Goldman, supra* note 7; Stacey L. Dogan & Mark A. Lemley, *What the Right of Publicity Can Learn From Trademark Law*, *STAN. L. REV.* (forthcoming); Melville & Perlman, *supra* note 8.

44. Goldman, *supra* note 7, at 598.

interest in the use of their likenesses.⁴⁵ Regarding the incentive rationale, Goldman argues that any analogy to patent and copyright incentives is incorrect.⁴⁶ Copyright and patent protections provide an economic incentive for people to produce creative works and novel inventions which will ultimately benefit the public.⁴⁷ The right of publicity, on the other hand, results in no benefit to the public.⁴⁸ Rather, Goldman argues, it simply provides added economic benefit to people who have already succeeded in creating economic value in their image: “[I]t is the Madonnas and Michael Jordans who reap the greatest rewards from the right of publicity, not the struggling actor or author.”⁴⁹ Since the right of publicity rewards individuals who have already succeeded in attaining money and fame, the right simply allows for, and legally sanctions, excess. It does not provide an incentive to do anything other than economically to exploit the use of one’s likeness.

Goldman also rejects the personal autonomy rationale for a broad right of publicity.⁵⁰ Given that the people commonly filing right of publicity claims are celebrities, “the notion that the individual should have absolute control over the use of his or her identity is quaint, but naïve.”⁵¹ According to Goldman, this rationale should be limited to private, non-celebrity individuals.⁵² It should not be available to celebrities because they “arguably have waived certain rights to privacy, are routinely subject to media scrutiny . . . and often can effectively respond to public misrepresentations.”⁵³ The same is not true for the Pavesiches of the world.⁵⁴

Goldman rebuffs the unjust enrichment rationale for the right of publicity as well.⁵⁵ He denies the notion that people are entitled to the “fruits of their labor,” arguing that “our culture permits many forms of free-riding.”⁵⁶ In fact, many celebrities benefit from free-riding because of the increased publicity and, even if they do not benefit, they do not suffer ei-

45. Goldman, *supra* note 7, at 604-13. Professor Goldman is not the only one to question the theoretical justification for a right of publicity. *See generally* Dogan & Lemley, *supra* note 43.

46. Goldman, *supra* note 7, at 605.

47. Goldman, *supra* note 7, at 605.

48. Goldman, *supra* note 7, at 605.

49. Goldman, *supra* note 7, at 604.

50. Goldman, *supra* note 7, at 606-07.

51. Goldman, *supra* note 7, at 606.

52. Goldman, *supra* note 7, at 608.

53. Goldman, *supra* note 7, at 608.

54. *See Pavesich v. New England Life Ins. Co.*, 50 S.E. 68 (1905).

55. Goldman, *supra* note 7, at 608-09.

56. Goldman, *supra* note 7, at 609.

ther: "Madonna's and Michael Jackson's media coverage is exhaustive (and exhausting); the marketplace is filled with their memorabilia. Nevertheless, their concerts always sell out."⁵⁷ Further, profiting through the use of another's likeness does not necessarily "place[] the originator at a competitive disadvantage" because the misappropriator usually "does not compete in the celebrity's primary market."⁵⁸ In effect, Goldman argues that because celebrities do not suffer when their likeness is misappropriated, and because historically the United States has not recognized a natural right to the fruits of one's labor, the unjust enrichment theory is simply incorrect.⁵⁹ Since none of the proffered justifications is sufficient, Goldman suggests eliminating the right of publicity.

2. *Limiting the Scope of the Right of Publicity*

Most scholars do not advocate abandoning the right of publicity altogether. However, some have suggested limiting its scope. Professors Melville and Perlman, for example, argue that the right of publicity should only operate "when the indicia of identity appropriated by the defendant are within the direct, personal sphere of the plaintiff, and the indicia are appropriated for use in commercial advertising or merchandise."⁶⁰

According to Melville and Perlman, the right of publicity has gone astray and must return to its roots.⁶¹ Specifically, the closer the particular use of a likeness is to the "personal sphere" of the individual whose likeness is appropriated, and the more commercial that use, the more justified a right of publicity claim becomes.⁶² N.E. Mutual's use of Pavesich's picture⁶³ would fall within this category. Conversely, when the use of a likeness is not personal, and is informative or parodic, a right of publicity claim is less justified.⁶⁴ This rationale not only protects private individuals from commercial exploitation of their image, but also avoids the curtailment of expression, particularly where the expression involves celebrity personas.⁶⁵

The right of publicity has steadily expanded since *Haelan Laboratories* both in "the subject matter protected and the nature of the use thought

57. Goldman, *supra* note 7, at 610-13.

58. Goldman, *supra* note 7, at 610.

59. Goldman, *supra* note 7, at 610-13.

60. Melville & Perlman, *supra* note 8, at 408.

61. See Melville & Perlman, *supra* note 8, at 408.

62. Melville & Perlman, *supra* note 8, at 394-95, 397-98.

63. See *Pavesich v. New England Life Ins. Co.*, 50 S.E. 68 (1905).

64. Melville & Perlman, *supra* note 8, at 393.

65. Melville & Perlman, *supra* note 8, at 396-97.

to be infringed upon.”⁶⁶ In fact, the right of publicity has been expanded so far beyond its original bounds that some courts have held that the mere evocation of a celebrity’s image in the mind of an individual viewing a particular work is sufficient to violate the right of publicity.⁶⁷

While Melville and Perlman’s approach certainly would curtail the type of right of publicity claim to which Goldman is so averse, it still would require courts to determine when a particular use is personal or commercial enough to be the subject of a right of publicity claim, and when a use is impersonal or imitative enough to be exempted. A commercial use may be entirely imitative, or very creative. Similarly, a particular use may be very personal, but also informative or analytical. As a result, there is a gray area such that wherever a court might draw the line, that line likely would be somewhat arbitrary and ad hoc. So far, courts have not adopted this analysis.

3. *Limiting the Right of Publicity Through the Supremacy Clause*

The question that lies at the heart of balancing the right of publicity with copyright is whether and how the right of publicity can remain robust without interfering with, or conflicting with, copyright law. Whereas copyright protection is specifically sanctioned in the United States Constitution,⁶⁸ the right of publicity is a matter of state statute.⁶⁹ The Supremacy Clause, at a basic level, preempts any state law that conflicts with a federal law, or with the Constitution.⁷⁰ Jennifer Rothman argues that the Supremacy Clause “provides the best avenue for remedying the conflict between the right of publicity and copyright law.”⁷¹ According to Rothman, the Supremacy Clause should preempt the right of publicity whenever it interferes with the purposes of copyright law. To that end, the right of publicity should be preempted when:

- (1) the right of publicity claim is based solely on appropriation of a “persona” rather than a likeness, image, voice, or name; or
- (2) the right of publicity holder consented to the original work in which his or her performance is captured – and the use is either

66. Melville & Perlman, *supra* note 8, at 392.

67. See *Wendt v. Host Int’l, Inc.*, 125 F.3d 806, 811 (9th Cir. 1997); *White v. Samsung Elecs. Am., Inc.*, 971 F.2d 1395, 1399 (9th Cir. 1992).

68. See U.S. CONST. art I, § 8, cl. 8.

69. See CAL. CIV. CODE § 3344 (West 1997); FLA. STAT. § 540-08 (West 2002); 765 ILL. COMP. STAT. 1075/10 (West 2001); NEV. REV. STAT. § 597.790 (2004); OHIO REV. CODE ANN. §§ 2741.01-.02 (Supp. 2005); OKLA. STAT. tit. 12, § 1449 (1993); 42 PA. CONS. STAT. § 8316 (Supp. 2004); TENN. CODE ANN. § 47-25-1105 (Supp. 2001).

70. U.S. CONST. art. VI, cl. 2.

71. Rothman, *supra* note 10, at 236.

by the copyright holder or a licensee; or (3) the right of publicity holder consented to the original copyright work and the work is used by the public in a way that is explicitly allowed by the Copyright Act.⁷²

Rothman argues that any right of publicity claim arising out of the use of an individual's persona should be preempted because a persona is an idea, and "[t]he Copyright Act explicitly leaves ideas in the public domain."⁷³ Specifically, a right of publicity claim, where the only use is of a persona, attempts to protect ideas, which is specifically prohibited by the United States Constitution.⁷⁴ However, many courts have held that where the misappropriated likeness is the persona of the claimant, the right of publicity is not preempted specifically because ideas do not fall within the ambit of copyright protection.⁷⁵ Because a persona is not copyrightable subject matter and cannot be fixed, many courts have held that protecting the persona inherent in a particular work would not be affording protection to otherwise copyrightable subject matter. As a result, such a claim is exactly the type excluded from copyright preemption. Therefore, most courts have found right of publicity claims based on use of a persona to not be preempted for the very reason that Rothman believes they should be.

Rothman also suggests that right of publicity claims should be preempted when the likeness in question is fixed with the claimant's permission.⁷⁶ Under current law, consent to a particular use of a likeness is a defense to a right of publicity claim,⁷⁷ but does not extend to use of the likeness in unauthorized derivative works.⁷⁸ As a result, an individual may be liable for appropriating another's likeness without permission in a derivative work, even though he holds the copyright to the original work which includes the same likeness.⁷⁹ Rothman therefore suggests that the consent

72. Rothman, *supra* note 10, at 252.

73. Rothman, *supra* note 10, at 252.

74. Rothman, *supra* note 10, at 252.

75. See *Downing v. Abercrombie & Fitch*, 265 F.3d 994, 1003-04 (9th Cir. 2001); *Landham v. Lewis Galoob Toys, Inc.*, 227 F.3d 619, 623 (6th Cir. 2000); *Brown v. Ames*, 201 F.3d 654, 658 (5th Cir. 2000).

76. Rothman, *supra* note 10, at 254.

77. See CAL. CIV. CODE § 3344 (West 1997); FLA. STAT. § 540-08 (West 2002); 765 ILL. COMP. STAT. 1075/10 (West 2001); NEV. REV. STAT. § 597.790 (2004); OHIO REV. CODE ANN. §§ 2741.01-.02 (Supp. 2005); OKLA. STAT. tit. 12, § 1449 (1993); 42 PA. CONS. STAT. § 8316 (Supp. 2004); TENN. CODE ANN. § 47-25-1105 (Supp. 2001); Rothman, *supra* note 10, at 231; 2 J. THOMAS MCCARTHY, THE RIGHTS OF PUBLICITY AND PRIVACY 3.1[B], 11.58 (2d ed. 2000).

78. Rothman, *supra* note 10, at 254.

79. Rothman, *supra* note 10, at 254.

defense be extended to apply not only to the use of another's likeness in an original work, but also in derivative works.⁸⁰ However, it may be difficult for contracting parties to anticipate the derivative works in which a likeness might later appear, when deciding whether to give permission for a likeness to be fixed in the original medium. Though this test would avoid conflict with the purposes of copyright protection if it were easy to implement, it may be too unwieldy for practical implementation by the average individual.

Each of these commentators has attempted to provide a solution to the right of publicity's interference with copyright. No circuit has attempted to remove the right of publicity completely, nor have they explicitly balanced the beneficial aspects of the right of publicity with the purposes behind robust and unfettered copyright protection.

II. *TONEY V. L'OREAL USA, INC.*

A. Facts and Procedural Posture

June Toney, a print, commercial, and runway model, entered into an agreement with Johnson Products Company ("Johnson"), allowing Johnson to use Toney's likeness on national advertisements until November 1996, and on its hair product packaging until November 2000.⁸¹ Thereafter, L'Oreal USA, Inc. ("L'Oreal") acquired the line of products on which Toney's likeness appeared, and continued to distribute the products through December 2000, beyond the contract period.⁸² Toney filed suit against L'Oreal in the Northern District of Illinois, alleging that L'Oreal had used her likeness on its products past the period authorized by the contract. She alleged, among other things, that L'Oreal had violated her right of publicity under the Illinois Right of Publicity Act ("IRPA").⁸³ L'Oreal filed a motion to dismiss on the grounds that the IRPA was preempted by § 301.⁸⁴

80. Rothman, *supra* note 10, at 254.

81. *Toney III*, 406 F.3d 905 (7th Cir. 2005).

82. *Id.*

83. 764 ILL. COMP. STAT. 1076/1-60 (West 2001). The IRPA empowers individuals "to control and to choose whether and how to use an individual's identity for commercial purposes."

84. *Toney III*, 406 F.3d at 905.

B. The District Court's Analysis

The district court agreed with L'Oreal that the right of publicity claim was preempted, and dismissed the claim.⁸⁵ The court interpreted § 301 as requiring that: "(1) the work in which the right is asserted . . . be fixed in tangible form and come within the subject matter of copyright as specified in § 102 of the Copyright Act"; and "(2) The right . . . be equivalent to one of the rights specified in § 106."⁸⁶ Relying on *Baltimore Orioles, Inc. v. Major League Baseball Players Assoc.*,⁸⁷ where the Seventh Circuit had previously concluded that right of publicity claims are always preempted when the likeness in question is fixed in a tangible medium of expression, the district court concluded that Toney's likeness was indeed fixed.⁸⁸ Further, the court reasoned that because her right of publicity claim would, if she were to prevail, result in preventing the defendant from distributing those pictures, Toney was attempting to exploit a right exclusively granted under § 106 to copyright holders.⁸⁹ Based on this characterization, the district court found Toney's right of publicity claim preempted.⁹⁰

C. The Court of Appeals's Analysis

The Court of Appeals for the Seventh Circuit affirmed,⁹¹ finding it relevant that "Toney's likeness in photographic form is an original work and fixed in tangible form."⁹² The court held that *Baltimore Orioles* forbids the conclusion that an individual's likeness, when portrayed in a tangible medium, can escape preemption.⁹³ It reasoned that after *Baltimore Orioles*, the right of publicity is itself "within the subject matter of copyright."⁹⁴ Since any right of publicity claim seeks to enjoin the reproduction, distribution, performance, display, or adaptation of the work in which the "persona" inheres,⁹⁵ the court found that the right of publicity is "qualitatively indistinguishable from the rights enumerated in § 106 of the

85. See *Toney I*, No. 02 C 3002, 2002 U.S. Dist. LEXIS 21229, at *3 (N.D. Ill. Oct. 30, 2002).

86. *Id.* at *4.

87. 805 F.2d 663 (7th Cir. 1986).

88. *Toney I*, 2002 U.S. Dist. LEXIS 21229, at *6.

89. See 17 U.S.C. § 106.

90. *Toney I*, 2002 U.S. Dist. LEXIS 21229, at *7.

91. See *Toney II*, 384 F.3d at 492.

92. *Id.* at 489.

93. *Id.* at 490.

94. *Id.* at 489.

95. See *id.* at 492.

Copyright Act”⁹⁶ and is therefore categorically preempted. Toney filed a petition for rehearing, which the Seventh Circuit granted.⁹⁷

D. The Court of Appeals’s Analysis on Rehearing

Rehearing the issue, the Seventh Circuit departed from the prior panel’s ruling, holding that Toney’s right of publicity claim was *not* preempted by § 301.⁹⁸ In stark contrast to the prior panel, the court concluded that Toney’s likeness was not a work of authorship fixed in a tangible medium of expression within the subject matter of copyright.⁹⁹ Although her picture was indeed “fixed” in physical form on the hair-product packaging and in the national advertisements,¹⁰⁰ and though a “pictorial work” does fall within the subject matter of copyright,¹⁰¹ the court separated Toney’s *persona*—the use in commerce of which Toney had a right to prohibit under the IRPA—from Toney’s *picture*, which was copyrightable subject matter, but which was not the subject of this litigation.¹⁰²

Whereas § 301 might preempt a state law providing copyright protection for a picture, the court held, a *persona* “is not authored and it is not fixed,” and therefore does not fall within the subject matter of copyright.¹⁰³ Hence, the rights afforded by the IRPA were not equivalent to those provided by the Copyright Act, since copyright cannot protect a *persona*,¹⁰⁴ and Toney’s right of publicity claim was not preempted.¹⁰⁵ The court also noted in passing that establishing a right of publicity claim under the IRPA requires proof of “commercial purpose,” an extra element that is neither necessary nor relevant to a claim under the Copyright Act.¹⁰⁶

According to the court, whether the “defendants owned the copyright to the photograph that was used, is irrelevant to the [right of publicity] claim.”¹⁰⁷ If Toney were to prevail on her right of publicity claim, it effec-

96. *Id.*

97. *See Toney III*, 406 F.3d at 905.

98. *Id.*

99. *Id.* at 910.

100. *Id.* at 908.

101. *See* 17 U.S.C. § 102 (a)(5).

102. *Toney III*, 406 F.3d at 910.

103. *Id.*

104. *See id.* The court took the unusual of step of melding two questions together, assuming that if the first requirement of copyright preemption is not satisfied, neither can the other be. *Id.*

105. *Id.*

106. *Id.*

107. *Id.*

tively did not matter that L'Oreal would ultimately be enjoined from exercising its right to distribute the photographs of Toney, for which it held the copyright.¹⁰⁸ The relevant question, rather, was “the message—whether the plaintiff endorses, or appears to endorse the product in question. One can imagine many scenarios where the use of a photograph without consent, in apparent endorsement of any number of products, could cause great harm to the person photographed.”¹⁰⁹ In other words, § 301 does not preempt an individual’s attempt to prevent the exercise of copyrights if the reproduction, distribution, performance, or display¹¹⁰ would send a message that the person depicted in that work endorses the product.

In concluding that § 301 does not preempt Toney’s right of publicity claim, the court narrowed its decision in *Baltimore Orioles*, where it had found that § 301 preempts any right of publicity claim where the subject matter of the claim is fixed in a tangible medium of expression.¹¹¹ Many commentators and other courts had criticized *Baltimore Orioles* as abrogating entirely any state law protecting individuals’ right to control the use of their own likeness in commerce.¹¹² In marginalizing that case, the court stated that *Baltimore Orioles* stood only for the proposition that “laws that intrude on the domain of copyright are preempted even if the particular expression is neither copyrighted nor copyrightable.”¹¹³ In so holding, the Seventh Circuit joined the majority of other circuits in protecting the right of publicity from § 301 preemption.

108. *Id.*

109. *Id.* at 910.

110. These are some of the rights afforded under 17 U.S.C. § 106.

111. *Baltimore Orioles, Inc. v. Major League Baseball Players Assoc.*, 805 F.2d 663, 674-76 (7th Cir. 1986).

112. See, e.g., MELVILLE B. NIMMER & DAVID NIMMER, 1 NIMMER ON COPYRIGHT § 2.09[F] (2005); Shelley R. Saxer, Note, *Baltimore Orioles, Inc. v. Major League Baseball Players Association: The Right of Publicity in Game Performances and Federal Copyright Preemption*, 36 UCLA L. REV. 861 (1989).

113. *Toney III*, 406 F.3d at 911. It is difficult to follow the court’s reasoning without ultimately concluding that Toney’s right of publicity claim intrudes on the domain of copyright, in a manner similar to *Baltimore Orioles*, by affording to Toney the ability to prevent L'Oreal from distributing its photographs. It is therefore difficult to distinguish *Baltimore Orioles* from *Toney* in the manner that the court suggests while upholding preemption of the *Baltimore Orioles* claims and not doing the same for Toney’s. This is likely the court’s best effort to marginalize *Baltimore Orioles*, given that only an en banc court can overrule the decision of a Seventh Circuit panel.

III. DISCUSSION

The differences in the various courts' analyses in the *Toney* case delineates two fundamental issues with which the Seventh Circuit struggled in adjudicating *Toney's* claim. First, for § 102 analysis, is the relevant "work" the medium in which the persona appears,¹¹⁴ or the persona itself?¹¹⁵ Second, for § 106 analysis, is a party precluded from bringing a right of publicity claim simply because prevailing on that claim will result in the defendant being unable to exercise an exclusive copyright? This Part discusses the likely result of *Toney III* for preemption of right of publicity claims, presents the state of the law in other circuits, and analyzes implications for the future.

A. Under *Toney III*, § 301 Never Preempts Right of Publicity Claims

For § 301 to preempt a right of publicity claim, the *object* of the claim must be a work of authorship fixed in a tangible medium of expression.¹¹⁶ Whereas the *Toney II* court held that a likeness is fixed for purposes of § 301 preemption when it is embodied in a tangible medium of expression,¹¹⁷ the *Toney III* court held that a persona can never be fixed because a persona is not itself copyrightable.¹¹⁸ Whether or not a particular right of publicity claim satisfies the test is entirely dependent on which test a court adopts. If a court adopts the *Toney II* interpretation, right of publicity claims are always preempted because a likeness has to appear in some kind of medium before its use can violate the right of publicity.¹¹⁹ Since the persona is fixed in a tangible medium of expression, it falls directly within the scope of copyright, and is therefore preempted. Conversely, the *Toney III* court's interpretation results in right of publicity claims never being preempted because the substance of a right of publicity claim, a persona, is not copyrightable subject matter.¹²⁰ As a result, the § 102 test is

114. See, e.g., *Brode v. Tax Mgmt., Inc.*, 14 U.S.P.Q.2d 1195, 1203 (N.D. Ill. 1990); *Ippolito v. Ono-Lennon*, 526 N.Y.S.2d 877, 881-82 (Sup. Ct. 1998) (finding that the relevant work is the matter in which the persona inheres).

115. See, e.g., *Downing v. Abercrombie & Fitch*, 265 F.3d 994, 1003-05 (9th Cir. 2001) (finding that the relevant work is the persona); *Brown v. Ames*, 201 F.3d 654, 658-59 (5th Cir. 2000).

116. 17 U.S.C. § 301.

117. *Toney II*, 384 F.3d 486, 489 (7th Cir. 2004).

118. *Toney III*, 406 F.3d at 908-09.

119. See *Rothman*, *supra* note 10, at 233-34.

120. *Rothman*, *supra* note 10, at 233 (noting that one interpretation always results in preemption while the other never does).

not satisfied, and the claim is not preempted.¹²¹ Applying the *Toney III* test to cases where courts have found the right of publicity claim to be preempted will demonstrate that under *Toney III*, § 301 will never preempt a right of publicity claim.

In *Ahn v. Midway Manufacturing Co.*,¹²² three plaintiffs brought a right of publicity action against videogame distributors and publishers.¹²³ The plaintiffs had modeled for the *Mortal Kombat* series of video games and were told that they would receive bonuses if the games were successful.¹²⁴ The *Mortal Kombat* series proved to be very successful and, as a result, the video game companies decided to release home console and handheld versions of the arcade originals.¹²⁵ The companies asked the plaintiffs to sign a new agreement for use of their images, and the plaintiffs refused.¹²⁶ After the games entered the market, the plaintiffs filed suit, alleging that the use of their images in the handheld and home console versions without their permission violated their publicity rights. The *Ahn* court interpreted § 102 exactly as the *Toney II* court did, looking to the medium in which the appropriated likeness appeared.¹²⁷ The court found that the plaintiffs' likenesses were "fixed" because they were videotaped with the plaintiffs' consent.¹²⁸ Since their performances on the videotape were choreographic, and choreographic works were copyrightable, the work in question fell within the subject matter of copyright.¹²⁹ As a result, the plaintiffs' right of publicity claims fell under the first requirement for § 301 preemption.¹³⁰

If the plaintiffs brought their right of publicity claims in the Seventh Circuit today, their claims likely would not be preempted. The court determining preemption would not ask whether the home console and handheld versions of the *Mortal Kombat* games, in which the plaintiffs' likenesses appeared, are copyrightable. Rather, the court would note that the games incorporated the plaintiffs' personas. Since personas cannot be fixed and are not within the subject matter of copyright, the plaintiffs'

121. Note that neither the preemption rule of *Toney II* nor the preemption rule of *Toney III* go to the merits of a preemption claim or the defenses that can defeat a right of publicity suit.

122. 965 F. Supp. 1134 (N.D. Ill. 1997).

123. *Id.* at 1135.

124. *Id.* at 1136.

125. *Id.*

126. *Id.*

127. *See id.* at 1138; *Toney II*, 384 F.3d at 489-90.

128. *Ahn*, 965 F. Supp. at 1138.

129. *Id.*

130. *Id.*

claim would not satisfy the first requirement of § 301 preemption, and therefore would not be preempted.

The California Court of Appeal addressed a similar question in *Fleet v. CBS, Inc.*,¹³¹ where a group of actors attempted to use right of publicity claims to enjoin the distribution of a film because the distributor had not compensated them for their performance.¹³² The distributor countered that it held a copyright in the film,¹³³ and should be able to make use of the exclusive right of distribution that copyright protection affords.¹³⁴

The court found that § 301 preempted the actors' right of publicity claims. In its § 102 analysis, the court reasoned that the actors' portrayal in the film was copyrightable. Once the studio fixed their performances on film, "the performances came within the scope or subject matter of copyright law protection."¹³⁵ Finding further that the actors were only trying to prevent the distributor from exercising its exclusive right to exhibit a copyrighted work,¹³⁶ the court dismissed the actors' claims as preempted.¹³⁷ Upholding the plaintiffs' claim would have had a devastating effect on the use of § 106 rights because the claimants had no copyright in the matter in question and merely sought to prevent the true copyright owner from using those rights. This would hardly be in accord with Congress's desire "[t]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries."¹³⁸

But if the actors had brought their claims in the Seventh Circuit today, the court inevitably would have to conclude that the "work" in question is not the film itself, or the actors' performances, but rather their personas. Since these cannot be "fixed," the "work" in question cannot come within the subject matter of copyright. As a result, § 301 would not preempt the actors' right of publicity claims.¹³⁹ Assuming the plaintiffs eventually prevailed on their claims, the distributor would be enjoined from exhibiting the film. This would be a disservice both to the unfortunate distributor whose copyright in the film would be curtailed, and to the public who

131. 50 Cal. App. 4th 1911 (Ct. App. 1996).

132. *Id.* at 1914-15.

133. *Id.* at 1916.

134. *See id.*

135. *Id.* at 19-20.

136. *See* 17 U.S.C. § 106.

137. *Fleet*, 50 Cal. App. 4th at 19-20.

138. U.S. CONST. art. I, § 8, cl. 8.

139. Note that the consent defense might still prevent the plaintiffs from prevailing on their claim. However, it is troubling that the plaintiffs would get past preemption for reasons discussed *infra* at Section III.C.

would not have the benefit of experiencing the film, and would ultimately run up against copyright's constitutional mandate.

This particular scenario highlights the implications of the *Toney III* court's § 102 analysis. Any person has a valid claim to enjoin the exercise of copyrights if she simply alleges that the misappropriated object within the particular work contains her persona.¹⁴⁰ If Jennifer Aniston sues a bar owner for violating her right of publicity by playing a *Friends* episode, the Seventh Circuit would not find § 301 to preempt her claim because the right she claims is the ability to control the use of her persona.¹⁴¹ If Arnold Schwarzenegger walks into a Hard Rock Café and sees a poster of the *Terminator* with his face on it, his subsequent right of publicity claim likely would survive preemption in the Seventh Circuit because his claim arises out of the restaurant's use of his persona, not the copyrightable expression inherent in the poster itself.¹⁴² If the purpose of § 301 preemption is to prevent state claims from interfering with copyrights, *Toney III*'s interpretation of § 102 analysis ironically allows exactly that.¹⁴³

B. The Ever-Expanding Right of Publicity

While *Toney III* conflicts with *Ahn* and *Fleet*, it follows a judicial trend of fashioning a way for right of publicity claims to survive preemption. Many circuits have allowed publicity claims to survive even when they clearly conflict with copyrights. In *Midler v. Ford Motor Co.*,¹⁴⁴ for example, the Ninth Circuit allowed Bette Midler's right of publicity claim to escape preemption where Ford hired an imitator to sing a song for its

140. There is, of course, a difference between preemption and prevailing on the merits. But if every claim of this type survives preemption, then merely the cost of defending against these kinds of lawsuits could have a devastating effect on the entertainment industry.

141. This is a response to hypotheticals posed by Rothman in testing her own theory. Applying the Seventh Circuit's test to Rothman's hypotheticals is illuminating because it highlights the inevitable problems that result from the *Toney III* test. See Rothman, *supra* note 10, at 262 (setting out the example of broadcasting the television show *Friends* in a bar, only to be confronted with a right of publicity claim when an actor in the show witnesses the broadcast).

142. See Rothman, *supra* note 10, at 264.

143. Note that performers may contract away their right of publicity, or may agree to waive all publicity rights in the promotional materials flowing from their performances. Though this is a common practice, it only further proves the notion that the right of publicity overwhelmingly favors celebrities. While a celebrity may waive her right of publicity through contract negotiation with a studio or distributor, an independent, non-celebrity artist would have to waive her right of publicity or sacrifice a performance opportunity.

144. 849 F.2d 460 (9th Cir. 1988).

commercials in a manner that sounded very similar to Midler's voice.¹⁴⁵ Midler did not own the copyright in the musical composition, and Ford had purchased a license from the individual who did hold the copyright, in order to avoid potential liability.¹⁴⁶ When the commercial aired, Midler filed suit, alleging that Ford's use of her persona, by hiring a singer to imitate her, violated her right of publicity.¹⁴⁷ The Ninth Circuit held that her claim survived preemption.¹⁴⁸ Midler effectively prevented a licensed use of copyrighted material merely because the voice of the woman in the commercial sounded like hers.

In *White v. Samsung Electronics America, Inc.*,¹⁴⁹ Vanna White of "Wheel of Fortune" fame brought a right of publicity action against Samsung Electronics because of an advertisement it ran "starr[ing] a robot dressed in a wig, gown and jewelry reminiscent of Vanna White's hair and dress; the robot was posed next to a Wheel-of-Fortune-like game board."¹⁵⁰ The Ninth Circuit found in favor of White because the advertisement usurped White's persona to the commercial benefit of Samsung.¹⁵¹ Similarly, in *Hirsch v. S.C. Johnson & Son, Inc.*,¹⁵² an athlete commonly known as "Crazylegs" brought a right of publicity claim against a company that had offered for sale women's personal products under the same name.¹⁵³ The Supreme Court of Wisconsin held that the athlete's claim should withstand preemption because "Crazylegs" evoked his persona.¹⁵⁴

In *Landham v. Lewis Galoob Toys, Inc.*,¹⁵⁵ the Sixth Circuit found that Sonny Landham's right of publicity claim was not preempted, even though his claim arose out of the defendant's merchandising of toys based on Landham's character in the movie *Predator*.¹⁵⁶ Citing the Ninth Circuit's logic in *Midler*, the court allowed Landham to proceed with this right of publicity claim even though he had no copyright in the character

145. *Id.* at 462-64.

146. *Id.* at 462.

147. *Id.*

148. *Id.* at 464.

149. 971 F.2d 1395 (9th Cir. 1992).

150. *Id.* at 1514 (Kozinski, J., dissenting).

151. *Id.* at 1399.

152. 280 N.W.2d 129 (Wis. 1979).

153. *Id.* at 130.

154. *Id.* at 138.

155. 227 F.3d 619 (6th Cir. 2000).

156. *Id.* at 621, 623.

he played in the movie, and no particular right in merchandising for the *Predator* films.¹⁵⁷

The Fifth Circuit also followed suit in *Brown v. Ames*.¹⁵⁸ The court found that the plaintiffs' right of publicity claims, arising out of the defendants' unauthorized use of their likenesses to market the plaintiffs' own musical performances on CD's and cassettes, did not fall within § 301 preemption.¹⁵⁹ Noting that the right of publicity protects an individual's right to control the use of his persona, as opposed to controlling the use of a work of authorship, the court held that the substance of a right of publicity claim differed from the content of a copyright infringement claim.¹⁶⁰ As a result, the claims were not preempted.

There is one key similarity between the Seventh Circuit's analysis of § 301 preemption in *Toney III* and these other courts: they view the content of a right of publicity claim as the right to control the use of one's persona. Since personas are not fixable in a tangible medium of expression, it is unlikely that any of these courts will ever find a right of publicity claim to be preempted under § 301, no matter how detrimental that might be to the rights of a copyright holder and the public. As a result, all of these decisions have expanded publicity rights and, in the process, have limited the scope of copyright.

C. Going Forward: The Implications for Copyright

This trend, which the Seventh Circuit embraced in *Toney III*, will likely have significant consequences for copyright. The Copyright Act seeks to provide an incentive for individuals to create and innovate, giving them an economic monopoly on their creations for a limited time.¹⁶¹ This monopoly benefits not only the private actor but, more importantly, the public through the dissemination of creative and expressive works.¹⁶² The Seventh Circuit's interpretation of the right of publicity may upset this delicate balance since a single plaintiff may stop the distribution, repro-

157. *Id.* at 624.

158. 201 F.3d 654 (5th Cir. 2000).

159. *Id.* at 656.

160. *Id.* at 658.

161. *Twentieth Century Music Corp v. Aiken*, 422 U.S. 151, 156 (1975) ("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."); *see generally* ROBERT P. MERGES, PETER S. MENELL & MARK A. LEMLEY, *INTELLECTUAL PROPERTY IN THE NEW TECHNOLOGICAL AGE* 325 (2003).

162. *Twentieth Century Music Corp.*, 422 U.S. at 156 ("The immediate effect of our copyright law is to secure a fair return to an 'author's' creative labor. But the ultimate aim is, by this incentive, to stimulate artistic creativity for the general public good.").

duction, display, or performance¹⁶³ of these creative works simply by alleging that the work appropriates her persona without authorization. This could have a chilling effect on creation and innovation, even if a claimant ultimately does not prevail on his right of publicity claim. If an author risks liability for violating the right of publicity merely by exploiting § 106 rights, then there is a strong disincentive to ever exploit those rights. Works that would greatly benefit the public through dissemination may remain dormant, or simply fall by the wayside because it is not worth the risk of having to defend against a right of publicity suit.

Toney III likely will have detrimental effects in all creative forums. Artists will have to take care to ensure that their sculptures or paintings do not evoke the persona of a celebrity when viewed by an audience. Musicians will need to be careful not to play their instruments in a style that is commonly associated with another musician with more fame. Songwriters will be forced to avoid using chord progressions that were previously used by famous bands simply because hearing a particular progression would remind the listener of the persona of another. Advertisers will have to make certain that their use of voice-overs does not sound like the voice of a celebrity. Biographers will have to seek permission from the individuals about whose lives they wish to write. Comedians will no longer be able to satirize the conduct of celebrities for fear that their use of a celebrity's name or persona in their act will give rise to a right of publicity claim. These are of course extreme examples, some of which might not succeed on the merits. But the threat of a suit is powerful, as is the fear that arises from it. The *Toney III* rule ultimately hurts most severely those individuals who need unfettered copyright protection more than any other, and are least served by the right of publicity: independent, unsophisticated creators and performers.

Although a creator can license the needed publicity rights, the average creator has neither the legal nor financial capability of seeking such rights every time his work might evoke or use the persona of a celebrity. Nor does the average creator have the capability to defend against suit after suit, even if she will eventually prevail on the merits. While movie studios and record companies could require individuals whose personas appear within their works to waive their right of publicity both in the original work and in later licenses in order to avoid the potential pitfalls of a right of publicity suit, this avenue likely is unavailable to independent creators. Similarly, independent performers who are in need of performance opportunities will have little bargaining power to resist waiving their right of

163. See *supra* note 20.

publicity, lest they quickly be replaced by another performer who is more willing. The end result is that all independent performers will be forced to waive their publicity rights, all independent creators will have to incur the significant costs of licensing the use of a persona, and sophisticated parties like movie studios and celebrities are free to negotiate as they wish. As a result, only the most sophisticated of parties will be protected by the *Toney III* rule either because they can afford to negotiate more favorable licenses and contract terms, or because they can file suit after suit to stop distribution of any work of which they do not approve.

It would be inconsistent to assume that Congress, in providing creators a monopoly over the use of their creative works, intended at the same time to allow the expression of those works to be curtailed the moment a celebrity whose persona appears in a particular work disapproves. The secondary result that only celebrities will retain their publicity rights because of their ability to negotiate more freely than independent performers is also inconsistent with the privacy theory on which the right of publicity is based. That the public interest that is served by the flow of creative expression from artist to audience, and by the right "to be let alone," can so summarily be defeated seems to disserve the constitutional mandate, and is unfortunately the likely result of the *Toney III* rationale. This outcome works directly against Congress's, and the public's, interest in fostering the creation and dissemination of creative works.

IV. CONCLUSION

An unfettered right of publicity, as seen in *Toney III*, is counterproductive because it can conflict with copyright principles, and abrogate copyright protections. This consequence is exactly what Congress sought to prevent by enacting § 301 preemption. Eliminating the right of publicity entirely¹⁶⁴ is likely not the answer because there are legitimate privacy interests that the right protects, especially for non-celebrities. However, there are circumstances in which the right of publicity must give way in order to ensure that copyright, and the utilitarian principles behind it, are effective. Viewing the content of a right of publicity claim as protection of a persona and considering copyright ownership of the medium in which the persona appears to be irrelevant have negative consequences. This approach creates pitfalls within the copyright system, weakening the position of independent artists who do not have the ability to avoid contracting out of their right of publicity, and diluting the position of independent creators

164. See Goldman, *supra* note 7.

who likely cannot afford to seek licenses from celebrities for use of their personas.

CAPITOL RECORDS, INC. v. NAXOS OF AMERICA, INC.: THE PERSISTENCE OF COPYRIGHT ON THAT OLD TIME ROCK N' ROLL

By Timothy P. Best

When their song “Love Me Do” premiered on the British record charts in October 1962, the Beatles started a 50-year clock ticking down toward the expiration of their British copyright.¹ As the years passed, and many 50-year copyright terms approached their end, the holders of those copyrights surely began to consider the ramifications copyright expiration would have on their property. So when the classical music label Naxos of America (“Naxos”) decided to re-release some recordings of British origin whose British copyrights had expired, the owner of those erstwhile copyrights, Capitol Records (“Capitol”), decided to find out what rights it still held in those recordings.

In *Capitol Records, Inc. v. Naxos of America, Inc.*, responding to a certified question from the U.S. Court of Appeals for the Second Circuit, the New York Court of Appeals affirmed that publicly sold and distributed sound recordings fixed prior to February 15, 1972 are protected by New York common law copyrights until February 15, 2067.² Even though the original United Kingdom copyrights on the works had lapsed, Naxos could not evade a claim brought by Capitol under New York state copyright law.³ The court further held that New York common law required no bad faith on the part of Naxos to establish Capitol’s copyright infringement claim. Moreover, the fact that the original work had a negligible current market did not absolve Naxos of liability.⁴

Since the current federal copyright statute does not extend protection to pre-1972 sound recordings, any statutory copyright protection for such works must originate from state law.⁵ Absent state statutory schemes, protection for these works must arise from common law copyright protection, which traces its roots to seventeenth century English common law. *Naxos* thus stands as the latest entrant in a line of New York cases embracing a

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1. See WILLIAM RUHLMAN, *BREAKING RECORDS: 100 YEARS OF HITS* 135 (2004).
2. *Capitol Records, Inc. v. Naxos of Am., Inc.*, 830 N.E.2d 250, 263-64 (N.Y. 2005).
3. *Id.* at 265.
4. *Id.* at 267.
5. See 17 U.S.C. § 301(c) (2000).

wide ambit of state common law copyright protection for sound recordings.⁶ While for literary works, common law copyright protection historically ceased upon public distribution of the work, *Naxos* provided that, as to sound recordings, common law copyrights endure after public distribution of the protected works.⁷ Further, the court held that the expiration of the original works' statutory copyright in the country of origin does not divest the owner of a work of New York common law copyright protection.⁸

The court's ruling will ensure that record companies will be able to protect and exploit their back catalogues without the fear of losing these recordings to the public domain. As a consequence of the decision to extend state copyright protection to recordings that fall within the public domain in their country of origin and the inherent economic strength of the New York market, most uses of pre-1972 recordings will have to contend with *Naxos*.

This Note explores the current and future implications of the *Naxos* ruling. Part I presents the factual background and prior rulings leading up to the *Naxos* litigation before the New York Court of Appeals. Part II illuminates the legal history and theory behind common law copyright and its limitations. Part III then presents several implications of the *Naxos* decision for rights holders. Part IV summarizes these conclusions.

I. *CAPITOL RECORDS, INC. V. NAXOS OF AMERICA, INC.*

A. Background and Overview

In the 1930s, the company now known as EMI Records Limited recorded several performances, in England, by world-famous performers of classical music, including Pablo Casals, Edwin Fischer, and Yehudi Menuhin.⁹ At that time, the statutory copyright laws of the United Kingdom protected sound recordings for fifty years.¹⁰ In 1996, after the origi-

6. See *Rosette v. Rainbo Record Mfg. Corp.*, 546 F.2d 461 (2d Cir. 1976), *aff'g* 354 F. Supp. 1183 (S.D.N.Y. 1973); see also *Capitol Records, Inc. v. Mercury Records Corp.*, 221 F.2d 657, 663 (2d Cir. 1955); *Radio Corp. of Am. v. Premier Albums, Inc.*, 240 N.Y.S.2d 995, 996-97 (App. Div. 1963); *Gieseeking v. Urania Records, Inc.*, 155 N.Y.S.2d 171, 172-73 (N.Y. Sup. Ct. 1956); *Metro. Opera Assn. v. Wagner-Nichols Recorder Corp.*, 101 N.Y.S.2d 483, 495 (Sup. Ct. 1950).

7. *Naxos*, 830 N.E.2d at 265.

8. *Id.*

9. *Capitol Records, Inc. v. Naxos of America, Inc.*, 830 N.E.2d 250, 252-53 (N.Y. 2005).

10. *Id.* at 253.

nal U.K. copyrights had expired, subsidiaries of EMI granted appellant Capitol Records, Inc. ("Capitol") an exclusive license to use these recordings in the United States.¹¹ Capitol digitized the original analog recordings and remastered them to improve their aural characteristics.¹² They then sold the resulting product in, among other places, New York State.¹³

Respondent Naxos, wishing likewise to preserve and market the performances, obtained copies of the original shellac recordings, digitized them, remastered them, and began marketing them in the United States beginning in 1999.¹⁴ Capitol sent cease and desist letters demanding that Naxos halt their distribution of the unlicensed recordings.¹⁵ Naxos refused, and in 2002 Capitol brought a diversity action in the United States District Court for the Southern District of New York.¹⁶ Capitol's complaint alleged, among other things, common law copyright infringement and unfair competition under New York state law.¹⁷

Naxos moved for summary judgment arguing that the recordings had entered the public domain in the U.K.¹⁸ The Southern District of New York issued two opinions. The principal opinion granted summary judgment for Naxos with leave for Capitol to submit additional factual material.¹⁹ After receipt of such material, the district court delivered a second opinion, adhering to the original judgment and expanding on its arguments.²⁰ The court addressed Capitol's copyright claim by concluding that Capitol had no property right for Naxos to infringe, since the U.K. copyrights had expired in the 1980s.²¹ Regarding the unfair competition claim, the district court held that the Naxos recordings were "new and commercially viable product[s]" rather than mere "duplicates" of the original.²² As such, they did not compete unfairly in the market for the original records.

11. *Id.*

12. *Id.*

13. *Id.*

14. *Id.*

15. *Id.*

16. *Id.*

17. *Id.*

18. *Id.*

19. *Capitol Records, Inc. v. Naxos of Am., Inc.*, 262 F. Supp. 2d 204 (S.D.N.Y. 2003).

20. *Capitol Records, Inc. v. Naxos of Am., Inc.*, 274 F. Supp. 2d 472 (S.D.N.Y. 2003).

21. *Naxos*, 262 F. Supp. 2d at 211.

22. *Id.* at 213-14.

On appeal, the Second Circuit determined that the district court's conclusions rested on several unsettled issues of New York law.²³ Since state law controls as to areas of copyright falling outside the scope of federal preemption, the Second Circuit certified the following question to the Court of Appeals of New York: "In view of the District Court's assessment of the undisputed facts, but without regard to the issue of abandonment, is Naxos entitled to defeat Capitol's claim for infringement of common law copyrights in the original recordings?"²⁴ Additionally, the Second Circuit asked New York to clarify its position on three subquestions:

- (1) Does the expiration of the term of a copyright in the country of origin terminate a common law copyright in New York?;
- (2) Does a cause of action for common law copyright infringement include some or all of the elements of unfair competition?; and,
- (3) Is a claim of common law copyright infringement defeated by a defendant's showing that the plaintiff's work has slight if any current market and that the defendant's work, although using components of the plaintiff's work, is fairly to be regarded as a "new product"?²⁵

B. The New York Court of Appeals's Decision

The court began its analysis by recounting the development of common law copyright, first through English law, then through American law generally, and finally through New York law specifically.²⁶ The court determined that at English common law during the time of the American Revolution common law copyright protected the rights of authors and their assignees against unauthorized copying of unpublished works up to the time of first publication.²⁷ For works that remained unpublished, this right lasted indefinitely.²⁸ At the time of a work's publication the common law copyright dissolved and the state invested the works with statutory copyright protections, which expired after a limited time.²⁹ As the common law

23. *Capitol Records, Inc. v. Naxos of Am., Inc.*, 372 F.3d 471, 479-82 (2d Cir. 2004).

24. *Id.* at 484.

25. *Id.* at 484-85.

26. *Capitol Records, Inc. v. Naxos of Am., Inc.*, 830 N.E.2d 250, 254-64 (N.Y. 2005).

27. *Id.* at 254-56.

28. *Id.*

29. *Id.*

of England, this legal framework provided the basis for state common law among the newly independent American states.³⁰

The court next described the American development of common law copyright.³¹ At the time sound recording was invented, the common law of the various states—but not the federal common law—protected the rights of authors up until the time of first publication, at which point statutory copyright displaced the common law rights.³² This development paralleled English common law copyright. Because sound recordings could not be read without machine intervention, though, the Supreme Court ruled that one could not “publish” such works in the common law sense.³³ Thus, common law copyright persisted notwithstanding public distribution of the recording.³⁴ Due to this perceived fundamental difference, federal statutory copyright did not initially preempt protection for sound recordings.³⁵ Only after 1972 did Congress provide for federal copyright protection of sound recordings, although this protection was prospective only.³⁶ As a result, common law copyright persisted as the sole protection for pre-1972 sound recordings in the United States. While at common law this protection lasted indefinitely, Congress placed an endpoint on state common law protection in 2067.³⁷ The court noted that New York adhered to this interpretation of common law copyright protection.³⁸

Given this background, the court proceeded to answer the three questions certified to it by the Second Circuit. As to the first subquestion, whether federal law prohibits New York from extending its common law copyright protection to works that have entered the public domain in another country, the court first considered whether existing precedent precluded copyright protection.³⁹ The court applied a line of New York and Supreme Court cases affirming common law copyright protection for literary works, even in the face of foreign copyright divestment, to sound recordings.⁴⁰ The court then questioned whether any treaties or federal

30. *Id.* at 256.

31. *Id.* at 256-62.

32. *Id.* at 257-58.

33. *Id.* at 258; *see also* *White-Smith Music Publ'g Co. v. Apollo Co.*, 209 U.S. 1, 29-32 (1908).

34. *Id.*; *see also* *Wheaton v. Peters*, 33 U.S. (7 Pet.) 591 (1834).

35. *Naxos*, 830 N.E.2d at 258.

36. *Id.* at 260-61; *see* 17 U.S.C. §§ 102(a)(7), 301(c) (2000).

37. *Naxos*, 830 N.E.2d at 260-61.

38. *Id.* at 263-64.

39. *Id.* at 264.

40. *See* *Ferris v. Frohman*, 223 U.S. 424, 437 (1912) (holding that a British statute divesting a publicly-performed play of its common law copyright in favor of a statutory

statutes precluded copyright protection.⁴¹ The Federal Constitution requires that all treaties signed by the federal government carry the force of law in all of the United States, but no treaty signed by the United States applied to sound recordings made before 1974.⁴² Nor did any statute bar the states from exercising common law copyright protection over pre-1972 recordings.⁴³ Since federal law permitted the application of New York common law, and since nothing in New York law suggested that the state must apply foreign copyright terms to putative infringements in New York, the Court of Appeals answered this question in the negative.⁴⁴ The court therefore held that the expiration of the British copyright on the sound recordings did not preclude New York from protecting them through common law copyright.⁴⁵

Next, the Court of Appeals addressed the second subquestion, which sought to determine whether common law copyright infringement was distinguishable from unfair competition.⁴⁶ The court defined copyright infringement as including two elements: (1) the existence of a valid copyright; and (2) unauthorized copying of the protected work.⁴⁷ In answering the first subquestion, the court concluded that Capitol possessed a valid common law copyright for the recordings.⁴⁸ The district court found that Capitol did not authorize the copies produced by Naxos; the Court of Appeals did not question this finding.⁴⁹ Since New York law did not require

copyright did not divest the play of its Illinois common law copyright); *Palmer v. DeWitt*, 47 N.Y. 532 (1872); *Roberts v. Petrova*, 213 N.Y.S. 434 (N.Y. Sup. Ct. 1925).

41. *Naxos*, 830 N.E.2d at 265.

42. The court names the Berne Convention and the Universal Copyright Convention, which do not apply to sound recordings. *See* Berne Convention for the Protection of Literary and Artistic Works art. 7(a), Sept. 9, 1886, *revised in Paris* July 24, 1971, *amended in 1979*, 25 U.S.T. 1341, 828 U.S.T.S. 221; Universal Copyright Convention art. IV(4), *opened for signature in Geneva* Sept. 6, 1952, 6 U.S.T. 2731, 216 U.N.T.S. 132, *as revised in Paris* July 24, 1971, 25 U.S.T. 1341, 943 U.N.T.S. 178. Nor does the Phonograms Convention apply, as it became law in the United States on March 10, 1974. *See* Convention for the Protection of Producers of Phonograms Against Unauthorized Duplication of Their Phonograms art. 7(3), Oct. 29, 1971, 25 U.S.T. 309, 888 U.N.T.S. 67.

43. The statutory implementation of the Uruguay Round Agreements Act does not apply. *See* Uruguay Round Agreements Act, Pub. L. No. 103-465, 108 Stat. 4809 (1994) (codified at 17 U.S.C. § 104(a) (2000)).

44. *Naxos*, 830 N.E.2d at 265.

45. *Id.* at 264-65; *see* 1 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 5.11 (2005) [hereinafter NIMMER].

46. *Naxos*, 830 N.E.2d at 266.

47. *Id.* at 266; *see* 4 NIMMER, *supra* note 45, § 13.01.

48. *Naxos*, 830 N.E.2d at 264-65.

49. *See id.* at 266.

fraud or bad faith as an element of copyright infringement,⁵⁰ unlike with unfair competition claims, the Court of Appeals held that copyright infringement and unfair competition were distinct and different claims.⁵¹

Finally, the Court of Appeals answered the third subquestion, which addressed whether the negligible market value of the original protected works weighed against a defendant's unauthorized use of such works and whether the defendant's work, although drawing upon plaintiff's work, constituted a "new product."⁵² The court first recognized that "the popularity of a product does not affect a state common-law copyright infringement claim."⁵³ Next, the court acknowledged the Second Circuit's finding that the "'independent creation' of a new product can 'not consist of [the] actual copying' of an entire work."⁵⁴ Relying on this, the court then rejected a fair use argument by pointing out that copying an entire copyrighted work constituted infringement.⁵⁵ Since Naxos's recordings were primarily infringing copies of the original works, and since their use did not receive the absolution of fair use, Naxos was potentially liable for copyright infringement.⁵⁶

By showing first that in general, state common law copyright could protect pre-1972 sound recordings, second that these recordings were so protected in New York, and finally that the works did not enter the public domain simply because their original foreign copyrights had expired, the New York Court of Appeals could then address whether Naxos infringed on Capitol's copyrights. In finding that Naxos copied the whole of the expression in the original works, the court held that Naxos infringed the common law copyrights protecting Capitol's recordings, regardless of any bad faith or lack thereof.⁵⁷

II. LEGAL BACKGROUND

Understanding the development of common law copyright helps to draw the contours of the rights upheld by the court in *Naxos*. While as-

50. See *Chamberlain v. Feldman*, 89 N.E.2d 863 (N.Y. 1949) (enjoining the publication of a manuscript by Mark Twain on behalf of his estate's trustees in the absence of any evidence of fraud or bad faith).

51. *Naxos*, 830 N.E.2d at 266.

52. *Id.* at 266-67.

53. *Id.* (citation omitted).

54. *Id.* at 267 (quoting *Durham Indus. v. Tomy Corp.*, 630 F.2d 905, 910 (2d Cir. 1980)).

55. *Id.*; see 4 NIMMER, *supra* note 45, §13.05[A][3].

56. *Naxos*, 830 N.E.2d at 267.

57. *Id.*

pects of common law copyright have evolved over time, many of the law's central concepts have remained relatively unchanged since their initial development in seventeenth and eighteenth century England. Thus, to illuminate the rights that pre-1972 sound recordings possess today, this Part first canvasses the foundational copyright law developed in England and then recounts how this law developed in America. This legal background links the fact pattern and rulings outlined in Part I with their ramifications in Part III.

A. English Copyright Law

During the seventeenth century, following the English civil war, English common law began to recognize vested, perpetual property rights in creative works, acquired by the author through the act of creation.⁵⁸ Common law copyright originated from a natural rights perspective, under which the paramount concern was to protect the creator's labor and his right to use the work and exclude others from its unauthorized use.⁵⁹ This copyright interest arises at the moment of the work's creation and could conceivably last indefinitely.

In 1709, Parliament moved away from natural rights toward a utilitarian picture of copyright by passing the Statute of Anne.⁶⁰ Unlike common law copyright, the statute invested literary works with copyright protection from the time of publication, rather than from the time of creation.⁶¹ This protection expired after, at most, twenty-eight years.⁶² In contrast to natural rights arguments, a utilitarian theory views the goal of copyright law as promoting the synthesis of new creative works by endowing authors and

58. See 2 WILLIAM BLACKSTONE, COMMENTARIES ON THE LAWS OF ENGLAND 405-06 (Wayne Morrison ed., Cavendish Publishing, Ltd. 2001), available at <http://www.yale.edu/lawweb/avalon/blackstone/bk2ch26.htm> (last visited Sept. 7, 2005). Blackstone illustrates this by acknowledging:

[T]he right, which an author may be supposed to have in his own original literary compositions: so that no other person without his leave may publish or make profit of the copies. When a man by the exertion of his rational powers has produced an original work, he has clearly a right to dispose of that identical work as he pleases, and any attempt to take it from him, or vary the disposition he has made of it, is an invasion of his right of property.

Id.

59. See generally Alfred C. Yen, *Restoring the Natural Law: Copyright as Labor and Possession*, 51 OHIO ST. L.J. 517 (1990).

60. 8 Ann., c. 19 (1710) (Eng.), available at http://www.yale.edu/lawweb/avalon/eurodocs/anne_1710.htm.

61. *Id.*

62. *Id.*

artists with a property-like set of incentives tied to their works.⁶³ Against those incentives, the theory balances a need to prevent oppressive ownership regimes by the creators, which would tend to keep the works from public use.⁶⁴ The Statute of Anne balanced economic incentives for authors against the harms of monopoly, reserving for authors and their assigns the exclusive right to publish their works.⁶⁵ This created a property-like right, but protected the public interest in seeing a creator's work distributed by limiting the term of the copyright to, at most, twenty-eight years. This limited term raised the question, though, whether it served to terminate all copyright protection, including common law rights, or merely terminated copyright protection under the Statute of Anne.

This practical conflict between the economic perspective under the Statute of Anne and the natural rights perspective under common law copyright was exposed in the early case of *Millar v. Taylor*.⁶⁶ Under the Statute of Anne, a poet had assigned his copyright in a certain work to a publisher, Millar.⁶⁷ After waiting for the statutory copyright term to expire, a second publisher, Taylor, printed volumes including the work formerly protected by the expired statutory copyright.⁶⁸ Millar brought suit claiming that, under common law, his copyright in the poem extended beyond the statutory term.⁶⁹ Lord Justice Mansfield, writing for the court, affirmed Millar's assertion.⁷⁰ Under this ruling, common law copyright in a work co-existed with statutory copyright.⁷¹ As such, common law copyright protection extended beyond the term set by the Statute of Anne, which was triggered by the act of publication. Necessarily, this also meant that a common law copyright, invested in a work at its creation, outlived the act of publication. Thus *Millar* tended to marginalize the importance of the Statute of Anne.

Five years later, the House of Lords breathed renewed importance into the Statute of Anne in the case of *Donaldson v. Beckett* by effectively overruling the second assertion of *Millar* in finding that while common law copyright did exist along with statutory protection, common law copy-

63. See generally William M. Landes & Richard A. Posner, *An Economic Analysis of Copyright Law*, 18 J. LEGAL STUD. 325 (1989).

64. See *id.*

65. 8 Ann., c. 19, § II (1710) (Eng.).

66. (1769) 98 Eng. Rep. 201 (K.B.).

67. *Id.* at 203.

68. *Id.* at 203-04.

69. *Id.* at 205.

70. *Id.* at 250-53.

71. *Id.*

right ceased to protect a work once that work was published.⁷² This ruling could be viewed as an assertion that the law of copyright stands more soundly upon utilitarian, economic rationales than upon labor theory. In any event, *Donaldson* defined the state of English copyright law which prevailed at the time of the American Revolution.

B. American Copyright Law

In order to ensure uniform intellectual property protection throughout the new United States, the Founders granted Congress the power to pass relevant legislation: "The Congress shall have Power . . . To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries."⁷³ On the basis of this authorization, Congress passed the first federal copyright statute in 1790.⁷⁴ Like the Statute of Anne, this statute vested authors with copyrights that extended for up to twenty-eight years. In addition, since the states derived their common law from England, common law copyright also became a part of American copyright protection.⁷⁵ Not surprisingly, a tension between the 1790 Act and the common law developed, similar to the tension in England between the Statute of Anne and English common law copyright.

The U.S. Supreme Court resolved this tension, for a time, in *Wheaton v. Peters*.⁷⁶ Henry Wheaton, who had been the third official reporter for the Court, sued his successor Richard Peters to prevent Peters from copying and republishing material that had been published in Wheaton's reporters, alleging that such activity constituted copyright infringement.⁷⁷ The Court held that while English common law protected copyright prior to publication, a similar right was not included in American federal common law.⁷⁸ In other words, while federal statutes promised copyright protection for creative works, federal decisional law nowhere supplemented those statutory rights with rights derived from English common law copy-

72. (1774) 98 Eng. Rep. 257 (H.L.).

73. U.S. CONST. art. I, § 8, cl. 8.

74. Act of May 31, 1790, ch. 15, § 1, 1 Stat. 124.

75. The Founders knew that copyright was protected as a matter of common law in England. THE FEDERALIST No. 43 (Alexander Hamilton) (stating that "[t]he copyright of authors has been solemnly adjudged in Great Britain, to be a right of common law").

76. 33 U.S. (7 Pet.) 591 (1834).

77. *Id.* at 667-68. Wheaton alleged both statutory and common law copyright infringement. The Court remanded the statutory copyright count for factual determination whether Wheaton had complied with needed formalities to support his claim.

78. *Id.* at 658.

right. Nonetheless, any state which had incorporated the principles of English common law copyright protection in its decisional law was free to do so, but only to the extent that federal copyright statutes did not provide substantially equivalent protection. Since prior to 1978 the federal copyright statutes provided no protection for creative works before publication, common law copyright could protect unpublished works, on a state-by-state basis, without conflicting with federal statutory copyright. While scholars do not recognize the *Wheaton* opinion for its clarity of reasoning, they often cite it for the important principle that the act of publication dissolved common law copyright protection in the United States.⁷⁹

While these issues were settled with respect to printed works, the advent and proliferation of sound recordings, motion pictures, and other new media raised new questions, principally regarding definition. Most relevant to this discussion was whether sound recordings could be protected by copyright at all, and if so, what it meant to “publish” a sound recording, as publication extinguished common law copyright. In 1908, the Supreme Court determined in *White-Smith Music Publishing Co. v. Apollo Co.* that only works that one could “see and read” could be filed with the Library of Congress, and were thus eligible for federal statutory copyright protection.⁸⁰ Under this definition, piano rolls, which had to be played back on a player piano to unlock their expression, could not be protected under federal copyright statutes.⁸¹ Since by analogy sound recordings could not meet the “see and read” requirements for Library of Congress deposit, Congress did not include them as statutory subject matter when it passed the Copyright Act of 1909.⁸² Nonetheless, sound recordings could qualify for state copyright protection if a state chose to extend such protection.⁸³

A series of cases in the Second Circuit held that, at least in New York, not only did sound recordings qualify for state common law copyright protection, but also that this protection survived the offering of such recordings for public sale—that is to say offering sound recordings for public sale would not constitute “publication” for common law copyright pur-

79. *See id.* at 661-62; *see also* 1 NIMMER, *supra* note 45, § 4.02[C].

80. 209 U.S. 1, 17 (1908).

81. *Id.*

82. Act of Mar. 4, 1909, ch. 320, §§ 23-24, 35 Stat. 1075, 1080-1081 (1909).

83. *See Wheaton*, 33 U.S. (7 Pet.) at 687. Note that state copyright protection was not limited to the common law—states could also enact statutory protections so long as they did not fall within the federally preempted sphere. For the texts of some representative statutes from New York, California, and Illinois, *see* 2 NIMMER, *supra* note 45, § 8C.05.

poses.⁸⁴ While *Wheaton* had held that offering a literary work for public sale terminated copyright protection, the Second Circuit read the rule narrowly, electing not to apply it to sound recordings.⁸⁵ For example, in *Capitol Records, Inc. v. Mercury Records Corp.*, the Second Circuit concluded that federal statutory copyright under the Copyright Act of 1909 was not intended to, and did not, cover sound recordings.⁸⁶ As such, since the case arose in New York State, the state law of New York applied. By analyzing New York common law, the Second Circuit determined that public distribution did not constitute publication in the *Wheaton* sense—that is, publication divesting the work of common law copyright.⁸⁷ While the above Second Circuit decisions are important for their limitation of the applicability of the *Wheaton* principle to sound recordings, their effects were not national in scope.

These rulings came down amidst a growing concern about music piracy.⁸⁸ In addition to common law copyright protection, many states enacted anti-bootlegging statutes that criminalized the sale or other commercial use of sound recordings without the owner's consent.⁸⁹ While the persistence of common law copyright and anti-bootlegging statutes aided record companies and artists in pursuing infringers of their work, they were piecemeal solutions to a national problem. Responding to the growing threat of unauthorized copying of sound recordings, Congress passed an amendment to the federal copyright statute in 1971 to afford federal protection to sound recordings.⁹⁰ The amendment applied only prospectively, though, protecting only those recordings made after February 15, 1972. With regard to pre-1972 recordings, the law provided for federal preemption of state common law copyright protection beginning on February 15, 2047.⁹¹ The preemption date was later extended twenty years by the Sonny Bono Copyright Term Extension Act, to 2067.⁹²

84. See *Capitol Records, Inc. v. Mercury Records Corp.*, 221 F.2d 657, 663 (2d Cir. 1955); *Rosette v. Rainbo Record Mfg. Corp.* 546 F.2d 461,463 (2d Cir. 1976).

85. See *Mercury Records*, 221 F.2d at 663; *Rosette*, 546 F.2d at 463; see also *Wheaton*, 33 U.S. (7 Pet.) at 658, 661-62 (holding that publication ended state common law copyright protection).

86. 221 F.2d at 660-62.

87. *Id.* at 663.

88. See H.R. REP. NO. 92-487 (1971) (noting that reliable trade sources estimated the annual volume of record piracy to exceed \$100 million).

89. See 2 NIMMER, *supra* note 45, § 8C.05.

90. Sound Recordings Act of 1971, Pub. L. No. 92-140, § 3, 85 Stat. 391, 391 (1971) (codified at 17 U.S.C. § 5(n) (2000)).

91. See *id.*

92. Pub. L. No. 105-298, 112 Stat. 2827 (codified at 17 U.S.C. § 301(c)).

The 1971 amendment clarified that from 1972 onward sound recordings would constitute copyrightable subject matter under the federal Copyright Act from the time of creation.⁹³ As such, the amendment left no un-preempted territory for state copyright law regarding post-1972 recordings. With regard to pre-1972 recordings, the 1971 amendment ensured that whatever protection the several states gave to these works, that protection would be preempted by federal copyright law in the mid-twenty-first century. Until that time, though, the amendment left unclear what rights the states could extend to pre-1972 recordings. The amendment could conceivably be read to abrogate both common law copyright and existing state statutes proscribing music piracy. A user of pre-1972 sound recordings certainly would like to know the proper reading, else risk liability for copyright infringement. Further, the amendment included no guidance on the meaning of “publication” as pertaining to sound recordings made prior to 1972.⁹⁴

The Supreme Court resolved some of these questions in *Goldstein v. California*.⁹⁵ In *Goldstein*, the defendants were convicted by a lower court of violating a California statute criminalizing music piracy. They appealed, challenging the validity of the California statute as violating the Copyright Clause of the Federal Constitution, in establishing state copyright protection with an unlimited duration in violation of the clause’s “limited times” provision, as well as the Supremacy Clause and the Federal Copyright Act.⁹⁶ The Court rejected the defendants’ challenges to the perpetual nature of California’s criminal copyright protection statute on the basis that the Copyright Clause limits the power of Congress, not of the states, to protect intellectual property rights.⁹⁷

The Court also rejected the defendants’ contention that, because the allegedly infringed work was in public distribution, it had been published and was thus, under the *Wheaton* principle, no longer protected by state law. The Court pointed out that in interpreting federal law “‘publication’ serves only as a term of the art which defines the legal relationships which Congress has adopted . . . [a]s to categories of writings which Congress has not brought within the scope of the federal statute, the term has no ap-

93. See Sound Recordings Act of 1971, *supra* note 90.

94. Note that this is a distinction without a difference with regard to post-1972 recordings since the Copyright Act extends protection from the moment of creation, rather than publication.

95. 412 U.S. 546 (1973).

96. *Id.* at 551; see also U.S. CONST. art I, § 8, cl. 8.

97. *Goldstein*, 412 U.S. at 560-61.

plication.”⁹⁸ In other words, state common law copyright protection could, but need not, possess duration beyond the time of public distribution in the absence of contrary statutory authority.⁹⁹

Congress subsequently passed the Copyright Act of 1976,¹⁰⁰ which defined publication, for purposes of federal statutory copyright protection, as including the public sale of sound recordings.¹⁰¹ Once again some questioned whether “public sale” ended common law copyright protection for pre-1972 sound recordings. The Ninth Circuit broached this question in *La Cienega Music Co. v. ZZ Top*, in which the owner of certain recordings of the blues artist John Lee Hooker performing the song “Boogie Chillen” sued the rock band ZZ Top for infringement.¹⁰² ZZ Top defended on the ground that inclusion of “Boogie Chillen” on several publicly-distributed albums had extinguished the common law copyright covering the song.¹⁰³ The Ninth Circuit held for the defendants, finding that public sale of the earlier recordings extinguished plaintiff’s common law copyright protection.¹⁰⁴

The Ninth Circuit’s decision in *La Cienega* directly clashed with the Second Circuit’s decisions extending common law protection beyond public sale in *Capitol Records* and *Rosette*.¹⁰⁵ In response to this split in authority, Congress finally clarified the matter by amending the 1976 Act as follows: “The distribution before January 1, 1978, of a phonorecord shall not for any purpose constitute a publication of the musical work embodied therein.”¹⁰⁶ As a result, state common law copyright could protect pre-1972 sound recordings until the date of federal preemption, regardless of any public sale. New York, in turn, extended common law copyright to

98. *Id.* at 570 n.28.

99. 1 NIMMER, *supra* note 45, § 4.02[C].

100. Act of Oct. 19, 1976, Pub. L. No. 94-553, 90 Stat. 2541 (1976) (codified as amended at scattered sections of 17 U.S.C.).

101. 17 U.S.C. § 101 (2000).

102. 53 F.3d 950 (9th Cir. 1995).

103. *Id.* at 952.

104. *Id.* at 953.

105. See *Rosette v. Rainbo Record Mfg. Corp.*, 546 F.2d 461, 463 (2d Cir. 1976), *aff’g* 354 F. Supp. 1183 (S.D.N.Y. 1973); *Capitol Records, Inc. v. Mercury Records Corp.*, 221 F.2d 657, 663 (2d Cir. 1955).

106. 17 U.S.C. § 303(b) (2000); see also *Capitol Records, Inc. v. Naxos of Am., Inc.*, 830 N.E.2d 250, 262 (N.Y. 2005); 1 NIMMER, *supra* note 45, § 4.06.

protect pre-1972 sound recordings regardless of their public distribution.¹⁰⁷

Thus, the law has come full circle: the current situation in New York, with regard to pre-1972 recordings, resembles that of literary works in England after *Millar v. Taylor*. Common law copyright protects sound recordings made prior to 1972 from the time of their creation to the year 2067. This protection persists regardless of whether the recordings have been publicly distributed. These circumstances thus provide the setting in which the New York Court of Appeals acted in considering *Naxos*.¹⁰⁸

III. THE RAMIFICATIONS OF NAXOS FOR PROSPECTIVE USERS OF PRE-1972 SOUND RECORDINGS

The Court of Appeals's decision in *Naxos* has several implications for prospective users of pre-1972 sound recordings. First, the case affirms that, at least in New York, common law copyright on pre-1972 sound recordings will persist until the date of federal preemption, regardless of whether the creator or his assignee publicly distributes the work. This knowledge will encourage publishers to reissue old material for public consumption and enjoyment.

Second, reissues of pre-1972 sound recordings will be considered infringing works for purposes of New York common law copyright. Thus, any prospective remastering engineer or company must license the original recording or risk liability.

Third, at least in New York, the owner of a pre-1972 sound recording not covered by a federal copyright can seek protection from state copyright law, regardless of whether the recording originated domestically or abroad, and regardless of whether the work is protected by copyright in its country of origin. Prospective users will have to pay an increased cost for this protection, which may be offset by the establishment of collective rights organizations.

Finally, given the interconnected nature of today's networked world and the uncertainty of conflict of laws rules regarding copyright, much alleged infringement may potentially give rise to common law copyright liability in the state of New York. Prospective users of pre-1972 recordings will have to be aware of this possible liability and plan their mar-

107. See *Rosette*, 546 F.2d at 463; *Mercury Records*, 221 F.2d at 663; *Radio Corp. of Am. v. Premier Albums, Inc.*, 240 N.Y.S.2d 995, 996-97 (App. Div. 1963); *Metro. Opera Assn. v. Wagner-Nichols Recorder Corp.*, 101 N.Y.S.2d 483 (Sup. Ct. 1950).

108. *Naxos*, 830 N.E.2d at 263-64.

keting and licensing strategies accordingly. The following sections explore these implications further.

A. Copyright Protection for Pre-1972 Recordings Preserves Incentives for Re-Release by Copyright Holders

In their current state, many pre-1972 sound recordings sit idle in music publishing back storerooms. With the decline of analog record use and sales in today's market, old recordings are currently unmarketable. In order to extract economic value from these assets, companies must invest time and effort in converting the albums into a digital format. In turn, the publishers must be able to exclude unauthorized use of their reissues in order to recoup their investment. The ruling of the New York Court of Appeals in *Naxos* will encourage publishers to reissue old material for public consumption and enjoyment, since publishers will have the benefit of copyright protection for more than 60 additional years.

Given that a state *may* choose to extend copyright protection to cover any area not preempted by federal law, though, it does not necessarily follow that a state *should* do so. From a natural rights or labor theory perspective, in the words of Lord Justice Mansfield, "it is just, that an author should reap the pecuniary profits of his own ingenuity and labor."¹⁰⁹ By this reasoning, a creator might well be entitled to hold his copyright in perpetuity. Notwithstanding this perspective, from a utilitarian point of view, maintaining protection on older works presents problems. No system of incentives will encourage the creation of more pre-1972 records. The artists and their assignees have gathered the fruits of their labors for a minimum of thirty-three years, and in many instances much more than that. That their efforts would be protected for as much as 170 years from creation surely would not, and did not, encourage the creation of more works than otherwise would have been created prior to 1972. Indeed, given that statutory copyrights through 1972 could persist, at most, for ninety-five years, artists thinking about such things likely would have assumed a similar term of protection would be afforded them.

Additionally, maintaining copyrights on antiquated works, where the line of ownership may be challenging, or impossible, to unravel, increases the costs of any attempt to use those old recordings.¹¹⁰ Nonetheless, an

109. *Millar v. Taylor*, 98 Eng. Rep. 201, 252 (K.B.).

110. For background on the particular challenge of so-called "orphan works"—that is, works whose owners are impossible to locate—see U.S. Copyright Office, Orphan Works, <http://www.copyright.gov/orphan> (last visited Nov. 22, 2005). See also Olive Huang, Note, *U.S. Copyright Office Orphan Works Inquiry: Finding Homes for the Orphans*, 21 BERKELEY TECH. L.J. 265 (2006).

adherent to the utilitarian point of view might see the protection of such recordings' economic value, in the form of an incentive to reissue, as weighing in favor of maintaining copyright protection for pre-1972 recordings. While copyright protection extending well into the twenty-first century may seem to place an onerous limitation upon public access, efficient use of old recordings demands some form of copyright protection.

As the *Naxos* case demonstrates, pre-1972 recordings possess potential economic value.¹¹¹ In order to capture that value, though, a reissuing party must exert the effort required to remaster old recordings. The value contained in such recordings varies significantly. Certainly, some pre-1972 recordings have an existing audience, given the amount of pre-1972 music already available in digital format on compact discs. For other recordings, though, their value may be quite small without the investment of significant effort and resources. All recordings made prior to 1972 inhabit an analog domain; to create something of value to a modern music consumer, old recordings must be transferred to a commercially-viable digital format. After all, most people do not have a gramophone lying about. At a minimum, digitizing old recordings requires both a means to read the old media and a means to convert the resulting analog data into a digital form.¹¹²

A party may wish to digitize old recordings and remaster them to appeal to a modern audience.¹¹³ Other innovators might pursue more creative uses, including sampling old recordings and employing them in new music. While these latter users might add sufficient creativity to support new copyrights on their material, under the *Naxos* ruling, companies who merely remaster and re-release older material would not qualify for copyright protection.

To create a truly desirable product in today's market, recording engineers will likely have to invest additional effort beyond mere digitization. Recordings made solely with the acoustic energy of the artist, without microphones, or music mixed in one or two channel audio will not play well on a modern music system with six or more channels of surround sound

111. It is interesting to note that in the wake of the *Naxos* ruling, the world's largest record label, Universal Music Group International, has announced a major program to reissue recordings in their archives, many of which "[go] back to the early days of recorded music." Ray Bennett, *Rare Tracks Excavated for Digital Downloading*, YAHOO! NEWS, Jan. 18, 2006, http://news.yahoo.com/s/nm/20060119/music_nm/rare_dc.

112. For details about the sound recording process and analog-to-digital conversion as applied to sound recording, see ALAN P. KEFAUVER, FUNDAMENTALS OF DIGITAL AUDIO (1999) and ASS'N OF PROF'L RECORDING SERVS., SOUND RECORDING PRACTICE (John Borwick ed., 4th ed. 1994).

113. See Frank J. Priol, *An Expert at Making Old Tunes New Again*, N.Y. TIMES, Aug. 27, 2005, at B7.

output.¹¹⁴ These recordings must be digitized, broken down into their constituent parts, cleaned of noise resulting from antiquated recording technology and deteriorating media, balanced to take advantage of advances in loudspeaker technology and multichannel output, and remixed into a single file playable on a digital music player or compact disc player.¹¹⁵ In short, a party wishing to re-release old recordings must invest time, effort, and money.¹¹⁶ Without the promise of copyright or other protection, though, a re-releasing company could find it difficult to recoup this investment.

The *Naxos* court held that even if Naxos had created a new product through its remastering efforts, in the presence of a common law copyright on the original recordings, Naxos's remastered products could be deemed to infringe the copyrights on the original recordings. The court reasoned that independent creation cannot consist of actual copying and that fair use does not apply where an entire copyrighted work is reproduced.¹¹⁷ In essence, the court concluded that the mere re-releasing of analog recordings in a digital format could not result in noninfringing new works.

Only noninfringing new creative works vest property rights in their creators. If the original source works were not protected by copyright, the products that Naxos re-released would be in the public domain. But if the original recordings were protected by common law copyright, and if Naxos failed to create a noninfringing new product, then it would possess no right to exclude others from unauthorized use of the re-released works. Thus, not only would Naxos likely be liable for copyright infringement, free-riding third parties could copy Naxos's re-released works with impunity. Since prospectively the re-releaser could not hope to recoup its investment in remastering other old recordings, going forward, it would

114. Prior to 1924, the process of sound recording consisted of a needle scratching its vibrations into a blank medium, with those vibrations being directly produced by the audio energy, captured via a large collecting horn, emanating from a source—in essence, the opposite of the playback process. In 1924, though, H.C. Harrison patented the electric condenser microphone, which thereafter reshaped the method of sound recording. The primary result was that the powerful bellowing voices needed to create acoustic recordings gave way to the mellow “crooner” voices permitted by microphone recording. See MARK COLEMAN, *PLAYBACK: FROM THE VICTROLA TO MP3, 100 YEARS OF MUSIC, MACHINES, AND MONEY* 34-37 (2003); see also RUHLMANN, *supra* note 1, at 49.

115. See KEFAUVER, *supra* note 112.

116. Of course, with the wide availability of powerful personal computers and software suites permitting digital editing of media files, the minimum investment needed to create high-quality reissues is lower than at any time in the past. Nonetheless, reissuing companies must invest something.

117. *Capitol Records, Inc. v. Naxos of Am., Inc.*, 830 N.E.2d 250, 267 (N.Y. 2005).

have no incentive to similarly treat other antique works and their value would lie unrealized.¹¹⁸

Moreover, absent assured copyright protection vested in the publisher, reissues would depend on ad hoc efforts by a multitude of dissociated reissuing companies. Assured copyright protection increases the likelihood that a publisher will organize its efforts to extract maximum yields from its back catalogue, further decreasing the cost of remastering through an economy of scale. Additionally, the consumer may then be assured of higher minimum quality standards in its products, as the publisher, rather than various prospective reissuers, has the best access to the original master recordings. Finally, lower transaction costs between publishers and online music distributors, such as the popular iTunes,¹¹⁹ would prevail over a situation in which a multitude of reissuing companies would conduct transactions with the online distributors, resulting in a greater number of one-shot deals requiring more negotiations.

Many compelling reasons disfavor protection of pre-1972 recordings, among them the attenuated link between the incentive to create and the property rights granted, as well as the difficulty in tracing the ownership of many older works. On balance, though, it seems prudent to maintain protection in order to encourage the extraction of these recordings' economic values as reissued products. Further, by centralizing efforts to exploit that value in the hands of music publishers, the law ensures that the recordings will be used by the entities who often possess the best remaining source material, who may best utilize economies of scale, and who can most efficiently bargain licensing transactions.

B. Prospective Users of Foreign Works in the Public Domain Must License Them

On the international copyright scene, for works of foreign origin, courts often compare copyright terms, as between the domestic norm and the foreign regime, and choose to apply the shorter of the two.¹²⁰ While New York was not compelled to do this by any law or precedent, it could have chosen to do so. In choosing otherwise, the Court of Appeals guaranteed that sound recordings which remain unprotected by the federal copyright statute will, wherever their origin, qualify for state copyright protection in New York. While this choice will impose some costs upon pro-

118. See Landes & Posner, *supra* note 63.

119. Apple - iPod + iTunes, <http://www.apple.com/itunes> (last visited Feb. 19, 2006).

120. See 4 NIMMER, *supra* note 45, § 17.10[A]; 1 INTERNATIONAL COPYRIGHT LAW AND PRACTICE § 5(2) (Paul E. Geller, ed., 2005).

spective users of these recordings, collective rights organizations could serve to mitigate those costs.

While one might have guessed that the states would continue to extend copyright protection for domestic pre-1972 recordings up until the date of preemption, it was by no means clear that the states would do likewise for foreign works that have entered the public domain in their country of origin. In *Naxos*, the recordings in question were fixed in the United Kingdom in the 1930s, at a time after the U.K. had abolished common law copyright in favor of a singular statutory copyright scheme.¹²¹ This situation raises at least three questions: (1) Do works of foreign origin even fall within the ambit of domestic common law copyright; (2) Does the abrogation of common law copyright in the country of origin preclude New York from extending common law copyright to underlying recordings; and (3) Does the expiration of the statutory copyright in the country of origin terminate common law copyright in New York? The *Naxos* court jumped past the first two questions and dealt only with the third question explicitly. Nonetheless, all three questions logically bear on the protection that New York may extend to pre-1972 recordings.

As to whether domestic common law copyright can protect works of foreign origin, both New York courts and the Supreme Court have held that, as to literary works, common law copyright affords protection regardless of the nationality or domicile of the author and regardless of where the work was released.¹²² While New York need not have read that rule to include sound recordings, it implicitly chose to do so in *Naxos*. As for whether the abrogation of common law copyright in the work's country of origin precludes New York from affording the work domestic protection, again for literary works, at least one New York court has held that such an abrogation did not dissolve New York common law copyright.¹²³ *Naxos* implicitly established that this rule applies to sound recordings as well, throughout the state of New York.

The third question can be restated as an inquiry into the duration of common law copyright in New York for works that have entered the public domain in their country of origin. The Berne Convention requires its member nations, among them the United States, to accord "national treatment" to foreign claimants in Berne member courts.¹²⁴ This is to say that

121. *Roberts v. Petrova*, 213 N.Y.S. 434, 435 (Sup. Ct. 1925).

122. *See Ferris v. Frohman*, 223 U.S. 424, 434 (1912); *Palmer v. De Witt*, 47 N.Y. 532, 538 (1872); *Roberts*, 213 N.Y.S. at 437.

123. *Roberts*, 213 N.Y.S. at 437.

124. *See Berne Convention*, *supra* note 42, art. 5(1) ("Authors shall enjoy, in respect of works for which they are protected under this Convention, in countries of the Union

foreign claimants must have the same rights in domestic courts as would domestic claimants in domestic courts. The Constitution requires that the states recognize treaties entered into by the federal government as having the force of federal law.¹²⁵ Berne, though, does not apply to pre-1972 sound recordings; nor do the other treaties or statutes that would normally demand national treatment.¹²⁶ Thus, neither federal statute nor Constitutional provision requires the states to accord foreign pre-1972 sound recordings the same protection as their domestic counterparts. Therefore, in *Naxos* the court could have chosen to apply a shorter common law copyright duration than it would have given to domestic works. In other words, although the court determined, through the historical analysis elucidated in Part II, that common law copyright on domestic pre-1972 sound recordings persists in New York until the date of federal preemption, the court need not have accorded the works in *Naxos* the same treatment, as they were of foreign origin.

For example, the court could have chosen to apply the “rule of the shorter term.”¹²⁷ In international copyright law, when protection is claimed in one country but litigated in another, countries often compare the copyright term available in the forum country with that given by the protecting country, and apply the shorter of the two.¹²⁸ Indeed, the Berne Convention mandates application of this rule unless domestic legislation of a member country specifically provides otherwise.¹²⁹ The rule is meant to harmonize international copyright law by discouraging forum shopping on the part of prospective plaintiffs.¹³⁰ As previously stated, though, Berne does not apply to pre-1972 sound recordings. The federal law of the United States does not apply the rule of the shorter term, in general, but instead accords both foreign and domestic federal copyright claims the term granted by the federal copyright statute.¹³¹ States, on the other hand,

other than the country of origin, the rights which their respective laws do now grant or may hereafter grant to their nationals, as well as the rights specially granted by this Convention.”)

125. U.S. CONST. art. VI, § 2.

126. See *supra* notes 42, 43. Even if Berne or the Universal Copyright Convention applied, they do provide for the application of the rule of the shorter term as something of an exception to national treatment. See Berne Convention, *supra* note 42, at art. 7(8); Universal Copyright Convention, *supra* note 42, Art. IV(4)(a).

127. See 4 NIMMER, *supra* note 45, § 17.10[A].

128. See *id.*

129. Berne Convention, *supra* note 42, art. 7(8).

130. See 4 NIMMER, *supra* note 45, § 17.10[A]; 1 INTERNATIONAL COPYRIGHT LAW AND PRACTICE § 5(2) (Paul E. Geller, ed., 2005).

131. See 3 NIMMER, *supra* note 45, § 9.12[A].

need not follow this convention. Thus, a U.S. state is neither obligated to, nor forbidden from, applying the rule of the shorter term.

In *Naxos*, had New York chosen to apply the rule of the shorter term, it would likely have found that while New York law would grant copyright for sixty-one more years, British law no longer provided for copyright protection. Applying the rule, the works would no longer be protected by copyright and *Naxos*'s use would not infringe. Since the court determined that all domestic sound recordings not qualifying for federal statutory protection would qualify for state copyright protection, in choosing to discard the rule of the shorter term in favor of according foreign claimants domestic treatment, the court guaranteed that all sound recordings, wherever their origin, not qualified for federal statutory protection, would qualify for state statutory or common law copyright protection.

This choice consequently generates increased transaction costs from tracing copyright ownership and additional licensing negotiations.¹³² These concerns, though, need not overshadow the advantages of long-term copyright protection; collective rights organizations could ameliorate these costs by easing ownership determination and providing standard negotiated deals for the use of pre-1972 recordings.¹³³ Such groups are constituted to distill dispersed ownership and enforcement rights as to many relatively low-value properties into one entity. This centralization increases the properties' overall values by lowering the energy barrier to their use and rights enforcement. This effect derives from the easier location of rightholders and lowered costs of licensing negotiation, achieved by spreading transaction costs among a bundle of associated licensed properties—essentially encouraging repeat-player reciprocal bargaining and concomitantly discouraging more expensive one-off bargains. In addition, pooling of enforcement resources leads to lower costs for rightholders.

Altogether, the upshot of the Court of Appeals ruling is that if sound recordings are not protected by the Federal Copyright Act, whatever their nation of origin, they will be protected by state copyright law in New York. While this situation will impose the known costs for long-duration copyright, these costs could be lowered by the creation of collective rights

132. See William M. Landes & Richard A. Posner, *Indefinitely Renewable Copyright*, 70 U. CHI. L. REV. 471, 475-76 (2003).

133. Cf. Robert P. Merges, *Contracting Into Liability Rules: Intellectual Property Rights and Collective Rights Organizations*, 84 CALIF. L. REV. 1293 (1996) (arguing that in the context of licensing digital media, collective rights organizations efficiently organize licensing according to economic need and underlying intellectual property rights).

organizations. In any event, these works will remain under copyright for a long time to come and, thus, prospective users must plan accordingly.

C. The Long Arm of New York Common Law Copyright

Under the *Naxos* ruling New York will extend copyright protection to pre-1972 sound recordings regardless of whether their domestic copyright persists. A prospective user of these recordings, wherever located, who wishes to sell in the U.S. market will have to consider the implications of *Naxos*. This is largely due to the fact that modern marketing methods, especially the internet, possess an international scope, implicating that the laws of many jurisdictions may intercede twixt the cup and the lip.

In *Naxos*, Capitol sued Naxos on the basis of alleged infringement occurring in New York. In order to predict how wide a reach this ruling might have, one must examine choice of law as it applies to international copyright. The mere presence of international entities and actions does not implicate a conflict of laws. One must evaluate the prima facie elements of the cause of action asserted for the appearance of any true conflicts of law.¹³⁴ It may turn out that while the parties argue about which of one or more laws apply, only one may plausibly apply; or, though more than one law may apply, the respective applications of these laws may result in no substantive differences. In these cases no true choice of laws is presented. In other cases, though, more than one law may plausibly apply, and the results of applying the respective laws may differ enough to implicate a conflict of law situation. In this event, the arbiter of the case should seek to maximize the policy concerns of such a choice. These include predictability of result, fairness between the parties, simplicity of application, and, often most strikingly, avoidance of forum shopping.¹³⁵

In *Naxos*, the law of New York and the law of the U.K. could both plausibly apply, assuming that the alleged infringement occurred in New York, but the works in question originated in the U.K. The content of the laws clearly differs, since in the U.K. the works in question are in the public domain while in New York the works are protected under copyright. Thus, the prima facie elements of the case suggest that one must pursue a choice of law analysis. The traditional rule in copyright conflicts dictates that the forum should apply the law of the place of infringement.¹³⁶ This

134. Larry Kramer, *Rethinking Choice of Law*, 90 COLUM. L. REV. 277, 281-83 (1990).

135. RESTATEMENT (SECOND) OF CONFLICT OF LAWS § 6 (1971).

136. See 4 NIMMER, *supra* note 45, § 17.05; INTERNATIONAL COPYRIGHT LAW, *supra* note 130, § 3(1). The Second Circuit has refined this analysis to apply the law of the state in which the infringement occurred to all aspects of the action except as to the issue of

rule works reasonably well to meet the goals of a choice of law regime—predictability of result, fairness between the parties, simplicity of application, and avoidance of forum shopping—when the infringing activity is localized to one jurisdiction. When the infringing activity occurs in multiple jurisdictions over the internet, which may implicate many jurisdictions or none, it may be quite difficult to localize the place of infringement. Yet this localization must be established in order to know which law will be applied, regardless of where a plaintiff brings suit.

Consider a case in which an online music distributor converts a pre-1972 album into a digital format in state A. He then transports that recording via compact disc into state B and loads it onto his company's computer server, offering it for sale over the internet. A consumer purchases the digital album in state C wherein he downloads the song and listens to it. Where is the place of infringement? Note that *Naxos* is a similarly complex case. Capitol was able to localize the infringement to New York by founding its claim upon allegedly infringing articles sold in New York, allowing New York law to apply even though the works were originally recorded and copyrighted in Britain. *Naxos* is a Hong Kong-based company whose corporate subsidiary, *Naxos of America*, is based in Tennessee. Thus a Tennessee subsidiary of a Hong Kong company faced liability in New York over a British recording.

The multiplicity of choice of law methods employed by various states might well lead different jurisdictions to answer the place of infringement question quite differently, even on the same set of facts.¹³⁷ While several commentators have attempted to elucidate choice of law methods more suited to the emerging digital age of copyright law, the results serve mainly to illuminate the nebulous nature of these methods.¹³⁸ To limit this uncertainty on the international scene, nations have adopted several trea-

ownership, which is to be "determined by the law of the state with 'the most significant relationship' to the property and the parties." *Itar-Tass Russ. News Agency v. Russ. Kurier, Inc.*, 153 F.3d 82, 90 (quoting RESTATEMENT (SECOND) OF CONFLICT OF LAWS § 222 (1971)).

137. See generally DAVID P. CURRIE ET AL., CONFLICT OF LAWS (6th ed. 2001) (illustrating the various choice of law regimes, including territorial theories, state interest analysis, and significant contacts analysis, among others).

138. See Graeme W. Austin, *Domestic Laws and Foreign Rights: Choice of Law in Transnational Copyright Infringement Litigation*, 23 COLUM.-VLA J. L. & ARTS 1 (1999); Graeme B. Dinwoodie, *A New Copyright Order: Why National Courts Should Create Global Norms*, 149 U. PA. L. REV. 469 (2000); William Patry, *Choice of Law and International Copyright*, 48 AM. J. COMP. L. 383 (2000); Andreas P. Reindl, *Choosing Law in Cyberspace: Copyright Conflicts on Global Networks*, 19 MICH. J. INT'L L. 799 (1998).

ties to harmonize the various national laws that a case may implicate, thus reducing the likelihood of a true conflict of laws.¹³⁹ As stated earlier, these treaties do not apply to pre-1972 recordings.¹⁴⁰ Additionally, national courts will employ the doctrine of *forum non conveniens* to avoid litigating a copyright issue in a forum not strongly attached to the facts of the infringement, when another more connected forum presents.¹⁴¹ There are few cases when *forum non conveniens* is proper, though, since rarely does a forum possess ties to a case that are strong enough to permit a suit to be brought there but that are too attenuated for there to be sufficient interest in applying the forum's law. The harmonization efforts typically employed by nations on the international stage do not apply to the facts of *Naxos*.

It may turn out, though, that *Naxos*, itself, will function as a harmonization mechanism. A prospective user of protected material, who wishes to distribute a product containing such material over the internet, must obey the most restrictive laws in order to avoid liability.¹⁴² Under the *Naxos* ruling New York will extend copyright protection to pre-1972 sound recordings regardless of whether their domestic copyright persists. New York is an important part of the desirable U.S. market. A prospective user of these recordings, wherever located, who wishes to take advantage of the U.S. market, as a practical matter will have to license the material in order to avoid liability. Certainly, a prospective user of these recordings could decrease the risk of liability by not distributing via the internet or by limiting the geographic areas which can download the material. Nonetheless, many such users will undoubtedly wish to exploit the whole of the U.S. market, and hence will license the material. New York's arms will grow long indeed.

IV. CONCLUSION

Media companies are increasingly attempting to exploit their back catalogues of television shows, films, and recorded music through com-

139. Chief among these is the Berne Convention, though also important are the Universal Copyright Convention, the Rome Convention, and the Phonograms Convention. See *supra* note 42.

140. See *id.*

141. See, e.g., *London Film Prods. Ltd. v. Intercontinental Commc'ns, Inc.*, 580 F. Supp. 47 (S.D.N.Y. 1984).

142. Cf. Peter S. Menell, *Regulating "Spyware": The Limitations of State "Laboratories" and the Case for Federal Preemption of State Unfair Competition Laws*, 20 BERKELEY TECH. L.J. 1363 (2005) (arguing that in the context of state unfair competition law regulating malicious computer software, the interconnected nature of the internet renders the most restrictive state laws controlling over less restrictive laws).

pact disc and home video sales, as well as through internet distributors. With regard to music recorded before 1972, in the past these companies could not be certain of the intellectual property rights that they would have in their catalogue, and thus could not efficiently exploit those recordings in a commercial context. In *Naxos*, the New York Court of Appeals illuminated the rights that New York will accord music publishers in their older works, particularly those which were originally published abroad. Pre-1972 sound recordings will remain protected under the aegis of state common law copyright until 2067. This common law copyright protects against unauthorized copying and permits plaintiffs to collect civil remedies from unlicensed copiers. Copyright claims will not require bad faith on the part of the copier. Moreover, a showing that the market for the original work is negligible will not excuse the copier from liability.

Due to New York's importance both as an independent music market and as a significant part of the U.S. market, as well as the interconnectedness of today's world, this ruling will produce an impact upon the global music publishing business. Until 2067, any user of old recordings will have to seek out and take a license for the use or else risk copyright liability. Most impacted by this effect will be the new-technology music distributors, today including primarily internet retailers. Though, in the future, potentially telecommunications companies who wish to distribute music over cellular telephone, fiber optic telephone, or cable television connections could also face liability. The owner of the Beatles catalog can rest easy.

ADDITIONAL DEVELOPMENTS—COPYRIGHT

FIELD V. GOOGLE INC.

2006 WL 242465 (D. Nev. Jan. 19, 2006)

The United States District Court for the District of Nevada ruled that Google's cached copies of plaintiff's copyrighted webpages were non-infringing. Further, the court held that even if the cache did infringe, Google's implied license and fair use defenses protected it from liability.

Blake Field, a Nevada author and attorney, brought suit against Google for copyright infringement. As part of its standard operating procedure, Google had automatically copied and cached Field's website, which included numerous works authored by the plaintiff. Field alleged that Google directly infringed his copyrights when it served cached copies of his works to its users. Field sought \$2,550,000 in statutory damages for Google's alleged infringement. Both Google and Field sought summary judgment.

The District Court granted Google's summary judgment motion, holding that the plaintiff's copyrights had not been infringed. The court held that because Google's passive transmission of its cached copy of the plaintiff's webpages to users involved no volitional act by Google, it could not constitute infringement. Additionally, the court held that Field's failure to include a "no-archive" metatag on his site established an implied license to cache its content and estopped Field's infringement claims, given the norms of internet publication and search engine indexing. Finally, the court concluded that Google's caching of Field's website in its search archive was a transformative use deserving of the protection offered by the fair use defense.

GOLAN V. GONZALEZ

2005 U.S. Dist. LEXIS 6800 (D. Colo. Apr. 20, 2005)

The District Court for the District of Colorado ruled that section 514 of the Uruguay Round Agreement Act ("URAA"), codified at 17 U.S.C. § 104A, was constitutional.

Section 514 of the URAA restored copyright protection to original works of foreign origin whose protection had lapsed due to failure to comply with statutory copyright formalities which have since been repealed. Plaintiffs, who exploited intellectual property in the public domain, filed claims for injunctive and declaratory relief alleging the unconstitutionality of the URAA. Plaintiffs argued that the URAA violated the Copyright and Patent Clause of the U.S. Constitution by removing artistic works from the public domain. They also claimed that removing works from the public domain was a violation of their First Amendment rights. Finally, the plaintiffs argued that under the substantive due process protections of the Fifth Amendment the retroactive nature of the URAA was fundamentally unfair.

In 2004, the district court denied a motion to dismiss the claim challenging the constitutionality of the URAA. According to the court, the reasoning in *Eldred v. Ashcroft*, 537 U.S. 186 (2003), did not foreclose a similar claim with regard to the URAA. Whether the URAA altered traditional First Amendment safeguards and hence should be subject to greater scrutiny, the court stated, could also not be resolved on a motion to dismiss. The court also found that plaintiffs stated a cognizable claim for relief by arguing that the URAA was an arbitrary and irrational retroactive law.

In 2005, however, the court granted summary judgment for the U.S. government, holding that the URAA was lawfully enacted, rationally related to the government's interests, and did not infringe on the plaintiff's constitutional rights. After an exhaustive examination of patent and copyright protection in the United States, the court found that Congress had previously acted to remove works from the public domain. Further, according to the court, past precedent suggested that such removal causes little harm to the progress of the arts and sciences because ideas remain in the public domain even after the copyright in protectable expression is returned to the author. The court further found that Congress demonstrated a rational basis for enactment of the URAA, in protecting American au-

thors' interests abroad by adhering to international intellectual property treaties.

The court rejected plaintiffs' claim that their First Amendment rights were violated, noting that the plaintiffs were still free to license the expressions in question and that private censorship deriving from copyright does not implicate the First Amendment. The court rejected plaintiff's substantive due process claim by finding that the URAA granted retroactive benefits to authors, but did not place any retroactive burdens, aside from some lost investment, on the plaintiffs. The court further found that since Congress had historically restored copyright to works in the public domain, the plaintiffs could have no reasonable expectation of perpetual exploitation of foreign uncopyrighted works.

MARVEL ENTERPRISES, INC. v. NCSOFT CORP.

74 U.S.P.Q.2d 1303 (C.D. Cal. 2005)

The District Court for the Central District of California dismissed plaintiffs' secondary trademark liability claims because plaintiff failed to allege infringement on the part of defendant's users.

Plaintiffs Marvel Enterprises, Inc. and Marvel Characters, Inc. ("Marvel"), creators and owners of various comic book characters, sued NCSOFT Corp. for distributing and hosting a computer game that "allows players to play online and create characters that are virtually identical in name, appearance, and characteristics to characters owned by Plaintiffs." Plaintiffs charged, *inter alia*, direct and secondary copyright and trademark infringement. Defendant moved to dismiss plaintiffs' complaint for failure to state a claim.

The court declined to dismiss plaintiff's claims for direct, contributory, and vicarious copyright infringement. The court also let stand plaintiffs' claims for direct trademark infringement, both under statutory and common law. However, the court dismissed plaintiffs' claims for both contributory and vicarious trademark infringement. The court held that Marvel failed to allege that NCSOFT's users had used Marvel's marks in commerce or in connection with the sale, offering for sale, distribution, or advertising of any goods or services, and thus there was no infringement on the part of defendants' users for which defendant could be secondarily liable.

DAVIDSON & ASSOCIATES V. JUNG. (RE)INTERPRETING ACCESS CONTROLS

By *A.H. Rajani*

The entertainment industry has long viewed the internet as a threat because of the ease with which original digital works can be copied and transmitted, rendering traditional copyright protections ineffective.¹ In order to harness the earning potential of this new medium, the industry argued, it had to rely on a system of technological locks and access controls to prevent unauthorized access and copying.² Accordingly, Congress in 1998 enacted the Digital Millennium Copyright Act (DMCA) to provide legal protection and remedies against the circumvention of those technological protection measures.³

For the videogame industry, CD key authentication is just one of many technological protection measures designed to prevent unauthorized installation and/or duplication of game software.⁴ Videogame publishers usually include a unique CD key with each CD-ROM and a customer is required to enter this CD key during software installation. But as the market for multiplayer online games expands, CD key authentication is being radically redefined in a way that locks competitors out of a variety of secondary markets for videogames. Propelling this trend, the Eighth Circuit, through an overly broad interpretation of the DMCA, held that a group of gamers who created an alternate game server that interoperated and com-

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1. Joseph P. Liu, *Regulatory Copyright*, 83 N.C.L. REV. 87, 129-39 (2004); John Markoff, *Five Giants In Technology Unite to Deter File Sharing*, N.Y. TIMES, Jan. 5, 2004, at C1.

2. See LEE A. HOLLAAR, LEGAL PROTECTION OF DIGITAL INFORMATION 199-202 (2002).

3. *Universal City Studios v. Corley*, 273 F.3d 429, 435 (2d Cir. 2001) (citing protection from piracy as the reason Congress enacted the DMCA). For background and legislative history, see DAVID NIMMER, COPYRIGHT: SACRED TEXT, TECHNOLOGY, AND THE DMCA 385-443 (2003); Diane M. Barker, Note, *Defining the Contours of the Digital Millennium Copyright Act: The Growing Body of Case Law Surrounding the DMCA*, 20 BERKELEY TECH. L.J. 47, 50-51 (2005); Matt Jackson, *One Step Forward, Two Steps Back: An Historical Analysis of Copyright Liability*, 20 CARDOZO ARTS & ENT. L.J. 367, 408-10 (2002).

4. See generally Copy Protection, WIKIPEDIA: THE FREE ENCYCLOPEDIA, http://en.wikipedia.org/wiki/copy_protection (last visited Mar. 17, 2006).

peted with a game publisher's proprietary game server was liable for circumvention under the DMCA.⁵

The purpose of this Note is to determine what role the DMCA should play in regulating online access to videogame servers. Part I begins with a brief overview of the videogame industry and the emerging market for online games. In particular, it describes how game publishers have combined traditional copyright protection, restrictive license terms, and CD key authentication to exert unprecedented control over numerous markets for videogames.⁶

Part II offers an in-depth look at the Eighth Circuit's DMCA analysis in *Davidson & Associates. v. Jung*.⁷ It argues that the court misinterpreted the function and purpose of the publisher's CD key authentication, an error that has substantially expanded the scope of the DMCA. Part III explains how *Davidson* legitimizes the use of strategic access controls that unreasonably shift the burden of "piracy" onto innovators in secondary markets. Part III also illustrates how the Eighth Circuit's ruling in *Davidson* has impacted the development of a new generation of videogames—called massively-multiplayer online games ("MMOGs")—and offers game publishers a unprecedented monopoly over markets associated with this flourishing videogame technology. This Note concludes that while the DMCA has and will continue to play a vital role in protecting digital works, courts should be extremely cautious when confronted with CD key authentication schemes that have more to do with protecting revenue streams for downstream services than with combating piracy.

I. BACKGROUND: THE VIDEOGAME INDUSTRY TODAY

Videogames are not just for children. In 2004, the average gamer in the United States was thirty years old.⁸ Americans spend an average of 6.8

5. *Davidson & Associates. v. Jung*, 422 F.3d 630 (8th Cir. 2005), *aff'g* 334 F. Supp. 2d 1164 (E.D. Mo. 2004).

6. This Note focuses exclusively on the role of the DMCA in regulating competition for interoperable game servers. Although issues of copyright misuse, federal preemption, and the enforceability of end-user license agreements (EULAs) that restrict the right to reverse engineer software are interrelated, these issues will not be addressed here.

7. 422 F.3d at 630.

8. ENTERTAINMENT SOFTWARE ASSOCIATION, ESSENTIAL FACTS ABOUT THE COMPUTER AND VIDEO GAME INDUSTRY 2, <http://www.theesa.com/files/2005EssentialFacts.pdf> [hereinafter ESA'S ESSENTIAL FACTS]. Of the gamer population, 35% were under the age of eighteen while 43% were between the ages of eighteen and forty-nine. *Id.* Surprisingly, 19% of gamers in 2004 were over the age of fifty, which represents an increase of 10% from 1999. *Id.*

hours per week playing videogames, more time than they spend watching DVDs or rented videos.⁹ In 2003, 108 million gamers in the United States spent \$10 billion on videogames.¹⁰ With record-setting sales,¹¹ it is not surprising that the industry expands by 20% each year.¹² But as consumers demand improved graphics, more features, intricate plotlines, and popular characters, licensing and development costs for these kinds of games have skyrocketed.¹³ For example, Electronic Arts (“EA”) recently paid \$400 million for a five-year exclusive contract with the National Football League,¹⁴ \$800 million for a fifteen-year exclusive contract with ESPN,¹⁵ and an estimated \$20 million each to secure rights for videogames based on popular movie franchises like Harry Potter, Lord of the Rings, James Bond, and The Godfather.¹⁶ But despite massive investments by some publishers and increasing consumer demand, many publishers are reluctant to invest because of high risk.¹⁷ Although more Americans are spend-

9. *Id.* at 6.

10. Nicky Blackburn, *Advertisers' Newest Playground*, JERUSALEM POST: ONLINE EDITION, Mar. 4, 2005, <http://www.jpost.com/servlet/Satellite?pagename=JPost/JP/Article/Printer&cid=1109820004417&p=1062388728918> (subscription service). Advertisers currently spend between \$90 and \$120 million on videogames each year, a number estimated by some research firms to skyrocket to \$700 million by 2008. *Id.* In 2002, the videogame industry earned \$28 billion globally. Jonathan Dee, *Playing Mogul*, N.Y. TIMES, Dec. 21, 2003, § 6 (Magazine), at 38.

11. For example, Electronic Arts (“EA”) sold 1.7 million copies of *Madden NFL* in one week. Daniel Terdiman, *EA invests big in the future*, CNET NEWS.COM, Aug. 24, 2005, http://news.com.com/EA+invests+big+in+the+future/2100-1043_3-5842444.html?tag=cd.hed. Not to be outdone, Blizzard Entertainment (“Blizzard”) sold 400,000 copies of its mega-hit *World of Warcraft* in just two days. Darren Waters, *Losing Yourself In Online Gaming*, BBC NEWS, Feb. 17, 2005, <http://news.bbc.co.uk/1/hi/technology/4265407.stm>.

12. In 2004, twelve games sold more than one million units, setting a new record. ESA'S ESSENTIAL FACTS, *supra* note 8, at 9.

13. *See* Dee, *supra* note 10, at 38.

14. Terdiman, *supra* note 11; Curt Feldman & Tim Surette, *Big Deal: EA And NFL Ink Exclusive Licensing Agreement*, GAMESPOT, Dec. 13, 2004, http://www.gamespot.com/news/2004/12/13/news_6114977.html.

15. Terdiman, *supra* note 11.

16. EA spent an additional \$633 million in research and development for the 2005 fiscal year, which was 20.2% of its total revenue of \$3.13 billion. Terdiman, *supra* note 11. This figure represents a 24.1% increase over EA's 2004 research and development expenditures and a 57.8% increase over 2003. *Id.* Similarly, game publisher Take-Two recently secured rights to Major League Baseball for an estimated \$200 to \$250 million. *Id.*

17. EA, for example, has struggled for the first quarter of 2006, losing \$58 million. This number might be slightly misleading because next-generation gaming consoles are only beginning to be released. Terdiman, *supra* note 11.

ing more time playing videogames, there is no guarantee that they will play one particular videogame. For example, a videogame based on *The Matrix* movie trilogy received poor reviews even after more than \$50 million was invested.¹⁸ Even Warner Brothers' online game called *Matrix Online* flopped, netting less than 50,000 subscribers in three months.¹⁹ Accordingly, publishers are consolidating their product lines and relying heavily on previously successful franchises.²⁰

With rising development costs and consolidated product lines, game publishers are continually searching for new sources of income. Some, for example, look outside of the traditional videogame market and sell motion picture development rights for their games.²¹ More importantly, publishers are looking at the internet in a whole new way, especially with the rising popularity of online multiplayer games. Not surprisingly, many publishers now charge their customers a monthly fee just to play their games online.²²

18. Dee, *supra* note 10, at 39. \$50 million alone was spent in purchasing Shiny Entertainment, a studio that held the rights to the movie's license. *Id.*

19. It quickly sold the game to Sony. Seth Schiesel, *Conqueror In A War Of Virtual Worlds*, CNET NEWS.COM, Sept. 11, 2005, http://news.com.com/Conqueror+in+a+war+of+virtual+worlds/2100-1043_3-5855004.html?tag=cd.hed. EA shut down production of its sequel to *Ultima Online*. Cyan Worlds, Games Workshop, and There Inc. also confronted poor sales after substantial investments. Peter Zackariasson & Timothy L. Wilson, Center for Computer Games Research, *Massively Multiplayer Online Games: A 21st Century Service?* 1 (Dec. 2004) (presented Dec. 6-8, 2004 at Other Players Conference, Center for Computer Games Research, IT University of Copenhagen, Denmark), available at http://www.itu.dk/op/papers/zackariasson_wilson.pdf.

20. Terdiman, *supra* note 11. In the first half of 2004, eight of the ten best-selling videogames were expansions of, sequels to, or new editions of existing videogames. Erica A. Taub, *In Video Games, Sequels Are Winners*, N.Y. TIMES, Sept. 20, 2004, at C1, available at <http://select.nytimes.com/search/restricted/article?res=F40B1EF93F5D0C738EDDA00894DC404482> (subscription service). Since 1995, ten game titles were based on Spider-Man alone, selling over 8 million copies. *Id.* In fact, Microsoft recently made a deal with Marvel Enterprises to create an online game featuring Spider-Man, the Fantastic Four, and the Hulk. Seth Schiesel, *Microsoft Joins Marvel in Online Game Deal*, N.Y. TIMES, Jul. 15, 2005, at C2, available at <http://select.nytimes.com/search/restricted/article?res=F70614F738540C768DDDAE0894DD404482> (subscription service).

21. Taub, *supra* note 20 ("We can't find a publisher interested in the title until the movies are produced. They all want to leverage off the film's marketing.") (statement of American McGee, co-owner of the Mauretania Import Export Company). See generally Furine Blaise, Note, *Game Over: Issues Arising When Copyrighted Work is Licensed to Video Game Manufacturers*, 15 ALB. L.J. SCI. & TECH. 517 (2005) (describing why videogames are ripe for cross-pollination with other media).

22. For example, Blizzard charges gamers a monthly fee to play *World of Warcraft* online. Pricing schemes include a month-to-month package at \$14.99 per month, a three-

Although online videogames come in a variety of forms,²³ it is safe to say there is a rapidly emerging class of videogames exclusively designed for online play called massively-multiplayer online games.²⁴ These games create a perpetual online world in which individual gamers interact with one another.²⁵ Depending on the publisher, each gamer must also pay a monthly fee to maintain access to this online world. What distinguishes MMOGs from other online games is that they reinforce a sense of responsibility to a larger social group or, at least, require the individual gamer to acknowledge that other independent actors may intervene and alter their decision-making processes.²⁶ Blizzard Entertainment's *World of Warcraft*

month plan at \$13.99 per month, and a six-month plan at \$12.99 per month. Blizzard, *World of Warcraft F.A.Q.*, <http://www.worldofwarcraft.com/info/faq> (last visited Mar. 17, 2006).

23. For example, there are online trivia games that are free to download, free to play online, and are funded mainly through advertising. This category of games includes puzzle, board, game show, trivia, and card games. With a 56.8% share of all online games, they represent the most popular online games. ESA'S ESSENTIAL FACTS, *supra* note 8, at 8. With a 19% share, the second most often played games on the internet cover a wide array of game genres: Real-time strategy, First-Person Shooters, Role-Playing, Racing, Sports, Tactical Shooters, and Turn-Based Strategy. *Id.* Games in this category are free to play online and sometimes feature banner advertisements during online gameplay. While games in this second category have varying multiplayer capabilities, they are either primarily designed for or at least have robust single-player capabilities. Granted, many games might be difficult to categorize because they straddle more than one category. My classifications are intended to give readers an overview of the "type" of online games that have been available on the market and how they differ from newer online gaming technology.

24. Popular MMOG titles include *World of Warcraft*, *Final Fantasy XI*, *City of Heroes*, and *EverQuest II*. The MMOG movement is dominated by the home PC market, with all ten of the top-selling MMOGs made for PCs. Schiesel, *supra* note 20. Generally, Asian markets (except for Japan) are dominated by PCs, not consoles. *Id.*

25. "MMOGs create a persistent universe where the game continues playing regardless of whether or not anyone else is. Since these games strongly or exclusively emphasize multiplayer gameplay, few of them have any significant single-player aspects or client-side artificial intelligence. . . ." MMOG, WIKIPEDIA: THE FREE ENCYCLOPEDIA, <http://en.wikipedia.org/wiki/MMOG> (last visited Dec. 3, 2005).

26. *My Life as an Online Gamer*, BBC NEWS, Aug. 31, 2005, <http://news.bbc.co.uk/1/hi/technology/4198918.stm> ("[P]laying games online means that other people are playing live with you. You work as a team and it gives you a unique sense of responsibility. It's a little society.") (statement of Li Yang, a software engineer from Beijing). Even the American Cancer Society tapped into the virtual community by hosting its Relay for Life fundraiser within the virtual world of *Second Life*. Mark Wallace, *Letting Your Fingers Do the Running*, N.Y. TIMES, Aug. 21, 2005, § 2 (Directions), at 4, available at <http://select.nytimes.com/search/restricted/article?res=F30E16F7395A0C728EDDA10894DD404482> (subscription service). These games also feature complex economies where transactions involving real money can take place. See *infra* Section III.B.

has been the most successful MMOG to date. Since its launch in November 2004, six million people have subscribed to the game around the world.²⁷

To protect their investments, publishers have traditionally combined copyright protection with restrictive shrinkwrap and clickwrap licenses, which usually prohibit reverse engineering or decompilation of any kind.²⁸ Game publishers argue that this combination of contract and copyright protection deters unauthorized copying, unauthorized distribution, and the development of cheats and game hacks.²⁹ Increasingly, however, publishers are relying on technological protection measures as a means to protect their rights in videogame software.³⁰ For example, most copies of videogames—whether purchased on CD-ROM, DVD or downloaded directly from the Web—come packaged with a unique CD key required during installation.³¹

Once a user enters the CD key and successfully installs the game software, that user can play against the computer in single-player mode. Depending on the game, the user may also play that same game with others. Some may connect via a local network, but most rely on the internet. Game publishers usually host a dedicated game server where users can log on and join various games and tournaments. Access to these servers is usually free, but as shown in Figure 1 below, publishers have begun to condition access to their proprietary game servers on verification of the *same* CD key the user entered during software installation.

27. Paul Loughrey, *World of Warcraft subscriber base tops 6 million worldwide*, GAMEINDUSTRY.BIZ, Feb. 3, 2006, <http://www.gamesindustry.biz/news.php?aid=15049>.

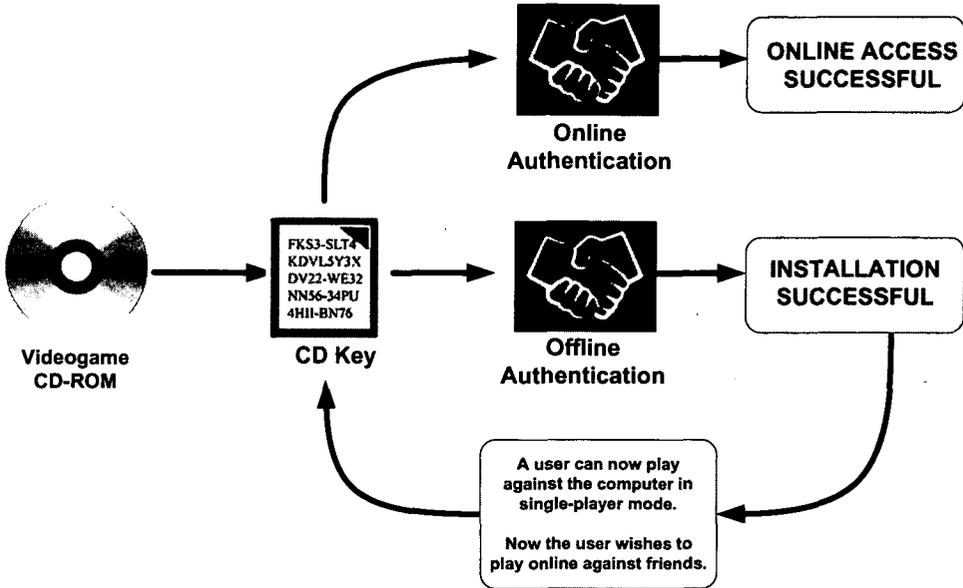
28. Dan L. Burk, *Anticircumvention Misuse*, 50 UCLA L. REV. 1095, 1099-1101 (2003). Videogames can qualify for more than one type of copyright protection. They may qualify as literary works, as audiovisual works, or as a combination of the two. IRINI A. STAMATOUDI, COPYRIGHT AND MULTIMEDIA WORKS 176 (2002).

29. Cheats and game hacks allow a user to gain an unfair advantage over other players. For example, a player might wish to become invulnerable to attack or gain access to unlimited resources.

30. Joelle Farchy & Fabrice Rochelandet, *Self-help Systems: Good Substitutes for Copyright or New Barriers to Competition?*, in THE ECONOMICS OF COPYRIGHT 148 (Wendy J. Gordon & Richard Watt eds., 2003).

31. A CD key consists of a combination of letters or numbers, usually printed on a sticker attached to the plastic case of a CD-ROM. When the user is asked to type this CD key during installation, the key is verified by the program by checking it “according to a mathematical algorithm and attempts to match the results to a set of valid solutions.” CD key, WIKIPEDIA: THE FREE ENCYCLOPEDIA, http://en.wikipedia.org/wiki/CD_key (last visited Dec. 4, 2005).

Figure 1: Using CD keys during software installation and conditioning access to an online server based on that same CD key.



Upon first glance, requiring CD key authentication for a second time seems like a reasonable additional layer of defense against unauthorized use.³² However, this new “loop” of authentication represents a profound reinterpretation of the CD key as a technological protection measure. The CD key is no longer controlling access solely to the game software, but is now also regulating access to a proprietary service as well. Game publishers are the only parties with access to the algorithms with which to authen-

32. Most CD keys are not effective in stopping software piracy due to the rise of the internet, as CD keys can be distributed in seconds via CD key generators, and software publishers are increasingly turning to new methods of authenticating software, such as via internet authenticating systems.

Id. Compare this method of authentication with Microsoft’s Product Activation for Windows XP:

Product Activation works by verifying that a software program’s product key has not been used on more personal computers than intended by the software’s license. You must use the product key in order to install the software and then it is transformed into an installation ID number. You use an activation wizard to provide the installation ID number to Microsoft either through a secure transfer over the Internet, or by telephone. A confirmation ID is sent back to your machine to activate your product.

Microsoft, Windows XP Product Activation, Aug. 29, 2002, <http://www.microsoft.com/windowsxp/evaluation/features/activation.msp>.

ticate CD keys. Thus, game publishers have created an artificial bottleneck, making it virtually impossible for any other party to offer hosting or matchmaking services for these videogames without “circumventing” the authentication process for online services publishers have bundled with their game software.³³ CD key authentication is quickly morphing from a tool that locks out pirates to one that locks out competitors.³⁴

Under the guise of battling software piracy, Blizzard Entertainment recently sued a number of gamers who had developed an online game server that interoperated with Blizzard’s videogames. The Eight Circuit held that in creating a separate game server, the defendants circumvented Blizzard’s CD key authentication protection measure.³⁵

II. *DAVIDSON & ASSOCIATES V. JUNG*

A. Facts and Procedural History

Blizzard Entertainment, a division of Vivendi Universal Games, was established in 1994 and has quickly become a giant in the videogame industry. Blizzard distributes its games in CD-ROM format and each copy comes with a unique CD key.³⁶ Blizzard also hosts its own 24-hour online game server called Battle.net, which allows players to chat with one another and join live tournaments for Blizzard games.³⁷ The user’s CD key—stored locally on the user’s computer during installation—is verified each time the user logs onto the Battle.net service.³⁸

33. See *infra* Sections II.A-B.

34. See generally Burk, *supra* note 28 (supporting a misuse doctrine that would prevent copyright owners from leveraging access controls to dictate downstream purchases).

35. Blizzard’s CD key is similar to the one described in Figure 1.

36. *Davidson & Assocs. v. Internet Gateway*, 334 F. Supp. 2d 1164, 1169-70 (E.D. Mo. 2004). Use of Blizzard’s game software is subject to a clickwrap EULA, which provides that an end user may not “in whole or in part, copy, photocopy, reproduce, translate, reverse engineer, derive source code, modify, disassemble, decompile, create derivative works based on the Program” *Id.* at 1170-71.

37. *Id.* at 1168. Though free of charge, use of Battle.net is subject to certain Terms of Use (TOU). *Id.* at 1170-71. The TOU states that a user shall not host or provide matchmaking services for any Blizzard software programs or emulate or redirect the communication protocols . . . through protocol emulation, tunneling, modifying, or adding components to the Program, use of a utility program . . . for any purpose, including, but not limited to, network play over the Internet

Id.

38. *Id.* at 1169. The district court further elaborated on the authentication sequence: [T]he game initiates a authentication sequence or “secret handshake” between the game and Battle.net server. First, the game and Battle.net

Battle.net has been wildly successful. In 2002, the game server had twelve million active users, and averaged 200,000 concurrent users.³⁹ But the gamer server's popularity has been its biggest drawback. Frequent crashes, slow response times, profanity, and a proliferation of hacks and cheats were the most common complaints.⁴⁰ Unhappy with the performance of Battle.net, a group of volunteer programmers formed the "BnetD Project" and developed their own open-source online game server called the BnetD.org server.⁴¹ BnetD's software allowed users to play Blizzard games online without being connected to Blizzard's proprietary server.⁴² As Figure 2 illustrates, BnetD's software did not provide access to Blizzard's proprietary server. Instead, BnetD's software created an online world *entirely separate* (but virtually identical) to Blizzard's proprietary online world. In other words, those logged onto BnetD's server could not play against those players logged onto Battle.net servers.

server exchange [encrypted numbers]. . . . The Battle.net server receives the alphanumeric sequence sent by the game, along with other information sent by the game, and uses this data to determine whether the CD Key information sent by the game is valid. . . . If the CD Key is both valid and not currently being used by other players on the same Battle.net gateway, the Battle.net server sends [an "OK"] signal to the game

Id. Users with invalid CD keys are, therefore, are not allowed to log onto the Battle.net server.

39. *Id.* at 1168.

40. GREG COSTIKIYAN, CREATIVE GOOD, THE FUTURE OF ONLINE GAMES 69-71 (1999), <http://www.themis-group.com/uploads/ogrfinal.doc>; Howard Wen, *Battle.net Goes to War*, SALON.COM, Apr. 18, 2002, <http://www.salon.com/tech/feature/2002/04/18/bnetd/print.html>.

41. *Davidson*, 334 F. Supp. 2d at 1171-72. To create their interoperable game server, BnetD developers: (1) logged communications between Blizzard's game software and the Battle.net server, (2) decompiled Blizzard client files, (3) and developed a program that modified the connection settings used by the game software to connect to the internet. *Id.* at 1172-73.

42. *Id.* at 1172. BnetD developers felt it was "morally wrong" for Blizzard to force its customers to view banner advertisements while using Battle.net. *Id.*

Figure 2: BnetD's server and Battle.net are alternative online servers

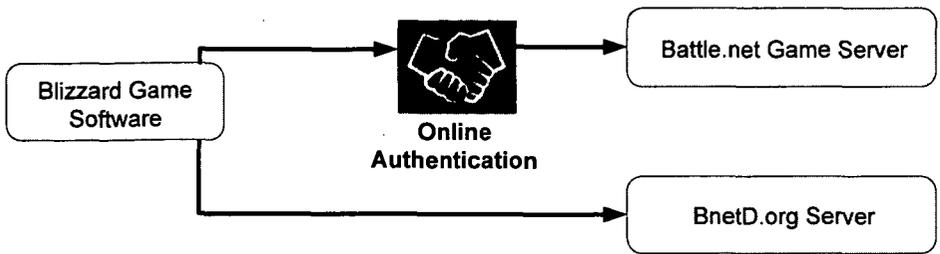


Figure 2 also illustrates a major operational difference between Battle.net and BnetD's equivalent: BnetD's game server was incapable of denying access to those using unauthorized copies of Blizzard games, always sending an "OK" signal to the game software. Blizzard reasoned that in circumventing their CD key authentication, BnetD developers' sole purpose was to enable online functionality of pirated Blizzard software.⁴³ BnetD seemingly addressed this concern when they offered to implement an authentication process for their servers. Blizzard, however, rejected BnetD's offer, citing its need to keep CD key algorithms secure. In April of 2002, Blizzard brought suit in federal court against Internet Gateway, Inc.—a local internet service provider—and its president, Tim Jung, for hosting the BnetD server and unlawfully copying elements of Blizzard's videogames.⁴⁴ Blizzard later added defendants Ross Combs and Rob Crittendon, alleging they helped Jung develop the software.⁴⁵ A consent decree between the parties settled most claims, but the following issues remained: a claim for breach of Blizzard's EULA and its TOU,⁴⁶ a claim for circum-

43. *Id.* at 1173. The court found that BnetD never advised people to play with unauthorized copies of Blizzard software, but at least one of the defendants was aware that unauthorized versions of Blizzard games were played on BnetD servers. *Id.*

44. The games at issue were: *StarCraft*, *StarCraft: Brood War*, *WarCraft II: Battle.net Edition*, *Diablo*, and *Diablo II: Lord of Destruction*. *Id.* at 1168. Although none of the games at issue were MMOGs, this case has still had a substantial impact on their development. Some speculated that Blizzard's lawsuit was a preemptive move to protect a subscription-based version of Battle.net that debuted in November 2004. Wen, *supra* note 40.

45. I will refer to Jung, Combs, and Crittendon collectively as "BnetD."

46. See *Davidson*, 334 F. Supp. 2d at 1167. Blizzard argued that by reverse engineering its videogame software to create the BnetD server, BnetD developers had breached the terms of Blizzard's EULA and TOU. BnetD countered, claiming Blizzard's enforcement of its EULA and TOU under state contract law was preempted by the Copyright Act. *Davidson*, 334 F. Supp. 2d at 1174. Relying on *Vault Corp. v. Quaid Software, Ltd.*, BnetD asserted that a ban on reverse engineering violated its fair use rights. 847 F.2d 255 (5th Cir. 1998). In *Vault*, the Fifth Circuit declared unenforceable a software license prohibiting decompilation and disassembly because such restrictions were pre-

vention of copyright protection, and a claim for trafficking in circumvention technology.⁴⁷ The district court granted summary judgment to Blizzard on all claims and, on appeal, the Eight Circuit affirmed.⁴⁸

B. Circumvention and Trafficking in Circumvention Technology

Blizzard's primary allegation was that by circumventing Blizzard's CD key authentication "handshake," BnetD's server permitted unauthorized access to "Battle.net mode."⁴⁹ Section 1201(a)(1) of the DMCA prohibits an individual from "circumventing a technological measure that effectively controls access to a work protected under this title," and § 1201(a)(2) prohibits trafficking in any technology "primarily designed or produced" for circumvention.⁵⁰

For an effective circumvention analysis, a court must determine the following: (1) was there an access control present? (2) what was the access control controlling access to? (3) was the material being protected copyrightable subject matter? (4) was this subject matter effectively controlled by that access control? (5) was the access control bypassed? and (6) are

empted by the Copyright Act. *Id.* at 269-70. The Eighth Circuit, however, limited *Vault* as preempting *state law* that conflicted with federal copyright laws, not private contracts. *Davidson & Assocs. v. Jung*, 422 F.3d 630, 639 (8th Cir. 2005). Instead, the Eighth Circuit relied on *Bowers v. Baystate Techs., Inc.* in which the Federal Circuit held that "[p]rivate parties are free to contractually forego the limited ability to reverse engineer a software product under the exemptions of the Copyright Act." 320 F.3d 1317, 1325-26 (Fed. Cir. 2003). The Eighth Circuit held that Blizzard could require end users to contractually waive their right to reverse engineer without running afoul of federal copyright law. *Davidson*, 422 F.3d at 638-39. For a discussion of the effectiveness of wholesale private ordering favored, see Margaret Jane Radin, *Retooling Contract for the Digital Era*, in PUBLIC POLICY AND THE INTERNET 115-49 (Nicholas Imparato ed., 2000).

47. The claims dismissed by the consent decree include federal copyright infringement, federal trademark infringement, dilution, false designation of origin, common law trademark infringement, and unfair competition.

48. The district court ruled on a number of issues, some of which are not pertinent to the discussion here. The district court decided: (1) whether a choice of law provision in Blizzard's EULA was enforceable, (2) whether clicking "I Agree" to a EULA and TOU constitutes agreement between two parties under California contract law, (3) whether the first sale doctrine was applicable to a software license, and (4) whether Blizzard's EULA and TOU were unconscionable. *Davidson*, 334 F. Supp. 2d at 1175-80.

49. *Id.* at 1183; *see also* Blizzard, Battle.net Emulation FAQ, <http://www.battle.net/support/emulationfaq.shtml> (last visited Sept. 7, 2005). BnetD developers offered to implement an authentication process, though Blizzard declined BnetD's offer, citing its need to keep its CD key algorithms secure.

50. 17 U.S.C. §§ 1201(a)(1)-(2) (2000). "[I]n the ordinary course of its operation, [a technological measure] requires the application of information, or a process or a treatment, with the authority of the copyright owner, to gain access to the work." § 1201(b)(2)(B).

there any exemptions or defenses for this act of circumvention?⁵¹ The Eighth Circuit held that Blizzard's CD key authentication process effectively controlled access to "Battle.net mode features," which was copy-rightable expression.⁵² The court ruled that BnetD bypassed (and allowed third parties to bypass) Blizzard's access controls by developing an alternate game server, an act not protected under the DMCA's interoperability exception.⁵³

Throughout its opinion, the Eighth Circuit blended its analysis of one issue into others, making it difficult to extrapolate a clear theory of liability. Of the questions required for an effective circumvention analysis, the court incorrectly answered questions 2, 4, and 6 and failed to consider question 3 altogether. The most problematic portion of the court's reasoning was its analysis of the second question, which asks, "what was the access control controlling access to"? By answering "Battle.net mode," the Eighth Circuit guaranteed itself a murky opinion with unclear precedent.

51. These questions can be framed in many ways. For example, it is clear that there must be a sufficient nexus between the alleged circumvention and some copyright infringement, but I did not list this explicitly because a court will confront the nexus issue when considering whether the material protected was copyrightable subject matter. The Federal Circuit in *Chamberlain Group, Inc. v. Skylink Techs., Inc.* characterized the elements for a § 1201(a)(2) claim:

A plaintiff alleging a violation of § 1201(a)(2) must prove: (1) ownership of a valid copyright on a work, (2) effectively controlled by a technological measure, which has been circumvented, (3) that third parties can now access (4) without authorization, in a manner that (5) infringes or facilitates infringing a right protected by the Copyright Act, because of a product that (6) the defendant either (i) designed or produced primarily for circumvention; (ii) made available despite only limited commercial significance other than circumvention; or (iii) marketed for use in circumvention of the controlling technological measure. A plaintiff incapable of establishing any one of elements (1) through (5) will have failed to prove a prima facie case. A plaintiff capable of proving elements (1) through (5) need prove only one of (6)(i), (ii), or (iii) to shift the burden back to the defendant. At that point, the various affirmative defenses enumerated throughout § 1201 become relevant.

381 F.3d 1178, 1203 (Fed. Cir. 2004); see Jane C. Ginsburg, *Legal Protection of Technological Measures Protecting Works of Authorship: International Obligations and the US Experience* 11-22 (Columbia Public Law & Legal Theory Working Papers, Working Paper No. 0593, 2005) (offering an overview of legal issues that arise when analyzing some of these questions).

52. *Davidson*, 422 F.3d at 640-41.

53. *Id.* at 641-42.

1. *The Elusive “Battle.net mode”*

Both the Eighth Circuit and the district court referred to “Battle.net mode” with a degree of abstraction that rendered their analyses virtually incomprehensible. The district court and Eighth Circuit—who determined that the CD key controlled access to “Battle.net mode”—changed the definition of “Battle.net mode” throughout their opinions, referring to it as: (1) a literal part of the game software;⁵⁴ (2) a part of Blizzard’s proprietary game server;⁵⁵ and/or (3) a mysterious intermediate entity between the the two.⁵⁶ Thus, it is unclear what copyrighted work, if any, either court believed Blizzard was protecting with its CD key.

It appears that the tight integration between the user interface of the game software and Blizzard’s proprietary Battle.net server was the main source of confusion. A user of a Blizzard game desiring to play online would perform the following steps: (1) launch the game software, (2) select “Multiplayer” from the software’s main menu, and then (3) select “Battle.net.” After online CD key verification, a connection to the Battle.net service is established. According to the court, a user would now be described as being in “Battle.net mode”—as opposed to being in single-player mode.

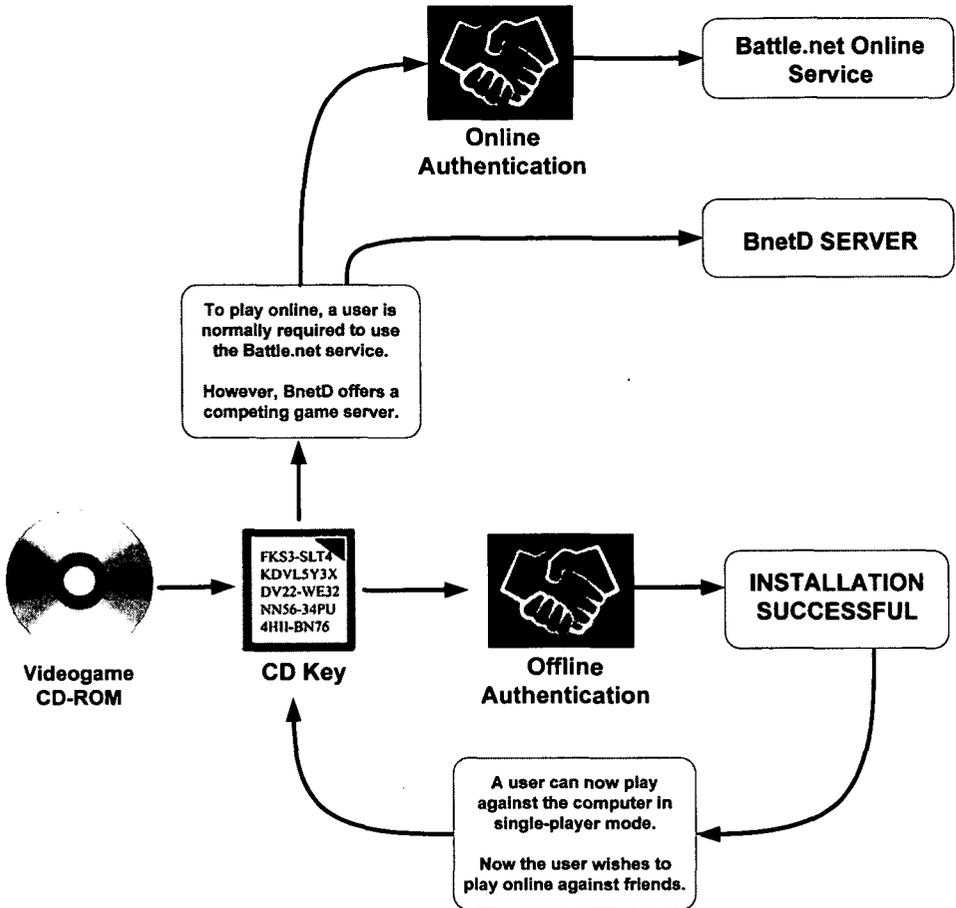
By holding that Blizzard’s CD key authentication was protecting “Battle.net mode,” the Eighth Circuit failed to articulate that when an access control is used in more than one way—for example, during software installation and then again to regulate online access—determining what the access control actually controls should be *based on the context of its use*. Consider Figure 3 below, which illustrates why the court’s interpretation of Blizzard’s CD key authentication is insufficient.

54. *Davidson*, 334 F. Supp. 2d at 1168 (“The *Battle.net* service is a free service that allows owners of certain Blizzard games to play those games . . . against each other . . . These *Battle.net mode* features are accessed from within the games themselves.”) (emphasis added).

55. *Davidson*, 422 F.3d at 641 (“[BnetD] could not have obtained a copy of Battle.net or made use of the literal elements of Battle.net mode without acts of reverse engineering, which allowed for a circumvention of *Battle.net* and *Battle.net mode*.”) (emphasis added).

56. *Id.* at 640 (“The bnetd.org emulator . . . allowed the Blizzard game to access Battle.net mode features without a valid or unique CD key.”).

Figure 3: Articulating what a CD key protects based on the context of its use. Therefore, during *installation*, the CD key controls access to the game software. But during *online gameplay*, that same CD key controls access to Battle.net.



As shown above, distinguishing between single-player and multiplayer “modes” is misleading. To describe a player who has connected her game software to the internet as being in “Battle.net mode” presupposes that a user is connecting to the Battle.net game server. By the same logic, one should describe a user who has connected her game software to the BnetD server as being in “BnetD mode,” not in Battle.net mode. Unfortunately, the court simply failed to articulate what “Battle.net mode” actually consisted of or where the code embodying “Battle.net mode” was stored. Ultimately, it appeared that the lower court made an unfounded conceptual leap in assuming that “Battle.net mode” was copyrightable subject matter

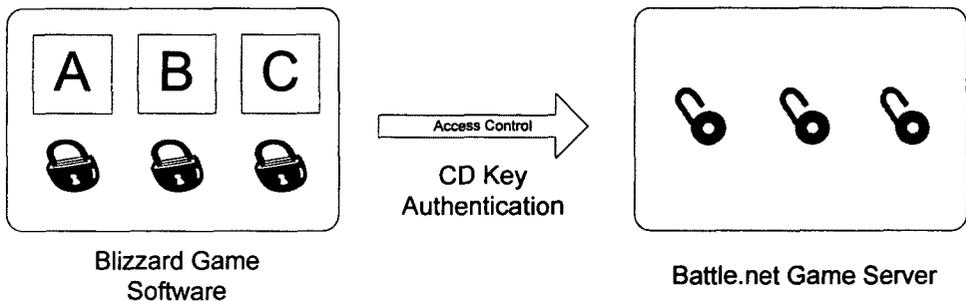
unlocked by a process of online authentication—an assumption that the Eight Circuit accepted as fact.⁵⁷

2. *Misinterpreting Access Controls*

The suspect interpretation of “Battle.net mode” also obfuscates the purpose of Blizzard’s access control.⁵⁸ In the context of regulating a user’s access to play games online, did Blizzard’s CD key control access to its game software or its proprietary game server? The figures below help to develop a framework of analysis for answering these questions. The following figures represent at least two different ways to conceptualize an access control. Most importantly, they identify the *direction* in which access is regulated.

WAYS TO INTERPRET ACCESS CONTROLS

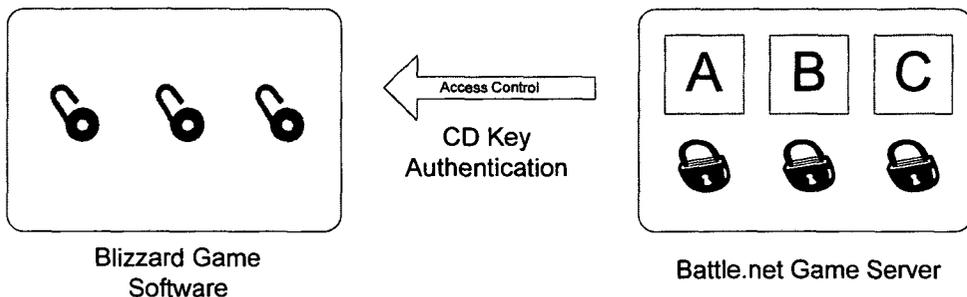
Figure 4: Blizzard’s CD key authentication controls access to the game software.



57. See *Davidson*, 334 F. Supp. 2d at 1169, 1173; *Davidson*, 422 F.3d at 633.

58. For a discussion of commonly used technological protection measures and their functions, see June M. Besek, *Anti-Circumvention Laws and Copyright: A Report from the Kernochan Center for Law, Media and the Arts*, 27 COLUM. J.L. & ARTS 385, 446-66 (2004).

Figure 5: Blizzard's CD key authentication controls access to its online service.



The distinction between Figure 4 and Figure 5 is that the access controls are facing opposite directions. In Figure 4, Blizzard's CD key controls access to the game software. Thus, features A, B, and C—literal parts of the game software—are unlocked only after proper authorization. In effect, Figure 4 treats the game software's ability to interoperate with game servers *as a feature of the game software* that is unlocked by a CD key. This appears to be the interpretation that the Eighth Circuit adopted in *Davidson*.⁵⁹ On the other hand, we can reconceptualize that same CD key authentication in the other direction. In Figure 5, Blizzard's CD key is described as controlling access to Blizzard's proprietary online server. In other words, while a CD key in Figure 4 unlocks the videogame software, that same CD key in Figure 5 unlocks the game server.

Relying on the inaccurate conception of Battle.net mode shown in Figure 4, the court in effect interpreted interoperability as a *feature* that could be locked and unlocked by an access control; that is, the court failed to distinguish between the videogame software and services offered for that videogame. In reality, Blizzard's online CD authentication merely regulated access to its proprietary game server. Granted, even though the proprietary server might contain copyrightable expression, BnetD never copied or offered access to this copyrightable expression.⁶⁰

These distinctions may appear semantic—like questioning whether a lock on a car door controls access to the inside or outside of the vehicle (or both). But the answers to these questions are crucial to an effective cir-

59. See *Davidson*, 422 F.3d at 633 (“Blizzard has taken steps to avoid piracy by designing Battle.net to restrict access and use of the Battle.net mode features of the game.”).

60. *Storage Tech. Corp. v. Custom Hardware Eng'g & Consulting, Inc.*, 421 F.3d 1307, 1318 (Fed. Cir. 2005) (“To the extent that StorageTek's rights under copyright law are not at risk, the DMCA does not create a new source of liability.”).

cumvention analysis.⁶¹ A small misinterpretation, especially in the context of computer software, can have an immediate impact on markets for aftermarket or downstream products and services. More importantly, an incomplete analysis could—and did in this case—result in an improper expansion of the DMCA’s circumvention provisions.

3. *BnetD’s Defenses*

BnetD’s response to Blizzard’s circumvention and trafficking claims were threefold.⁶² BnetD claimed that (1) “Battle.net mode” was not a copyrightable work eligible for protection under the DMCA;⁶³ (2) even if eligible for protection, Blizzard failed to “effectively control” access to “Battle.net mode”;⁶⁴ and (3) assuming eligibility and effective control are demonstrated, BnetD’s circumvention was for the sole purpose of achieving interoperability with independently created software.⁶⁵

a) Was “Battle.net mode” Eligible for Protection Under the DMCA?

As noted earlier, neither the Eighth Circuit nor the district court clearly defined “Battle.net mode.” Relying on the Sixth Circuit’s holding in *Lexmark International v. Static Control Components, Inc.*,⁶⁶ BnetD asserted that “Battle.net mode” was actually an uncopyrightable procedure, process, system, or method of operation, not eligible for protection under the

61. Consider the following non-videogame hypothetical: suppose that my wireless phone provider required by contract that I purchase ringtones only from its online store. My phone is embedded with software containing a lock-out mechanism which denies access to all ringtones except those offered by my provider. Now suppose I purchase a ringtone from a competitor whose ringtones circumvent my phone’s lock-out mechanism, always sending an “OK” signal to my phone’s software, therefore allowing them to be played. Does the lock-out mechanism control access to my phone, to the authorized ringtones, or to both? While purchasing an unauthorized ringtone might violate the terms of the contract with my wireless provider, I would argue that the lock-out scheme regulates access to the proprietary ringtones, not to my phone—an interpretation akin to Figure 5. However, according to the Eighth Circuit’s reasoning in *Davidson*, the lock-out scheme actually unlocks my phone’s ringtone playing capabilities, commensurate with Figure 4. This interpretation is not only backwards, it legitimizes the use of technological protection measures to enforce anticompetitive lockouts.

62. Because the trafficking analysis was almost identical, I will focus on the circumvention claim exclusively.

63. See *Davidson*, 422 F.3d at 640-41.

64. *Id.* at 641.

65. *Id.* at 641-42.

66. 387 F.2d 522 (6th Cir. 2004). See generally Stacey L. Dogan & Joseph Liu, *Copyright Law and Subject Matter Specificity: The Case of Computer Software*, 61 N.Y.U. ANN. SURV. AM L. 203, 207-17 (2005).

DMCA.⁶⁷ The Eighth Circuit dismissed this argument as a misreading of *Lexmark* and moved on, failing to address whether “Battle.net mode” was in fact protectable expression.⁶⁸

The court held that Blizzard effectively controlled access to “Battle.net mode,” again without defining the term. BnetD argued that the code underlying “Battle.net mode” was part of the game software. According to BnetD, every consumer who purchased a Blizzard game, therefore, had access to its literal code without resorting to circumvention of any kind.⁶⁹ The court disagreed: “[BnetD] could not have . . . made use of the literal elements of Battle.net mode without acts of reverse engineering,” a right BnetD had waived via an EULA.⁷⁰ However, the fact that BnetD had waived its right to reverse engineer via contract should not be relevant in determining whether Blizzard effectively controlled access to “Battle.net mode.”⁷¹ That an act of reverse engineering was prohibited by Blizzard’s

67. See *Davidson*, 334 F. Supp. 2d at 1168 (“The only copyright registrations Blizzard has identified in this case concern its Battle.net server program and its individual computer game software.”).

68. *Davidson*, 422 F.3d at 640-41. The court merged BnetD’s argument that “Battle.net mode” was not copyrightable subject matter with BnetD’s argument that “Battle.net mode” was not effectively controlled. Unfortunately, by answering both arguments at the same time, the court forgot to address the former.

69. See *Lexmark*, 387 F.3d at 547 (“No security device, in other words, protects access to the . . . program and no security device accordingly must be circumvented to obtain access to that program code.”).

70. *Davidson*, 422 F.3d at 641. Curiously, the court in the following sentence claimed that the code underlying “Battle.net mode” could not have been “translated into readable source code . . . without some type of circumvention.” It appears the court conflated reverse engineering with circumvention.

71. There are actually a number of different ways to ask this question. One way is to posit it as an issue of authorization, which the Federal Circuit confronted in *Chamberlain*:

According to *Chamberlain*, all such uses of products containing copyrighted software to which a technological measure controlled access are now per se illegal under the DMCA unless the manufacturer provided consumers with explicit authorization. *Chamberlain*’s interpretation of the DMCA would therefore grant manufacturers broad exemptions from both the antitrust laws and the doctrine of copyright misuse.

Chamberlain Group, Inc. v. Skylink Techs., Inc., 381 F.3d 1178, 1193 (Fed. Cir. 2004). A year later, the Federal Circuit dealt with a similar issue in *Storage Technology* but explained the issue differently:

[*Storage Technology*’s] argument conflates a claim based on copyright infringement and an action based on breach of contract. To succeed in a copyright action . . . the source of the copyright owner’s complaint must be grounded in a right protected by the Copyright Act, such as unlawful reproduction or distribution. In contrast, the rights granted by contract can be much broader. As an example, consider a license in

EULA should not automatically transform BnetD's conduct into circumvention. Again, the court failed to identify what role, if any, Blizzard's CD key authentication played in effectively controlling access to "Battle.net mode."

b) Section 1201(f) Exception for Interoperability

Unable to persuade the Eighth Circuit that "Battle.net mode" was ineligible for DMCA protection or that Blizzard had failed to effectively control access to "Battle.net mode," BnetD finally argued that it had circumvented Blizzard's CD key access control for the purpose of achieving interoperability between Blizzard's game software and BnetD's software. Therefore, BnetD argued that its conduct was statutorily excepted under § 1201(f) of the Copyright Act.⁷² The Eighth Circuit held that BnetD was ineligible for the exception.⁷³

which the copyright owner grants a person the right to make one and only one copy of a book with the caveat that the licensee may not read the last ten pages. . . . [I]f the licensee made a single copy of the book, but read the last ten pages, the only cause of action would be for breach of contract, because reading a work does not violate any right protected by copyright law.

Storage Tech. Corp. v. Custom Hardware Eng'g & Consulting, Inc., 421 F.3d 1307, 1315-16 (Fed. Cir. 2005). One can even depict the distinction between breach of contract and circumvention liability in a way that emphasizes the issue of effective control. Suppose I offered you a copy of a book enclosed in a small metal case with a combination lock on it. The correct combination to the lock is actually etched on the back of the lock. However, before I offer you this locked metal case, you agree via contract "not to look at the combination etched on the back of the lock." If you go ahead and peek at the combination on the back of the lock to open up the metal case, you have arguably breached your contractual duty not to do so. But is there a valid claim that you have circumvented the padlock?

72. Section 1201(f) of the Copyright Act permits circumvention of an access control "for the sole purpose" of achieving interoperability with an independently created computer program. 17 U.S.C. § 1201(f)(1) (2000). Interoperability "means the ability of computer programs to exchange information, and of such programs mutually to use the information which has been exchanged." § 1201(f)(4). The Senate Judiciary Committee explained that the objective of the § 1201(f) exception was "to ensure that the effect of the current case law interpreting the Copyright Act [was] not changed by enactment of [the DMCA]" and that "[t]he purpose of [the exception] is to foster competition and innovation in the computer and software industry." S. REP. NO. 105-190, at 32 (1998); see *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 (Fed. Cir. 1992); JONATHAN BAND & MASANOBU KATOH, INTERFACES ON TRIAL; INTELLECTUAL PROPERTY AND INTEROPERABILITY IN THE GLOBAL SOFTWARE INDUSTRY (1995); Glynn S. Lunney, Jr., *The Death of Copyright: Digital Technology, Private Copying, and the Digital Millennium Copyright Act*, 87 VA. L. REV. 813 (2001); Charles R. McManis, *Intellectual Property Protection and Reverse Engineer-*

A defense under § 1201(f) requires a four-prong analysis. BnetD had to establish that: (1) it lawfully obtained the right to use a copy of the software it circumvented; (2) the information needed to achieve interoperability must have been previously unavailable; (3) the sole purpose of BnetD's circumvention was to achieve interoperability of an independently created computer program; and (4) the alleged circumvention did not constitute copyright infringement.⁷⁴ Because § 1201(f) is an affirmative defense, it presupposes that an act of circumvention took place. Considering my earlier analysis, § 1201(f) required BnetD to make a very problematic assumption, making the interoperability argument a poor fit—one that added another layer of cloudy reasoning to the court's analysis.

The heart of the analysis came from the lower court, whose legal conclusions were rendered ineffective by a number of errors. The district court ruled that BnetD did not satisfy the first § 1201(f) requirement because the statute “only exempt[ed] those who obtained permission to circumvent the technological measure.”⁷⁵ According to the lower court, BnetD's “sole purpose” was not to achieve interoperability because: (1) BnetD's software interoperated with unauthorized copies of Blizzard software; (2) BnetD's software was distributed for free; and (3) BnetD's software “was intended as a functional alternative to the Battle.net service” and was, therefore, not *independently* developed.⁷⁶ BnetD also failed to satisfy the fourth requirement because BnetD had committed copyright infringement, although the court failed to identify which copyrightable expression BnetD had infringed.⁷⁷ On appeal, the Eighth Circuit offered little more than a cursory affirmance, reiterating only that “unauthorized copies of the Blizzard games were freely played on bnetd.org servers.”⁷⁸

The court's misidentification of “Battle.net mode” as the subject matter protected by Blizzard's CD key access control contaminated its § 1201(f) analysis. Essentially, the court treated the ability of Blizzard's game software to interoperate with game servers as a *feature* that could be

ing of Computer Programs in the United States and the European Community, 8 HIGH TECH. L.J. 25 (1993).

73. *Davidson*, 422 F.3d at 641-42.

74. § 1201(f)(1); *Davidson*, 422 F.3d at 642.

75. *Davidson & Assocs. v. Internet Gateway*, 334 F. Supp. 2d 1164, 1185 (E.D. Mo. 2004).

76. *Id.*

77. *Id.* at 1187 (“[T]he development and distribution to others constituted copyright infringement and persons who commit copyright infringement cannot benefit from the exemptions of § 1201(f).”).

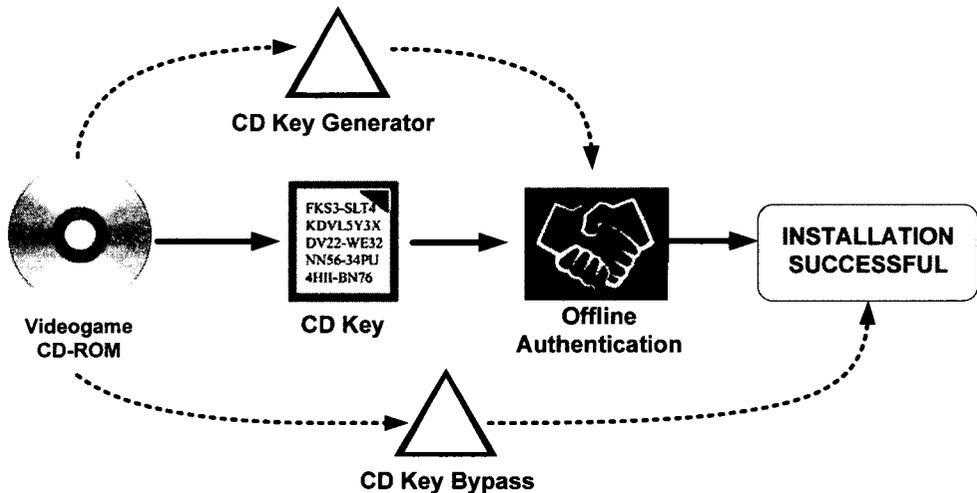
78. *Davidson*, 422 F.3d at 642.

locked by an access control, rendering a statutory exception for interoperable software meaningless.

C. What Role Should the DMCA Play in Regulating Online Gaming?

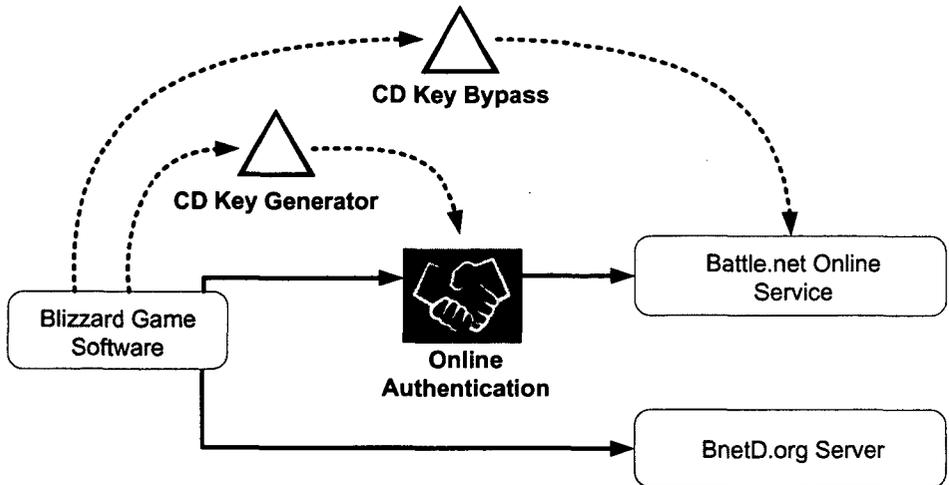
That the Eighth Circuit improperly expanded a game publisher's ability to use a technological protection measure to control markets for videogame services is not an argument that the DMCA should never apply in cases involving CD key authentication. Consider Figure 6 and Figure 7 below, which illustrate possible paths to DMCA liability.

Figure 6: This figure illustrates acts of circumvention in the context of software installation that would warrant DMCA liability.



If during installation of Blizzard's game software, BnetD had: (1) developed a CD key generator that allowed end users to install game software with an unauthorized CD key or had (2) developed a program that bypassed authentication during installation altogether, both of these acts would likely constitute circumvention under the DMCA. In these examples, the CD key would be controlling access to the publisher's copyrightable game software. On the other hand, Figure 7 illustrates the way in which circumvention might take place in the context of online gaming.

Figure 7: This figure illustrates acts of circumvention in the context of online gameplay that would warrant DMCA liability.



If BnetD had developed a CD key generator that allowed an end user to log onto Battle.net or created a program that bypassed online authentication altogether, the DMCA would clearly apply. In this context, the CD key would be controlling access to the publisher's proprietary game server, not the game software.

In the end, the Eighth Circuit's incomplete and inconsistent analysis creates two major problems. First, *Davidson* offers a murky theory of liability for circumvention and an extraordinarily narrow interpretation of § 1201(f). Did the court hold that § 1201(f) was inapplicable to those who create independently developed software when that software enables functionality for at least some direct infringers?⁷⁹ If so, there is no way of determining beforehand whether a technology or a device will be used unlawfully until the act takes place.⁸⁰

Secondly, *Davidson's* misinterpretation of Blizzard's access control vastly expands a game publisher's ability to embed access controls within its game software and, under the guise of battling piracy, effectively tie customers to various aftermarket products and services. The upshot is that

79. Mitchell Zimmerman, *Circuit Court Decisions Weaken, Strengthen Hand of Software Owners Using Technological Protection Measures*, MONDAQ, Sept. 19, 2005, http://www.mondaq.com/i_article.asp_Q_articleid_E_34886.

80. Michael Landau, *Has the Digital Millennium Copyright Act Really Created a New Right of Access? Attempting to Reach a Balance Between Users' and Content Providers' Rights*, 49 J. COPYRIGHT SOC'Y U.S. 277, 288 (2001); Albert Sieber, Note, *The Constitutionality of the DMCA Explored: Universal City Studios, Inc. v. Corley & United States v. Elcom Ltd.*, 18 BERKELEY TECH. L.J. 7, 9-11 (2003).

Davidson has more to do with controlling access to revenue streams than it does with controlling software unauthorized access to copyrighted software.⁸¹

III. DAVIDSON'S AFTERMATH

A. Legitimizing Strategic Access Controls

The entertainment industry has long argued that technological locks and access controls drastically reduce software piracy without affecting competition.⁸² But similar to the way in which Lexmark once required its printers to perform a "secret handshake" and authenticate only ink cartridges made by Lexmark, Blizzard has strategically wedged its CD key "handshake" between its game software and its proprietary game server. Thus, those wishing to develop competing game servers are exposed to liability not only for breach of contract but circumvention as well.

Should the fact that unauthorized copies of Blizzard games were played on BnetD servers alter the analysis? *Davidson* can be distinguished from other DMCA cases like *Lexmark*, *Chamberlain*, and *Storage Technology* in that the threat of "piracy" is virtually nonexistent when dealing with printer cartridges, garage-door openers, and computer hardware repair, respectively. But while online CD key authentication prevents those with unauthorized copies to play their games online, the system *as implemented* unreasonably shifts the burden of combating piracy onto those who wish to develop add-on services for videogames. Defendant Tim Jung, president of Internet Gateway, said Blizzard's piracy argument was unconvincing because all players needed to have Blizzard's game installed prior to using BnetD's software: "If they're using pirated software, they've already broken the law long before they got to us."⁸³

"Piracy" is not necessarily bad for game publishers.⁸⁴ Even though a game publisher might eliminate most unauthorized use through online au-

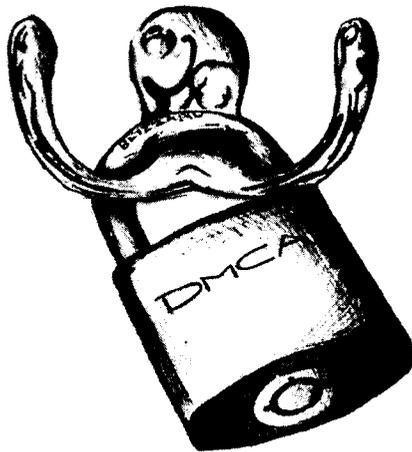
81. Burk, *supra* note 28, at 1110-14.

82. Liu, *supra* note 1, at 126 (noting that the DMCA is indicative of the regulatory trend in copyright law over the past several years, which has gained ground over a traditional property rights approach).

83. David Becker, *Group Backs ISP In Online Gaming Dispute*, CNET NEWS.COM, Mar. 12, 2002, http://news.com.com/Group+backs+ISP+in+online+gaming+dispute/2100-1040_3-858414.html.

84. See generally RICHARD WATT, COPYRIGHT AND ECONOMIC THEORY 24-70 (2000) (analyzing the economics of copyright piracy). For a discussion of the ways in which copyright could be modified to take into account network effects, see Mark A. Lemley & David McGowan, *Legal Implications of Network Economic Effects*, 86 CALIF. L. REV. 480 (1998).

thentication, it also allows competitors to more easily infiltrate the publisher's market without fear of enabling functionality for unauthorized users. Alternatively, the less-effective offline CD key authentication process actually creates a substantial pocket of unauthorized users which can keep innovators in secondary markets in check because they fear liability resulting from enabling functionality for unauthorized users.⁸⁵ By requiring CD key authentication during online gameplay, game publishers seem to have created an artificial trial period, allowing unauthorized users to "sample" their games in single-player mode, but pay for online use.⁸⁶ As a result, they have secured the right to host their games exclusively.



85. Of course by "allowing" this pocket of unauthorized users to exist, the copyright owner might see a decline in overall sales. Accordingly, the copyright owner can anticipate these losses and choose to increase the selling price of the software, a practice called indirect appropriability. Stan Liebowitz, *Back to the future: Can copyright owners appropriate revenues in the face of new copying technologies?*, in *THE ECONOMICS OF COPYRIGHT* 6-8 (Wendy J. Gordon & Richard Watt eds., 2003).

86. WATT, *supra* note 84, at 58-59 ("Perhaps the most common case in which piracy is favourable to the producer of originals is when intellectual property is bundled together with a second good for which the producer of originals is interested in maximal diffusion."); see Liebowitz, *supra* note 85, at 9-11 (discussing exposure effects).

When asked about legitimate customers now foreclosed from using alternate game servers, Blizzard stated on its website, “Unfortunately, software pirates have spoiled this situation for hobbyists.”⁸⁷ “[W]e sincerely hope that one day, no one will see any reason to seek alternatives to Battle.net for playing Blizzard games.”⁸⁸ But, if software pirates had not spoiled the situation for hobbyists, would Blizzard still be willing to allow alternate game servers?⁸⁹ Paul Sams, Blizzard’s Chief Operating Officer, declared the Eight Circuit’s decision a major victory against software piracy: “[T]he court is reiterating the message that creating unauthorized servers that emulate Blizzard’s Battle.net servers is without question illegal.”⁹⁰ But Blizzard had once argued that BnetD’s software was illegal because it could not prevent access to unauthorized users; it does not follow, as Sams suggests, that hosting services for popular videogames is illegal in and of itself. Blizzard’s not-so-subtle shift in rhetoric is representative of the impact *Davidson* has had on the gaming industry.⁹¹ What was once considered a campaign against software “pirates” has inexplicably morphed into a turf war for secondary services and add-on products.⁹²

87. Battle.net FAQ, *supra* note 49. In an effort to minimize fallout after successfully suing their own customers, Blizzard launched a Mod Support Website in October 2005 to “give something back to the community.” See generally Battle.net, Mod Support Website, <http://www.battle.net/mod/index.shtml> (last visited Oct. 29, 2005). Hobbyists can now create maps and join contests, but are of course still required to use Blizzard’s proprietary server during gameplay.

88. Battle.net FAQ, *supra* note 49.

89. Cindy Cohn of the Electronic Frontier Foundation remarked:

This reminds me a bit of the Aibo pet case, where Sony threatened one of its customers who wrote a computer program that made the Aibo do more tricks than Sony intended. Fortunately, Sony had the wisdom to withdraw their threat once public outcry began. Here, Blizzard is suing its customers for making a server that has more functionality and provides a better experience—by letting you play with just your friends and other things—than they do.

Wen, *supra* note 40.

90. *Blizzard Beats BnetD, Again*, RED HERRING, Sept. 2, 2005, <http://www.redherring.com/PrintArticle.aspx?a=13440§or=Industries>. Mike Morhaime, president and cofounder of Blizzard released an almost identical statement: “By ruling in our favor on every count, the court is sending a clear message that creating unauthorized servers which emulate Blizzard’s Battle.net servers is without question illegal.” Tim Surette, *Blizzard Wins Ruling Against BnetD*, GAMESPOT, Oct. 6, 2004, http://www.gamespot.com/news/2004/10/06/news_6109809.html.

91. See Brad King, *Lawsuit Could Stunt Online Games*, WIREDNEWS.COM, Apr. 12, 2002, <http://www.wired.com/news/games/0,2101,51747,00.html>; Schiesel, *supra* note 19.

92. For a brief history of emulation and how it exists separate from software piracy, see Jeffrey S. Libby, *The Best Games in Life Are Free? Videogame Emulation in a Copyrighted World*, 36 SUFFOLK U. L. REV. 843 (2003).

Blizzard, it appears, has forgotten that the DMCA was intended to target those who circumvent access controls that regulate access to copyrightable expression, not a vehicle to capture markets for downstream services.

The ultimate result from *Davidson* is one game, one online service, and no competition. The district court reasoned that BnetD had many choices, including the choice not to play Blizzard's videogames if it thought its license restrictions were unfair.⁹³ It did not, however, mention that virtually every publisher requires similar restrictions.⁹⁴ Given Blizzard's overwhelming victory in *Davidson*, it is not surprising that after purchasing a copy Blizzard's *World of Warcraft* for \$49.99, Blizzard now requires end users to pay a monthly fee to play the game online. Excluding record-breaking sales revenue, Blizzard generates an annual revenue stream of \$700 million based on subscription revenue from *World of Warcraft* alone.⁹⁵

93. *Davidson & Assocs. v. Internet Gateway*, 334 F. Supp. 2d 1164, 1179 (E.D. Mo. 2004). (“[BnetD] had the choice to select a different video game, to agree to the terms and gain the software and access to Battle.net, or to disagree and return the software for a full return of their money.”).

94. City of Heroes, User Agreement, http://www.plaync.com/help/eula_coh.html (last visited Mar. 16, 2006) (prohibiting reverse engineering); Dark Age of Camelot, EUALA, <http://support.darkageofcamelot.com/kb/article.php?id=072> (last visited Jan. 22, 2006) (prohibiting reverse engineering and requiring an end user to expressly waive any legal rights they have to do so); Eve Online, End User License Agreement, <http://www.eve-online.com/pnp/eula.asp> (last visited Mar. 16, 2006) (prohibiting reverse engineering and requiring an end user to expressly waive any legal rights they have to do so); EverQuest 2, User Agreement and Software License, http://eq2players.station.sony.com/en/support_article.vm?label=EQIIEULA (last visited Mar. 16, 2006) (prohibiting reverse engineering “except to the extent this restriction is expressly prohibited by applicable law.”); Guild Wars, End User’s License Agreement, <http://www.guildwars.com/legal/user-agreement.html> (last visited Mar. 16, 2006) (prohibiting reverse engineering); RuneScape, Terms and Conditions, 2005, <http://www.runescape.com/lang/en/aff/runescape/terms/terms.ws> (prohibiting reverse engineering and prohibiting an end user from creating or providing any other means by which to play the game); The Saga of Ryzom, End User License Agreement, http://www.ryzom.com/?page=support_policies#legal_eula (last visited Jan. 22, 2006) (prohibiting reverse engineering); World of Warcraft, End User License Agreement, <http://www.worldofwarcraft.com/legal/eula.html> (last visited Jan. 22, 2006) (prohibiting reverse engineering and prohibiting end users from providing matchmaking services for the game).

95. Schiesel, *supra* note 19. Apart from subscription revenue, hosting games exclusively on proprietary servers offers a number of benefits. First, as a practical matter, exclusive hosting allows game developers to apply fixes, issue patches, and add features to their games without interference from third parties. COSTIKYAN, *supra* note 40, at 36. Second, it allows publishers to tightly integrate their game software with an online service, making it easier for users to establish a connection—the downside from the consumer’s perspective, of course, is that there is only one connection to choose from. Pub-

B. Securing the Market for MMOGs

While none of the multiplayer online games at issue in *Davidson* were MMOGs, the court's holding has allowed game publishers to capture the multidimensional market for this new gaming technology.

As noted earlier, an MMOG is a videogame specifically designed for online gameplay. Usually, a user will purchase software at a retail store, install it, and instantly connect to a persistent online world where they can interact with hundreds and thousands of other gamers. The user must pay a monthly fee to maintain access to this world. Because of the importance of creating an online world, MMOGs require a stable player-base over an extended period of time. As publishers attempt to attract new users to the world of subscription-based online gaming, it is quite possible that they will reduce prices for game software, opting to rely more heavily on subscription revenue.⁹⁶ Because game publishers under *Davidson* can sue those who challenge their right to exclusively host games under the DMCA, publishers have the added benefit of being able to monitor their entire customer bases, gauge usage, develop new games based on that information, and advertise those games to those same customer bases.⁹⁷

lishers like Blizzard will be quick to point out that issuing fixes and patches are critical to maintaining a good name in the industry. In fact, the amount of centralized control publishers are looking for would arguably allow them to more easily handle the connectivity and usage problems that many—including the BnetD developers themselves—originally complained of. On the other hand, Blizzard already had full control over its games before BnetD came into existence. While centralized control might appear to make it easier to issue fixes and update software, the fact that consumers have no alternatives actually undermines a publisher's incentive to create those fixes. *Blizzard Beats BnetD, Again, supra* note 90 (“The irony is that the BnetD Project was created because gamers wanted to play Blizzard games with greater ease and with added features.”).

96. COSTIKIYAN, *supra* note 40, at 49 (“Suppose we have an online game with a \$10/month [subscription] fee. If we price it at \$50 (\$25 to publisher [after the retailer's percentage]), and sell 100,000 copies, and 50% of the purchasers wind up sticking around for a year, we've made \$8.5 million. If we *give* [the software] away, and distribute 200,000 copies, 50% of which turn into subscribers, we make \$12 million You can't give [the software] away; retailers won't carry it. But it makes sense to *reduce the price to the absolute minimum that will motivate the retailer.*”) (emphasis in original).

97. *Id.* While Battle.net uses banner advertisements, a number of publishers employ digital billboards and advertising spaces within virtual environments. Blackburn, *supra* note 10. A study conducted by Nielsen Interactive Entertainment found that in-game advertisements resulted in a 60% increase in new brand awareness. 50% surveyed reported that they found in-game ads made the experience more realistic and 54% said in-game advertising caught their attention. Daniel Terdiman, *In-game ads work, study says*, CNET NEWS.COM, Oct. 3, 2005, http://news.com.com/2102-1043_3-5887880.html?tag=st.util. print. Advertisers currently spend between \$90 and \$120 million annually in videogames and this number is estimated to rise to \$700 million by 2008. Blackburn, *supra* note 10.

Developers need not rely on subscription or advertising revenue alone, if at all. MMOGs feature complex virtual economies in which individual gamers can buy, sell, and trade virtual commodities, often for real money.⁹⁸ This practice—called real-money trade (“RMT”)—makes it very easy for developers to charge gamers a commission for every transaction that takes place in their online world separate from a monthly access fee.⁹⁹ The global market for virtual commodities is estimated as high as \$880 million annually.¹⁰⁰ Game developers like Sony initially tried to ban RMTs, but found that in just five years, the market for virtual commodities for its games reached \$200 million annually.¹⁰¹ Sony did an about-face and launched the Station Exchange, its own official trading site for virtual commodities.¹⁰²

RMTs also make MMOGs lucrative for individual players too. They can earn money by gathering virtual commodities and sell them at online stores for cash.¹⁰³ Services are available that allow players to rent powerful game characters, removing the need to spend countless hours building

98. See F. Gregory Latowska & Dan Hunter, *The Laws of the Virtual Worlds*, 92 CALIF. L. REV. 1, 29-37 (2004). See generally Edward Castronova, *Virtual Worlds: A First-Hand Account of Market and Society on the Cyberian Frontier* (Ludwig-Maximilians-Universitat & Ifo Institute for Economic Research, Working Paper No. 618, 2001) (offering an economic analysis of the virtual world of Norrath).

99. The existence of RMT remains a controversial issue for developers and end users. Some argue that richer players are gaining an unfair advantage because they can purchase what they lack in skill, while others enjoy the economic realism virtual worlds have to offer. Dan Simmons, *Buying Success In Online Gaming*, BBC NEWS, Aug. 5, 2005, http://news.bbc.co.uk/1/hi/programmes/click_online/4747939.stm; Mark Wallace, *We The Avatars*, THE ESCAPIST, Sept. 20, 2005, http://www.escapistmagazine.com/issues/11/pdf/TheEscapist_11.pdf.

100. Edward Castronova, *Secondary Markets: \$880 Million*, TERRANOVA, Oct. 30, 2004, http://terranova.blogs.com/terra_nova/2004/10/secondary_marke.html. It is estimated that in 2005, the amount of money changing hands for virtual commodities in Asia is likely to be more than is exchanged for purchasing the games themselves. Simmons, *supra* note 99.

101. Simmons, *supra* note 99.

102. *Id.*

103. Latowska & Hunter, *supra* note 98, at 37-40. Unfortunately, RMT markets have also attracted thieves looking to make a quick profit. Sony, for example, cited consumer fraud as a reason it launched its own trading site. Matt Hines, *Sony Creates Auction Site For Game Artifacts*, CNET NEWS.COM, Apr. 20, 2005, http://news.com.com/Sony+creates+auction+site+for+game+artifacts/2100-1043_3-5678052.html?tag=st.m. Despite security precautions, a group of individuals playing Sony's Everquest II recently employed a “duping bug” and wrongfully generated vast amounts of virtual currency, which the group attempted to sell back to Sony for a profit. Daniel Terdiman, *Cheaters Slam “Everquest II” Economy*, CNET NEWS.COM, Aug. 11, 2005, http://news.com.com/Cheaters+slam+Everquest+II+economy/2100-1043_3-5829403.html?tag=st.rc.targ_mb.

up one's own character.¹⁰⁴ Others simply sell their entire accounts, parceling out their amassed online wealth.

Whether a publisher charges for monthly access and/or opts for commissions based on RMTs,¹⁰⁵ it is argued that legal protection allegedly afforded under the DMCA will foster innovation in the market and will make MMOGs available to the public on a scale they would not have been available otherwise. Without exclusive hosting, it is argued, the entire structure of a virtual world would deteriorate as customers might splinter off into an infinite number of competing game servers. It is not clear, however, whether competition for hosting MMOGs would cause massive decentralization. Maintaining a game server for an MMOG is not a hobby; it requires constant maintenance because most of the work is done server-side, not by an individual's client software. Allowing innovators to add functionality to existing games—like introducing new virtual worlds, texture packs, missions, characters, environmental variables, or more sophisticated economic variables—would create a much better gaming experience for end users and help foster further innovation. This competition would also force a game publisher to keep up with the latest developments in online gaming.

IV. CONCLUSION

Davidson represents yet another blemish in the relatively short legal history of the DMCA. For game publishers, *Davidson* creates an unprecedented shield of market protection as well as a prime opportunity to de-

104. Mark Wallace, *Upward Mobility*, N.Y. TIMES, Jun. 26, 2005, <http://select.nytimes.com/search/restricted/article?res=F70B16FD3B5F0C758EDDAF0894DD404482> (describing a rental service, called GamePal, which costs \$130 a month in addition to a \$300 security deposit) (subscription service).

105. Business models for MMOGs are quickly multiplying. NCsoft sells the game software for their MMOG *Guild Wars*, but offers its customers free online services. Brendon Sinclair, *Guild Wars Enlists 1 Million*, GAMESPOT, Sept. 22, 2005, http://www.gamespot.com/news/2005/09/22/news_6134127.html. Publishers of *Project Entropia*, however, have taken a different route by relying exclusively on RMT-generated revenue. See *Project Entropia*, <http://www.project-entropia.com/Index.asp> (last visited Oct. 3, 2005). Offering both its game software and online access for free, *Project Entropia's* developers have tied the game's virtual currency directly to the US dollar, with the currency exchangeable at a fixed rate. Wallace, *supra* note 99. Similarly, developers at Red-Be-dlam are currently testing a new MMOG called *Roma Victor* which has no monthly subscription fee, but will have a variable exchange rate against real-world currencies. The prices of most virtual goods, therefore, will be driven by the players themselves. Wallace, *supra* note 99. See generally *Roma Victor*, <http://www.roma-victor.com> (last visited Oct. 4, 2005).

velop MMOGs without interference from competitors. Game publishers have creatively reused an existing technological protection measure—CD key authentication—to justify the tightest possible integration of their game software with various services or products associated with that game. More importantly, *Davidson* blurs the distinction between game software and matchmaking services, allowing publishers to market newly developed MMOGs not as game software, but as a pay-per-use service where a user is granted access to an online world.¹⁰⁶

Even if it is conceded that a game publisher should be allowed to combine copyright protection and restrictive licenses to, in effect, ban reverse engineering, exclusively host their games, charge for monthly access, and exploit all related markets, using CD key authentication to effectuate that control stretches the DMCA beyond its essential purpose.

106. See COSTIKYAN, *supra* note 40, at 49, 52 (“[P]ublishers of games under the ‘retail sale plus online subscription’ model are going to realize that they aren’t in the business of selling boxes any more. Selling boxes is a necessary evil; online subscriptions is where the money’s at.”); Zackariasson & Wilson, *supra* note 19, at 49 (arguing that MMOGs have four characteristics of services: intangibility, inseparability, variability, and perishability).

ADDITIONAL DEVELOPMENTS—DIGITAL MILLENNIUM COPYRIGHT ACT

STORAGE TECHNOLOGY CORP. v. CUSTOM HARDWARE ENGINEERING & CONSULTING, INC.

421 F.3d 1307 (Fed. Cir. 2005)

The Federal Circuit interpreted the scope of the Digital Millennium Copyright Act's (DMCA) anti-circumvention provision, concluding that when a statutory exception—in this case 17 U.S.C. § 117(c)—precludes a finding of copyright infringement, no anti-circumvention claim can stand.

Storage Technology Corp. (“StorageTek”) manufactures a tape library system that stores and manipulates computer tape cartridges to store large amounts of data. The system consists of several tape storage “silos” and one management system, which are linked together via a network. Custom Hardware Engineering and Consulting, Inc. (“CHE”)—a separate business that repairs StorageTek tape library systems—obtained access to fault symptom codes sent over the network from silos to the management system. In some instances it did so by rebooting the silos and management system and attaching devices of its own to the tape library networks. StorageTek claimed that rebooting the systems caused its software to be copied into memory, in violation of its copyrights, and that the device that CHE attached to the network violated the anti-circumvention provisions of the DMCA. The District Court granted StorageTek a preliminary injunction which was ultimately vacated by the Federal Circuit.

As to the copyright claim, the Federal Circuit found that § 117(c) protected CHE's activities. Section 117(c) permits the owner of a machine to copy a lawfully obtained copy of a computer program as part of repair or maintenance, as long as (1) the copy “is used in no other manner and is destroyed immediately after the maintenance or repair is completed,” and (2) programs and parts of programs that are not “necessary for the machine to be activated” are not accessed or used except to make a copy “by virtue of the activation of the machine.” StorageTek claimed that new copies were not destroyed upon completion of maintenance or repair because the machines were left on for a period of time following reboot. The court disagreed, holding that “maintenance” could extend over a substantial amount of time—as during the monitoring of a system for problems.

StorageTek claimed its software comprised two distinct types of code—functional code and maintenance code. It argued that only func-

tional code was necessary for machine activation, that the maintenance code permitted access to fault symptom codes, and that CHE accessed the code by obtaining those symptom codes. The court, however, found no clean division between the two code types, and reasoned that loading functional code was therefore necessary for the machine to be activated. As such, CHE satisfied the requirements of § 117(c)(2).

StorageTek further claimed that the CHE network attachment violated the DMCA because it accessed its copyrighted work. Section 1201(a)(1) of the DMCA bars circumventing technological protections that prevent access to copyrighted works. The court held that because CHE did not infringe the software copyright, StorageTek could not maintain its anti-circumvention claim. Moreover, the court found the network device did not facilitate infringement because, when the StorageTek systems were rebooted, their software was copied into RAM regardless of the presence of the device. Although the device permitted access to the fault symptom codes, StorageTek was unable to establish a nexus between access and infringement of its copyright.

***ARIZONA CARTRIDGE REMANUFACTURERS ASSOCIATION INC.
V. LEXMARK INTERNATIONAL INC.***

421 F.3d 981 (9th Cir. 2005)

The Ninth Circuit ruled that a notice contained in a “box-wrap license” could create an enforceable contract enabling a patent holder to enforce post-sale restrictions on its products.

Arizona Cartridge Remanufacturers Association (“ACRA”), wholesalers of remanufactured printer cartridges, sued Lexmark International, Inc. (“Lexmark”), makers and sellers of laser printers and printer cartridges, alleging violations of California’s unfair business practices statutes. Lexmark’s “Prebate” program gives customers a twenty percent discount on printer cartridges in exchange for the customer’s promise not to give empty cartridges to any remanufacturer other than Lexmark. ACRA claimed that Lexmark lacked a valid contract with consumers to limit the post-sale use of the cartridge and misled consumers into believing that restriction to be enforceable. ACRA further alleged that Lexmark’s use of a lock-out chip preventing third-party remanufacturing constituted an unfair business practice.

The Ninth Circuit upheld the District Court’s grant of summary judgment in favor of Lexmark, finding that Lexmark had a valid contract with its customers regarding post-sale restriction on cartridge use. The court held the contract enforceable because consumers had notice of the requirements prior to cartridge purchase, had opportunity to reject the contract and buy a higher-priced cartridge free from such restriction, and received consideration in the form of a discounted cartridge price. Furthermore, the court found that Lexmark did not mislead consumers into believing that the post-sale restriction was enforceable; Lexmark, as the patent holder, could legally enforce restrictions limiting the use of its products after sale, because post-sale conditions are generally allowed if the good being sold is reasonably within the patent grant. Finally, the court ruled that Lexmark’s use of a lock-out chip preventing other manufacturers from refilling Lexmark printer cartridges did not amount to unfair competition, as ACRA did not show that Lexmark was acting beyond the scope of its patent in imposing the restriction it uses the lock-out chip to enforce.

CORBIS CORP. V. AMAZON.COM, INC.*351 F. Supp. 2d 1090 (W.D. Wash. 2004)*

The United States District Court for the Western District of Washington ruled that the Digital Millennium Copyright Act (DMCA) immunizes a service provider from infringement claims arising out of unauthorized sales of copyrighted material by a nonaffiliated party using its third party vendor platform.

Amazon.com is a company best known for selling books and other media over the internet. Amazon also operates certain third party vendor platforms—areas linked to its website that allow individuals and merchants to conduct their own sales using Amazon’s forms and resources. In order to use this service, vendors are required to pay a fee and enter into a participation agreement which, among other conditions and restrictions, prohibits vendors from linking to images that infringe intellectual property rights.

Corbis, a company which licenses and distributes copyrighted photographs, sued Amazon and fifteen other defendants for vicarious copyright infringement, unfair competition, dilution of Corbis’ trademark, and tortious interference with Corbis’ business relations when defendant vendors sold photographs in which Corbis had copyright on zShops.com, one of Amazon’s third party vendor platforms. As an affirmative defense, Amazon argued that it was immune to infringement claims under Title II of the DMCA.

The court ruled that Amazon, as a “service provider,” satisfied all of the requirements for protection under the DMCA’s safe harbor provision by adopting a policy to terminate service access for repeat copyright infringers, informing users of this policy, and implementing it in a reasonable manner. As such, the court pronounced Amazon immune from all monetary relief and, except for the limited relief in 17 U.S.C. § 512(j), all injunctive relief for any copyright infringement committed by zShops vendors on the Amazon site. The court also dismissed Corbis’ Lanham Act claim, ruling no valid claim was posed under the Act. Finally, the court held that Amazon was immunized from the Washington State law Consumer Protection Act by Section 230 of the Communications Decency Act (CDA). Section 230 provides immunity from any claim, aside from federal criminal provisions and intellectual property claims, that seeks to hold a provider of interactive computer services liable for content created by third parties.

ROSSI V. MOTION PICTURE ASSOCIATION OF AMERICA INC.

391 F.3d 1000 (9th Cir. 2004)

The Ninth Circuit ruled that the requirement of “good faith belief” in copyright infringement, required to support a valid Digital Millennium Copyright Act (DMCA) takedown notice under 17 U.S.C. § 512, should be judged by a subjective standard.

The Motion Picture Association of America (MPAA) sent a takedown notice to Michael J. Rossi, owner and operator of a self-described “online magazine” website, pursuant to the notice and takedown provisions of § 512. Rossi’s website contained graphics from copyrighted movies and statements indicating that members could download full length movies from the site. After notification from his ISP that his site would be shut down, Rossi secured alternate hosting and sued the MPAA for, among other things, tortious interference with contractual relations and tortious interference with prospective economic advantage.

In order for a takedown notice to be valid under § 512, the sending party must affirm a good faith belief that the use of material in the manner complained of violates the rights of the copyright owner. The MPAA asserted that its takedown notice had been sent in good faith and complied with the requirements of the DMCA; therefore its conduct had not been illegal. Rossi urged the court to rule that subjective good faith should not be sufficient to satisfy the statute; rather, he argued, the court should adopt an objective standard based upon a reasonable inquiry. The district court granted summary judgment in favor of the MPAA applying a subjective standard for good faith and holding that no triable issue of fact was raised with respect to the MPAA’s good faith that Rossi was infringing copyrights.

The Ninth Circuit upheld the district court’s grant of summary judgment on this issue. While noting the lack of any cases on point, the Ninth Circuit reasoned that the statute’s good faith requirement encompassed a subjective rather than objective standard based on congressional intent and the general meaning of “good faith.”

BEETHOVEN.COM LLC V. LIBRARIAN OF CONGRESS*394 F.3d 939 (D.C. Cir. 2005)*

The Court of Appeals for the District of Columbia Circuit refused to reverse statutory licensing rates for webcasters set by the Librarian of Congress, finding that the Librarian's rate-setting decisions were not arbitrary and could not be reviewed for "correctness" on appeal.

The DMCA expanded copyright protection to "webcasting" and created a statutory license scheme for webcast performances. The statute provided a six-month open negotiation period for copyright owners and statutory licensees to privately negotiate licensing fees, after which the Librarian of Congress was required to intervene and convene a Copyright Arbitration Royalty Panel (CARP) to set rates approximating the market rates that would have been negotiated between the copyright owners and the statutory licensees. The statutory licenses challenged in this case arose from the CARP proceeding that was instituted to cover rates from October 28, 1998 to December 31, 2002, after the voluntary negotiation period expired. Parties to the CARP proceeding were copyright owners and performers, including the Recording Industry Association of America (RIAA), other industry groups ("Copyright Owners"), and webcasters and simulcasters ("Broadcasters"). The Librarian rejected as arbitrary parts of the recommendations made by CARP, including some of the rounding decisions, and the distinction drawn between radio-transmission and internet-only rates. The Librarian relied on an agreement on record between the RIAA and Yahoo! to establish a minimum fee of \$500, ephemeral recording rates of 8.8 percent of recording fees, and a single broadcasting rate of .07 cents per performance.

Three groups of petitioners challenged the Librarian's decision. Petitioners who were not party to the CARP proceeding ("Non-Participants") challenged the rates set by the Librarian and further argued that the CARP process was a violation of due process and freedom of expression because it excluded small webcasters who could not afford arbitration fees. The court found that the Non-Participants lacked standing under 17 U.S.C. § 802(g) because the language "any aggrieved party" only applies to parties to the proceeding below, so Non-Participants could not intervene.

The Copyright Owners argued that the Librarian arbitrarily set the rates too low because he failed to give sufficient weight to a series of label agreements submitted as evidence to CARP. The Broadcasters, on the other hand, argued that the Librarian arbitrarily set the rates too high be-

cause he did not adjust the licensing fees to reflect real market factors. The court emphasized the “extremely deferential” standard for judicial review of the Librarian’s decisions laid out in *National Association of Broadcasters v. Librarian of Congress*, 146 F.3d 907, 918 (D.C. Cir. 1998), and rejected both Owners’ and Broadcasters’ arguments because they went to the merits of the Librarian’s decisions rather than whether his decision was arbitrary. The court stressed that its role was not to independently weigh the evidence, and that the explanations that the Librarian provided in the Final Rule were “facially plausible,” supported by record evidence, and sufficient to withstand the court’s exceptionally deferential review.

WHENU.COM, INC. & GOOGLE INC.: PARSING TRADEMARK'S USE REQUIREMENT

By *Alicia Gámez*

Increasingly, internet businesses rely on online advertising as their primary revenue source. Recent litigation reveals inconsistent application of trademark law's "use" requirement by courts in the keyword advertising context.¹ While one court recently rejected defendant Google's arguments that marks used only in computer code—invisible to the end user—could not constitute use under the Lanham Act,² other courts addressed similar facts in the *WhenU* line of cases, but found no trademark use as a matter of law.³ This drastic variation in courts' treatment of analogous facts results in disparate treatment of similarly situated defendants: *WhenU* can operate secure in the knowledge that its business model has been vindicated, while Google faces costly, fact-intensive litigation and the constant threat of additional lawsuits. Beyond the impact on these particular litigants, the legal uncertainty created by these inconsistent decisions stifles investment and innovation.

Trademark law grants owners limited rights; not every use of a protected mark is actionable. But traditional infringement analysis focuses on the multi-factor likelihood of confusion test, often paying scant attention to the logically prior question of whether the allegedly infringing activity constitutes a protected trademark use.

Where the dispute involves a counterfeited physical object—a good identified by a mark misappropriated by a competitor who passes off her

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1. Keyword advertising is a business practice involving the sale of advertising triggered by specified terms, or keywords. When a computer user enters specified search terms, the software or search engine returns advertisements. Most commonly, these advertisements appear as pop-up advertisements or sponsored links. See *Google Inc. v. Am. Blind & Wallpaper Factory, Inc.*, 74 U.S.P.Q.2d 1385 (N.D. Cal. 2005); *U-Haul Int'l, Inc. v. WhenU.com, Inc.*, 279 F. Supp. 2d 723, 725-26 (E.D. Va. 2003).

2. *Gov't Employees Ins. Co. v. Google Inc.*, No. 1:04cv507, 2005 U.S. Dist. LEXIS 18642, at *1, *11 (E.D. Va. Aug. 8, 2005) [hereinafter *GEICO II*]; *Gov't Employees Ins. Co. v. Google Inc.*, 330 F. Supp. 2d 700, 704 (E.D. Va. 2004) [hereinafter *GEICO I*].

3. *Wells Fargo & Co. v. WhenU.com, Inc.*, 293 F. Supp. 2d 734 (E.D. Mich. 2003); *U-Haul*, 279 F. Supp. 2d at 723; *1-800 Contacts, Inc. v. WhenU.com, Inc.*, 414 F.3d 400 (2d Cir. 2005) [hereinafter *1-800 Contacts II*], *rev'g* *1-800 Contacts, Inc. v. WhenU.com, Inc.*, 309 F. Supp. 2d 467 (S.D.N.Y. 2003) [hereinafter *1-800 Contacts I*]; 15 U.S.C. § 1127 (2000).

goods as those of the trademark owner—the use requirement typically warrants little analysis. In the keyword advertising context, the uses made by end users and advertising providers are less clearly within trademark owners' exclusive province. Where a computer user enters a trademarked word into a search engine, her intent is unclear.⁴ She may intend to purchase the trademarked product, or she may be searching for product reviews, gripe sites, accessories, information, competitors, or something entirely different.⁵ When search engines generate revenue by delivering advertisements triggered by trademarked search terms, trademark owners contend their rights have been infringed, but the search engines argue that the use of trademarked terms is not a protected trademark use.

The *Google* and the *WhenU* cases present these competing interpretations of trademark doctrine in stark relief. This Note examines the *WhenU.com* and *Google* decisions. Both internet advertising firms were sued by trademark owners after selling targeted advertising triggered by end users searching with trademarked terms. Part I surveys the foundations of trademark policy and the resulting scope of trademark protection. Part II analyzes judicial interpretations of use under the Lanham Act in cases against *WhenU.com* and *Google*. Part III examines courts' differing factual and legal analyses of trademark use and looks to a recent Supreme Court case for recommendations for future litigation. This Note suggests that courts should refocus on the limited uses protected by trademark law and require plaintiffs to make a preliminary showing that the uses in question are within the scope of trademark protection. Only then should courts analyze likelihood of confusion.

I. TRADEMARK PROTECTION: LEGAL BACKGROUND

In the Lanham Act,⁶ Congress enacted federal trademark protection pursuant to its authority under the Commerce Clause to regulate commerce.⁷ Section 1127 defines the terms “trademark” and “use in commerce.”⁸ Trademark infringement liability flows from both statutory and common law sources. Section 1114 establishes liability for the infringement of registered trademarks while § 1125(a)(1) creates liability for un-

4. See Eric Goldman, *Deregulating Relevancy in Internet Trademark Law*, 54 EMORY L.J. 507, 521 (2005) (discussing the “objective opaqueness” of the computer user's intentions when entering terms into a search engine).

5. See *id.* at 553-59 (discussing “referential,” “associative,” and “misappropriative” uses).

6. Pub. L. No. 79-489 (1946) (codified at 15 U.S.C. §§ 1051-1127 (2000)).

7. U.S. CONST. art. I, § 8, cl. 3.

8. 15 U.S.C. § 1127.

registered trademarks.⁹ Congress amended trademark use requirements in the Trademark Revision Act of 1988, but the effects of these revisions are uncertain regarding infringement versus registration.¹⁰ Federal law contains no provisions for indirect or contributory liability for trademark infringement, but case law has drawn the contours of these doctrines.¹¹

A. Trademark Policy: An Instrument of Commerce

While the patent and copyright regimes find their constitutional grounding in Congress's power to "promote the progress of science and useful arts,"¹² the constitutional basis of trademark law derives from congressional authority to "regulate commerce."¹³ Not surprisingly, trademark law's policy incentives differ as well. Courts have recognized two fundamental social benefits derived from trademarks.¹⁴ First, a trademark, by associating a product with its source, reduces consumer search and decision costs by allowing accurate and reliable identification of a particular product or manufacturer in the market.¹⁵ Second, a trademark allows its owner to identify and distinguish his product from those of his competitors in the marketplace.¹⁶ If a competitor misleads consumers into purchasing his product by infringing a trademark, the efforts of both the mark owner and consumer are frustrated. Moreover, the benefits that trademarks bestow on mark owners and consumers contribute to competitive markets generally. As the Senate Committee on Patents stated, trademarks are "the essence of competition," because they allow a consumer to distinguish among competitors, thereby enabling competition.¹⁷

9. 15 U.S.C. § 1114; 15 U.S.C. § 1125.

10. See 1 JEROME GILSON ET AL., TRADEMARK PROTECTION AND PRACTICE § 3.02(8) (Supp. Nov. 2005).

11. *William R. Warner & Co. v. Eli Lilly & Co.*, 265 U.S. 526 (1924); *Lockheed Martin Corp. v. Network Solutions, Inc.*, 194 F.3d 980 (9th Cir. 1999); *AT&T Co. v. Winback & Conserve Program, Inc.*, 42 F.3d 1421, 1430-31 (3d Cir. 1994); *Inwood Labs., Inc. v. Ives Labs, Inc.*, 456 U.S. 844 (1982).

12. U.S. CONST. art. I, § 8, cl. 8.

13. *Id.* at cl. 3; *United Drug Co. v. Theodore Rectanus Co.*, 248 U.S. 90, 98 (1918) ("[T]he power of Congress to legislate on [trademark is] only such as arises from the authority to regulate commerce with foreign nations and among the several States and with the Indian tribes.").

14. *Qualitex, Co. v. Jacobsen Prods.*, 514 U.S. 159, 163-64 (1995).

15. *Id.* at 163-64. Though courts comment that trademarks "encourage the production of quality products," marks also encourage consistent quality (citing *Qualitex*, 514 U.S. at 164). By relying on a trademark, a consumer can easily locate and choose a "Toyota" or "Buick" standard of quality, rather than a "Rolls Royce" or "Yugo" standard. This differentiation reduces consumer search costs and producer self-identification.

16. *Qualitex*, 514 U.S. at 164.

17. S. REP. NO. 79-1333, at 4 (1946), reprinted in 1946 U.S.C.C.A.N. 1274, 1275.

A trademark grants its owner the limited right to use the mark as a “useful and valuable aid or instrument of commerce.”¹⁸ Trademark law protects this commercial use, but does not offer absolute protection to all uses of a mark.¹⁹ As the Supreme Court explained, trademark law “does not confer a right to prohibit the use of the word or words. It is not a copy-right. . . . A trade mark only gives to [sic] right to prohibit the use of it so far as to protect the owner’s good will against the sale of another’s product as his.”²⁰ Thus the use of a mark that is not in commerce is beyond Congress’s authority to regulate, and a mark that is not used as a trademark does not fall within the Lanham Act’s protections.

B. “Trademarks,” “Use in Commerce,” and “Infringement” Under the Lanham Act

Section 1127 defines a trademark as “any word, name, symbol, or device, or any combination thereof” that a person uses to indicate the source of goods and to identify and distinguish those goods from competing products.²¹ “Use in commerce” is the use of a mark in the ordinary course of trade,²² including placement of the mark in any manner on the goods, their containers, or their displays, tags, or labels *and* the sale or the transport of the goods in commerce. Service marks are used in commerce when “used or displayed in the sale or advertising of services” *and* the services are rendered in interstate or international commerce.²³

Section 1114(1) offers relief for the infringement of a registered mark, providing as follows:

Any person who shall, without the consent of the registrant:

(a) use in commerce any reproduction, counterfeit, copy, or colorable imitation of a registered mark in connection with the sale, offering for sale, distribution, or advertising of any goods or services on or in connection with which such use is likely to cause

18. The Trademark Cases, 100 U.S. 82, 94-95 (1879).

19. *Prestonettes, Inc. v. Coty*, 264 U.S. 359, 368 (1924).

20. *Id.*

21. 15 U.S.C. § 1127 (2000). Section 1127 defines a “service mark” in substantially the same terms, as “any word, name, symbol . . .” that a person uses “to indicate the source of a service and to identify and distinguish the services of one person from the services of others.” *Id.*

22. *Id.*

23. *Id.*

confusion, or to cause mistake, or to deceive . . . shall be liable in a civil action²⁴

Section 1125(a)(1) offers broader relief for the infringement of registered and unregistered marks:

Any person who, on or in connection with any goods or services, or any container for goods, uses in commerce any word, term, name, symbol, or device, or any combination thereof, or any false designation of origin, false or misleading description of fact, or false or misleading representation of fact, which . . . is likely to cause confusion, or to cause mistake, or to deceive as to the affiliation, connection, or association of such person with another person, or as to the origin, sponsorship, or approval of his or her goods, services, or commercial activities by another person . . . shall be liable in a civil action by any person who believes that he or she is or is likely to be damaged by such act.²⁵

The infringement analysis under these two sections is typically identical.²⁶ In short, to establish trademark infringement the plaintiff must demonstrate ownership of a valid mark entitled to protection under the Lanham Act, and use of the mark by the defendant “in commerce,” “in connection” with “any goods or services,”²⁷ and without the plaintiff’s consent.²⁸ To prove infringement, the plaintiff also must show that defendant’s use of that mark is “likely to cause confusion” as to the source, sponsorship, or approval of the defendant’s goods, services, or commercial activities.²⁹

C. Confusion Regarding the Meaning of Use in Commerce

The Trademark Law Revision Act of 1988 increased the degree of use required to obtain the benefits of trademark protection.³⁰ This revision was aimed primarily at eliminating the practice of “token” trademark use by which businesses attempted to gain trademark protection without actually engaging in commerce.³¹ Though the plain language of the statute indi-

24. 15 U.S.C. § 1114 (2000).

25. 15 U.S.C. § 1125.

26. *Brookfield Commc’ns, Inc. v. W. Coast Entm’t Corp.*, 174 F.3d 1036, 1047 n.8 (9th Cir. 1999).

27. 15 U.S.C. §§ 1114(1)(a), 1125(a)(1).

28. 15 U.S.C. §§ 1125, 1114; *see also 1-800 Contacts II*, 414 F.3d 400, 406 (2d Cir. 2005).

29. 15 U.S.C. §§ 1125(a)(1)(A), 1114(1); *see 1-800 Contacts II*, 414 F.3d at 406. The Lanham Act also provides statutory defenses to the alleged infringer of an incontestable mark. 15 U.S.C. § 1115 (2000).

30. 1 GILSON, *supra* note 10, § 3.02(8)(a).

31. *Id.*

cates that the effect of the change is uniform throughout the Act, the effect of this revision remains the subject of debate. As one treatise describes:

‘Use in commerce’ appears throughout the Act, and is the benchmark for eligibility for the various benefits of the Act, such as registration, non-cancellation under Section 8, and renewal. When it appears in Sections 32(1) [§1114] or 43(a) [§1125] in connection with the actions of an infringer, however, it still establishes the jurisdictional test based on interstate conduct.³²

While Congress originally inserted the “in commerce” requirement to establish jurisdiction under the Commerce Clause,³³ no statutory basis supports the notion that the use in commerce requirement “does not require the plaintiff to prove that the defendant was making *bona fide* use of the accused trademark in the ordinary course of business” for both registration and infringement.³⁴ The use in commerce requirement is not merely a jurisdictional hook establishing Congress’s authority to regulate; this requirement materially limits the reach of the Lanham Act.³⁵ Thus, a use that would fail to support a registration application should also fail to support an infringement action.³⁶ Without use in commerce to trigger the Lanham Act’s protections, the questioned use falls beyond the scope of congressional power for the purposes of both registration and infringement.³⁷

32. *Id.*

33. U.S. CONST. art. I, § 8, cl. 3; see *The Trademark Cases*, 100 U.S. 82, 94-95 (1879).

34. 1 GILSON, *supra* note 10, § 3.02(8)(c) (stating that the new definition “does not change the law under sections [1114(c)] and [1125(a)]”). Note that Gilson does not cite authority or explain why Congress’s redefinition of use in commerce might alter the term’s meaning in some parts of the Act while retaining the unaltered definition in others.

35. *United Drug Co. v. Theodore Rectanus Co.*, 248 U.S. 90, 98 (1918) (“[T]he power of Congress to legislate on [trademark] being only such as arises from the authority to regulate commerce with foreign nations and among the several States and with the Indian tribes.”); *The Trademark Cases*, 100 U.S. 82, 93, 94-95 (1879) (“As the property in trade-marks and the right to their exclusive use rest on the laws of the States . . . the power of the Congress to legislate on the subject . . . must be found in the Constitution of the United States, which is the source of all powers that Congress can lawfully exercise.”).

36. See *United Drug Co.*, 248 U.S. at 98. That a mark is not used in commerce for the purposes of either registration or infringement without the actual movement of goods in commerce mirrors trademark’s rule against assignment in gross, which prohibits the assignment of a mark independent of the underlying business. See 15 U.S.C. § 1060 (2000); *United Drug Co.*, 248 U.S. at 97 (“There is no such thing as property in a trademark except as a right appurtenant to an established business or trade in connection with which the mark is employed.”).

37. See *id.*

D. Case Law Establishing Indirect and Contributory Infringement

Although the Lanham Act is silent as to contributory and vicarious infringement, courts have devised three bases for indirect trademark liability. First, the Supreme Court found contributory liability for unfair competition, a body of law closely related to trademark.³⁸ Next, the Third Circuit imported common law concepts of agency, apparent authority, and vicarious liability to reach parties it found culpable.³⁹ Finally, in the online context, the Ninth Circuit analogized to manufacturing and control of production processes to evaluate liability for indirect infringement.⁴⁰

1. *A Manufacturer Who Induces Others to Pass Off a Product Can Be Contributorily Liable.*

In 1924, the Supreme Court extended liability for unfair competition to manufacturers and distributors in *William R. Warner & Co. v. Eli Lilly & Co.*⁴¹ At issue was a chocolate-flavored medicinal compound.⁴² The plaintiff brought suit to enjoin the defendant's manufacture and sale of compounds formulated with chocolate⁴³ and to enjoin use of the name Quin-Coco, claiming that it infringed its trademark of Coco-Quinine.⁴⁴ Evidence indicated that some of the defendant's salesmen induced druggists to fill prescriptions with the imitation compound and that this substitution could occur without detection by the end purchaser.⁴⁵ Though the druggists

38. See *William R. Warner & Co. v. Eli Lilly & Co.*, 265 U.S. 526, 531-32 (1924). Though "unfair competition" is a broader category than trademark, trademark is a "species" within the "genus" of unfair competition. S. REP. NO. 79-1333, at 4 (1946), reprinted in 1946 U.S.C.C.A.N. 1274, 1275. The Supreme Court decided *Warner* prior to the elimination of federal common law in *Erie Railroad*, and prior to the passage of the Lanham Act in 1946. 15 U.S.C. §§ 1051-1127 (2000); *Erie R.R. Co. v. Tompkins*, 304 U.S. 64, 78 (1938). Today, there is no broad, federal basis for an unfair competition claim; the only federal claim available is the more narrow basis codified in 15 U.S.C. § 1125(a). *Zenith Elecs. Corp. v. Exzec, Inc.*, 182 F.3d 1340, 1348-49 (Fed. Cir. 1999) ("The only basis for a federal unfair competition claim is Section 43(a) of the Lanham Act. . . . That provision prohibits false designations of origin or false or misleading descriptions of goods or services which are likely to cause confusion.").

39. See *AT&T Co. v. Winback & Conserve Program, Inc.*, 42 F.3d 1421, 1430-31 (3d Cir. 1994).

40. See *Lockheed Martin Corp. v. Network Solutions, Inc.*, 194 F.3d 980, 985 (9th Cir. 1999) (extending liability to online context by analogy to manufacturing context in *Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844 (1982)).

41. 265 U.S. 526 (1924).

42. *Id.* at 527.

43. *Id.*

44. *Id.*

45. *Id.* at 530.

themselves were not deceived, the ultimate purchaser was.⁴⁶ While the Supreme Court found no infringement of the mark or formula, it did find unfair competition in the defendant's passing off of its own product as that of the plaintiff.⁴⁷ The Supreme Court reasoned that "[o]ne who induces another to commit a fraud and furnishes the means of consummating it is equally guilty and liable for the injury."⁴⁸ Though an imitator may lawfully produce and distribute its product, the imitator must "make its own way in the field of open and fair competition."⁴⁹ The imitator "cannot lawfully palm [the imitations] off on the public as the goods of his competitor."⁵⁰ Thus, the Supreme Court held the manufacturer contributorily liable for unfair competition where its agents induced a third party to pass off its products as those of another.

2. *Common Law Concepts Extend Liability to Indirect Infringers.*

In *AT&T v. Winback & Conserve Program*, the Third Circuit imported common law tort concepts of agency, apparent authority, and vicarious liability into § 1125(a).⁵¹ The plaintiff claimed that defendant "Winback's representatives brazenly and falsely represented Winback to be, or to be a division of, AT&T."⁵² The *AT&T* court determined that liability based on agency principles was appropriate, though not expressly authorized by the federal law.⁵³ In doing so, the court explained that it was not "expanding the category of affirmative conduct proscribed," but merely deciding on "whose shoulders to place responsibility for conduct indisputably proscribed."⁵⁴ The court thus held that the defendant could be vicariously liable for the misrepresentations by independent sales people used to solicit business.⁵⁵

46. *Id.*

47. *Id.* at 528.

48. *Id.* at 530-31.

49. *Id.* at 531-32.

50. *Id.* at 531.

51. *AT&T Co. v. Winback & Conserve Program, Inc.*, 42 F.3d 1421, 1430-31 (3d Cir. 1994); 15 U.S.C. § 1125(a) (2000); see 4 J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 25:21.1 (4th ed. Dec. 2005).

52. *AT&T Co.*, 42 F.3d at 1443.

53. *Id.* at 1433-34.

54. *Id.* at 1430-31.

55. *Id.* at 1431.

3. *Knowingly Supplying a Product to a Trademark Infringer Extends Contributory Liability.*

In 1982 the Supreme Court considered claims based on § 1114 and § 1125(a), in *Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*⁵⁶ and explicitly articulated the standard for contributory trademark infringement. The Court held that a manufacturer or distributor is contributorily liable for harm done by others, if it “intentionally induces another to infringe a trademark, or if it continues to supply its product to one whom it knows or has reason to know is engaging in trademark infringement.”⁵⁷

The Ninth Circuit interpreted *Inwood Laboratories* in the context of online services in *Lockheed Martin Corp. v. Network Solutions, Inc.*⁵⁸ Network Solutions was then the exclusive registrar of internet domain names.⁵⁹ A party wishing to register a domain name would complete and submit Network Solution’s template over the internet.⁶⁰ Ninety percent of applications were processed electronically; the remaining ten percent were reviewed by a Network Solutions employee.⁶¹ Review usually occurred if the registrant erred in filling out the template or applied for a domain name including a prohibited character string, such as obscene words or protected words like specific variations on the words Olympic, Red Cross, or NASA.⁶² Upon approval, Network Solutions would enter the domain name into its database with a corresponding address in order to route internet users to the registrant’s computer.⁶³

Lockheed owned “Skunk Works,” a registered mark.⁶⁴ Through Network Solutions, third parties registered domain name combinations that included variations on “skunk works.”⁶⁵ Lockheed filed suit claiming direct and contributory infringement, among other Lanham Act violations.⁶⁶ Relying on *Inwood Laboratories*, Lockheed alleged that Network Solutions supplied a product to third parties with the knowledge that the product was being used to infringe the service mark.⁶⁷

56. 456 U.S. 844 (1982).

57. *Id.* at 854.

58. 194 F.3d 980 (9th Cir. 1999).

59. *Id.* at 982.

60. *Id.*

61. *Id.*

62. *Id.*

63. *Id.*

64. *Id.*

65. *Id.* at 983.

66. *Id.*

67. *Id.*

The Ninth Circuit held that Network Solutions was not contributorily liable as a matter of law.⁶⁸ The court explained that the plaintiff in *Inwood Laboratories* stated a cause of action for contributory infringement by alleging that the defendant “continued to supply [the product] to pharmacists whom the petitioners knew were mislabeling generic drugs.”⁶⁹ The court held that when weighing a contributory infringement claim where no “product” is at issue, the court should “consider the extent of control exercised by the defendant of the third party’s means of infringement.”⁷⁰ The Ninth Circuit found that Network Solutions’s “translation service” did not exhibit the sort of “direct control and monitoring” required by *Inwood Laboratories*, and thus could not be held contributorily liable.⁷¹

II. USE OF TRADEMARK BY INTERNET ADVERTISERS: THE *WHENU* AND *GOOGLE* CASES

Precedent is divided regarding the use of a trademark by online advertisers. The *WhenU* courts found that, because keying and selling trademarked terms for competitive advertising is not a use within the scope of trademark protection, WhenU cannot infringe.⁷² In contrast, the *GEICO* court found, on comparable facts, that defendant Google did make a protected trademark use of GEICO’s marks “by allowing advertisers to pay to have their ads appear next to the organic listings that result when the

68. *Id.* at 987. In contrast, one commentator has interpreted Lockheed as meaning that “the Ninth Circuit specified that the *Inwood* standard applied only to goods and not to services.” Note, *Making Your Mark on Google*, 18 HARV. J. L. & TECH. 479, 484 (2005).

69. *Lockheed*, 194 F.3d at 984 (citing *Inwood Labs*, 456 U.S. at 855) (brackets in original).

70. *Id.* (citing *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259 (9th Cir. 1996) and *Hard Rock Cafe Licensing Corp. v. Concession Servs., Inc.*, 955 F.2d 1143, 1148-49 (7th Cir. 1992)).

71. *Id.* at 985 (citing the district court’s finding that “[w]hile the landlord of a flea market might reasonably be expected to monitor the merchandise sold on his premises, [Network Solutions] cannot reasonably be expected to monitor the Internet.”).

72. *Wells Fargo & Co. v. WhenU.com, Inc.*, 293 F. Supp. 2d 734 (E.D. Mich. 2003); *U-Haul Int’l, Inc. v. WhenU.com, Inc.*, 279 F. Supp. 2d 723 (E.D. Va. 2003); *1-800 Contacts II*, 414 F.3d 400 (2d Cir. 2005), *rev’g* 309 F. Supp. 2d 467 (S.D.N.Y. 2003).

marks are entered as search terms.”⁷³ Section A will discuss the *WhenU* line of cases;⁷⁴ Section B will discuss the *Google* litigation.⁷⁵

A. Pop-up Advertising: WhenU's Internal, Nonpublic Use Is Not a Trademark Use or a Use in Commerce

WhenU distributes a software program called SaveNow, typically bundled with other programs.⁷⁶ SaveNow uses a directory of phrases, web addresses, and keyword algorithms to look for matches between the computer user's web browsing activity and its own database of terms, web addresses, or content.⁷⁷ When SaveNow finds a match, it triggers a pop-up ad from an advertiser.⁷⁸ This pop-up ad usually appears in a window in front of the other windows on the computer screen.⁷⁹ The computer user must either close or move the pop-up ad to view the underlying windows.⁸⁰ Several businesses have objected to the inclusion of their web addresses or trademarks in SaveNow's directory and have brought suit.

1. *U-Haul Int'l, Inc. v. WhenU.com, Inc.*

In the first of this series of cases, U-Haul filed a complaint against WhenU alleging various Lanham Act violations. U-Haul alleged that the simultaneous appearance of WhenU's ads and U-Haul's website and logo was a “use in commerce,” as was WhenU's use of the mark “U-Haul” to trigger pop-up advertisements.⁸¹ The court held WhenU's uses of U-Haul's marks noninfringing because U-Haul “fail[ed] to show how a pop-up advertisement appearing in a separate window on an individual's computer obstructing U-Haul's advertisement is a ‘use’ of U-Haul's trademarks in commerce.”⁸²

73. *GEICO II*, No. 1:04cv507, 2005 U.S. Dist. LEXIS 18642, at *11 (E.D. Va. Aug. 8, 2005); *GEICO I*, 330 F. Supp. 2d 700, 704 (E.D. Va. 2004). The same court issued two opinions, the second opinion “explains in more detail” the Court's decision in the first. *GEICO II*, 2005 U.S. Dist. LEXIS 18642, at *2 n.1.

74. 15 U.S.C. § 1127 (2000); *Wells Fargo & Co. v. WhenU.com, Inc.*, 293 F. Supp. 2d at 734; *U-Haul Int'l, Inc. v. WhenU.com, Inc.*, 279 F. Supp. 2d at 723; *1-800 Contacts II*, 414 F.3d at 400.

75. *GEICO II*, 2005 U.S. Dist. LEXIS 18642, at *1; *Google Inc. v. Am. Blind & Wallpaper Factory, Inc.*, 74 U.S.P.Q.2d 1385 (N.D. Cal. 2005).

76. *U-Haul*, 279 F. Supp. 2d at 725.

77. *Id.* at 725-26.

78. *Id.* at 726.

79. *Id.*

80. *Id.*

81. *Id.* at 727.

82. *Id.*

The court provided four reasons for not finding use in commerce. First, WhenU did not frame its advertisements within U-Haul's website, but displayed the ads in a separate pop-up window.⁸³ Second, the simultaneous appearance of both trademarks does not constitute a "use."⁸⁴ Third, WhenU's inclusion of U-Haul's URL in its software program's directory is not a "use" under the Lanham Act: "WhenU does not place the U-Haul trademarks in commerce; the SaveNow program merely uses the U-Haul URL and 'U-Haul.'"⁸⁵ The court cited the *Lockheed Martin* district court for the premise that "domain names, like trade names, do not act as trademarks when they are used to identify a business entity; in order to infringe they must be used to identify the source of goods or services."⁸⁶ The use at issue was not a trademark infringement because WhenU merely uses the marks for a "'pure machine-linking function' and in no way advertises or promotes U-Haul's web address or any other U-Haul trademark."⁸⁷ Finally, the *U-Haul* court found that WhenU's pop-up ads do not interact with U-Haul's computer servers or systems, WhenU's program does not interfere with the use of U-Haul's website by its customers, and that WhenU's program is a consumer-installed program.⁸⁸

2. *Wells Fargo & Co. v. WhenU.com, Inc.*

In *Wells Fargo & Co. v. WhenU.com, Inc.*,⁸⁹ the court held that WhenU did not "use" Wells Fargo's marks "in commerce" within the meaning of federal trademark law.⁹⁰ The court held that WhenU's inclusion of a trademarked URL in a directory was not a protected trademark "use."⁹¹ The carefully reasoned opinion held that WhenU does not hinder

83. *Id.*

84. *Id.* at 728 (describing the simultaneous display as comparative advertising because "[a] use of a rival's mark that does not engender confusion about origin or quality is permissible" (citing *August Storck K.G. v. Nabisco, Inc.*, 59 F.3d 616, 618 (7th Cir. 1995))).

85. *U-Haul*, 279 F. Supp. 2d at 728. Note, however, that the court comments that "WhenU does not sell the U-Haul URL to its customers. Nor, does WhenU display the U-Haul URL or words 'U-Haul' to the computer user when the ad pops-up." *Id.*

86. *Id.* (citing *Lockheed Martin Corp. v. Network Solutions, Inc.*, 985 F. Supp. 949, 956 (C.D. Cal. 1997)).

87. *Id.*

88. *Id.* at 728-29 (addressing issues presented by *People for the Ethical Treatment of Animals v. Doughney*, 263 F.3d 359 (4th Cir. 2001), where the court found that the cybersquatting defendant prevented users from downloading or using PETA's goods or services and that this interference is a use in commerce).

89. 293 F. Supp. 2d 734 (E.D. Mich. 2003).

90. *Id.* at 769.

91. *Id.* at 757.

access to or frame Wells Fargo's website.⁹² The court found that WhenU's actions are legitimate comparative advertising⁹³ and that the inclusion of trademark names in the directory is not a use in commerce.⁹⁴ WhenU's actions do not constitute a trademark use under the Lanham Act, "because WhenU does not use any of the plaintiffs' trademarks to indicate anything about the source of the products and services it advertises."⁹⁵

3. *1-800 Contacts, Inc. v. WhenU.com, Inc.*

In the most recent case, *1-800 Contacts, Inc. v. WhenU.com, Inc.*,⁹⁶ the Second Circuit reversed the district court⁹⁷ and held that WhenU.com's keyword directory and pop-up ads do not constitute use of 1-800's mark under the Lanham Act.⁹⁸ The lower court held that WhenU used the marks in two ways: by causing pop-up ads to appear when SaveNow users attempted to access the plaintiff's website and by including the plaintiff's URL in the SaveNow directory.⁹⁹ WhenU argued that use "in connection with the services" requires "use as a trademark to identify or distinguish products or services."¹⁰⁰ The *1-800 Contacts I* court ignored the *Wells Fargo*¹⁰¹ and *U-Haul* decisions,¹⁰² noting that it was not bound by their findings.¹⁰³ Instead the court stated that the question was not whether the use was sufficient to establish a valid mark¹⁰⁴ and found that the *Polaroid* factors weighed heavily in favor of a showing of both source identification and initial interest confusion.¹⁰⁵

Reversing the lower court, the *1-800 Contacts II* decision corroborated the earlier holdings in *Wells Fargo* and *U-Haul*.¹⁰⁶ The court held that WhenU's use of plaintiff's URL in a directory inaccessible to the computer user and the public presented no danger of confusion.¹⁰⁷ WhenU

92. *Id.* at 758-59.

93. *Id.* at 761-62.

94. *Id.* at 762-63.

95. *Id.* at 762.

96. 414 F.3d 400, 403 (2d Cir. 2005).

97. 309 F. Supp. 2d 467 (S.D.N.Y. 2003).

98. *1-800 Contacts II*, 414 F.3d at 403.

99. *1-800 Contacts I*, 309 F. Supp. 2d at 489.

100. *Id.*

101. *Wells Fargo & Co. v. WhenU.com, Inc.*, 293 F. Supp. 2d 734 (E.D. Mich. 2003).

102. *U-Haul Int'l, Inc. v. WhenU.com, Inc.*, 279 F. Supp. 2d 723 (E.D. Va. 2003).

103. *Id.* at 490 n.43.

104. *Id.*

105. *Id.* at 504.

106. *Wells Fargo*, 293 F. Supp 2d at 757-58, 764; *U-Haul*, 279 F. Supp. 2d at 727.

107. *1-800 Contacts II*, 414 F.3d at 409.

used plaintiff's URL as a functional component in the directory, but made no use of plaintiff's mark.¹⁰⁸ In reaching its decision, the *1-800 Contacts II* court reasoned that:

[a] company's internal utilization of a trademark in a way that does not communicate it to the public is analogous to a [sic] individual's private thoughts about a trademark. Such conduct simply does not violate the Lanham Act, which is concerned with the use of trademarks in connection with the sale of goods or services in a manner likely to lead to consumer confusion as to the source of such goods or services.¹⁰⁹

By claiming unauthorized use and likelihood of confusion, plaintiff attempted to "bootstrap[] a finding of use."¹¹⁰ The *1-800 Contacts* court held that a proper infringement analysis requires trademark use as a threshold matter, distinct from the likelihood of confusion.¹¹¹

B. Keyword Advertising: Sale of Keywords is a Use in Commerce

In *GEICO v. Google Inc.*¹¹² and *Google Inc. v. American Blind & Wallpaper Factory, Inc.*,¹¹³ the court addressed Google's keyword advertising program. Google's search engine returns results in response to users' search terms using a complex algorithm.¹¹⁴ These results are called "organic listings."¹¹⁵ Search terms, including trademarks,¹¹⁶ trigger the display of ads, or "sponsored links," as well.¹¹⁷ Google's AdWords program allows advertisers to bid for the privilege of having their ads appear in response to particular search terms.¹¹⁸

108. *Id.*

109. *Id.*

110. *Id.* at 412.

111. *Id.*

112. No. 1:04cv507, 2005 U.S. Dist. LEXIS 18642, at *1 (E.D. Va. Aug. 8, 2005) [hereinafter *GEICO II*]; 330 F. Supp. 2d 700 (E.D. Va. 2004) [hereinafter *GEICO I*]. A single court issued both the *GEICO I* and *GEICO II* opinions; *GEICO II* expands upon the findings in *GEICO I*. Accordingly, this Note will refer to the court as the *GEICO* court and the opinions as *GEICO I* and *GEICO II*.

113. 74 U.S.P.Q.2d 1385 (N.D. Cal. 2005).

114. GoogleGuide: How Google Works, http://googleguide.com/google_works.html (last visited Feb. 19, 2006).

115. *Geico II*, 2005 U.S. Dist. LEXIS 18642 at *6.

116. *Id.* at *6-*7.

117. Google, How to Get the Most Out of Your Ad Budget, <https://adwords.google.com/select/tour/4.html> (last visited Feb. 19, 2006).

118. *Id.*

1. *GEICO v. Google Inc.*

GEICO filed suit against Google, claiming direct, contributory, and vicarious trademark infringement.¹¹⁹ GEICO alleged that by selling the trademark “GEICO” and “GEICO DIRECT” as keywords to advertisers, Google directly violated the Lanham Act creating a likelihood of confusion as to the source, affiliation or sponsorship of the sponsored links.¹²⁰ Further, GEICO claimed Google contributed to infringement by third parties by knowingly encouraging advertisers to use GEICO’s marks in the heading or text of their ads in a manner that is likely to confuse consumers.”¹²¹

The *GEICO* court¹²² held that Google’s AdWords program does “‘use’ GEICO’s mark for purposes of the Lanham Act, although not necessarily improperly.”¹²³ The court held that allowing advertisers to pay for their ads to appear next to organic listings that result when the marks are entered as search terms is a use under the Lanham Act.¹²⁴ Further, the *GEICO* court rejected Google’s contention that the use of marks as invisible “computer coding” is not a Lanham Act use, holding that such a use was “in commerce” and “in connection with the sale, offering for sale, distribution, or advertising of goods and services.”¹²⁵

The court emphasized that this use, without more, does not establish trademark infringement; the plaintiff must further prove that the disputed use results in a likelihood of confusion.¹²⁶ Where the marks were used only in coding and did not appear among the AdWord search results, the court held that there was no likelihood of confusion and no infringement of the trademark.¹²⁷ The plaintiff, however, did establish a likelihood of

119. *GEICO II*, 2005 U.S. Dist. LEXIS 18642, at *1-*2.

120. *Id.* at *7-*8,

121. *Id.* at *8.

122. *GEICO II*, No. 1:04cv507, 2005 U.S. Dist. LEXIS 18642, at *1 (E.D. Va. Aug. 8, 2005); *GEICO I*, 330 F. Supp. 2d 700 (E.D. Va. 2004). *GEICO I* relied on the *1-800 Contacts I* holding that WhenU’s use of the 1-800 Contacts mark is a protected trademark use. *GEICO I*, 330 F. Supp. 2d at 703 (citing *1-800 Contacts I*, 309 F. Supp. 2d 467, 489 (S.D.N.Y. 2003)). The same court issued the *GEICO II* opinion soon after the *1-800 Contacts II* court reversed the lower court as a matter of law on June 27, 2005, *1-800 Contacts II*, 414 F.3d 400 (2d Cir. 2005), but the *GEICO II* opinion makes no further mention of the *WhenU* litigation. See *GEICO II*, 2005 U.S. Dist. LEXIS 18642, at *1 (decision filed Aug. 8, 2005).

123. *Id.* at *2 n.1.

124. *Id.* at *11.

125. *Id.*

126. *Id.* at *11-*12.

127. *Id.* at *26.

confusion in those instances in which GEICO's trademark appeared in the heading or text of the AdWord results.¹²⁸

2. *Google Inc. v. American Blind & Wallpaper Factory, Inc.*

In *Google Inc. v. American Blind & Wallpaper Factory, Inc.*,¹²⁹ Google sought declaratory judgment that its AdWords program does not infringe American Blind's trademarks.¹³⁰ In response, American Blind filed counter claims alleging that Google infringed its marks, including "American Blind," "American Blinds," and "Americanblinds.com," by selling these marks as keywords to American Blind's competitors.¹³¹ American Blind claimed that, when competitors considered purchasing the term "American Blind," Google encouraged those competitors to purchase other iterations of the marks through its AdWords Keyword Suggestions feature.¹³² American Blinds claimed that Google sold "the possibility of intercepting American Blind's potential customers" by causing confusion as to sponsorship, authorization, or source of the links, allowing Google and its advertisers to profit from harm caused to American Blind's sales, reputation, customer relationships, and marks.¹³³

Reviewing the case law on trademark use on the internet, the *American Blind* court refused to dismiss the case "in light of the uncertain state of the law."¹³⁴ Like *GEICO*, *American Blind* was decided before the Second Circuit reversed the injunction in *1-800 Contacts*.¹³⁵ *American Blind*, therefore, reflects the unsettled state of trademark law on this issue.¹³⁶

III. ANALYSIS: RESOLVING THE DIVIDE

The *WhenU* line of cases correctly interprets trademark law's use requirement. By holding that invisible, software coding cannot constitute a trademark use for the purposes of the Lanham Act, the *WhenU* courts bring clarity and uniformity to use in trademark. In reaching its conclusion, the *1-800 Contacts v. WhenU.com* court distinguished its analysis from that in *GEICO* on both the facts and the law. Although *WhenU* and Google's business models differ, these factual distinctions cannot justify

128. *Id.*

129. 74 U.S.P.Q.2d 1385 (N.D. Cal. 2005).

130. *Id.* at 1386.

131. *Id.* at 1387.

132. *Id.*

133. *Id.* at 1387-88.

134. *Id.* at 1391.

135. *Id.* at 1390 n.17.

136. *Id.* at 1391

their markedly dissimilar treatment. As a matter of law neither WhenU nor Google make a protected use of the plaintiffs' marks.

A. Varying Factual and Legal Analysis

In reaching its conclusion, the *1-800 Contacts II* court distinguished the WhenU facts from those in *GEICO*.¹³⁷ The court observed that, unlike Google, WhenU did not disclose the proprietary contents of the SaveNow directory to its advertising clients nor did it permit clients to purchase specific keywords to add to the directory.¹³⁸ Rather, the *WhenU* courts focused on the fact that WhenU's "advertisements are displayed according to the product category in which the consumer is interested,"¹³⁹ or on the fact that "WhenU does not disclose the proprietary contents of the SaveNow directory to its advertising clients nor does it permit these clients to request or purchase specified keywords to add to the directory."¹⁴⁰ In contrast, the *GEICO* court held that Google used trademarks in commerce by selling to advertisers the ability to display targeted ads alongside organic listings in response to user input.¹⁴¹ This is an exceptionally fine distinction to draw between WhenU and Google since both offer directories of keywords for sale to advertisers.

The *WhenU* courts correctly understood the questioned use as "pure machine-linking function"¹⁴² and "analogous to a [sic] individual's private thoughts about a trademark."¹⁴³ The *GEICO* court incorrectly rejected Google's argument that "the marks were used only in . . . computer coding and that such an invisible process could not constitute use under the Act."¹⁴⁴ These courts reached deeply opposed conclusions regarding whether the sale of keyword ad services is a use relevant to a claim of trademark infringement. Since both WhenU and Google sell such services in a manner that remains imperceptible to end users, their inconsistent treatment is difficult to justify.

137. *1-800 Contacts II*, 414 F.3d 400, 409, 412 (2d Cir. 2005); see *GEICO II*, No. 1:04cv507, 2005 U.S. Dist. LEXIS 18642 (E.D. Va. Aug. 8, 2005); *GEICO I*, 330 F. Supp. 2d 700 (E.D. Va. 2004). The *1-800 Contacts II* court made no mention of the *American Blind* litigation. See *1-800 Contacts II*, 414 F.3d at 400.

138. *1-800 Contacts II*, 414 F.3d at 409.

139. *Wells Fargo & Co. v. WhenU.com, Inc.*, 293 F. Supp. 2d 734, 745 (E.D. Mich. 2003).

140. *1-800 Contacts II*, 414 F.3d at 409.

141. *GEICO II*, 2005 U.S. Dist. LEXIS 18642, at *11.

142. *U-Haul Int'l, Inc. v. WhenU.com, Inc.*, 279 F. Supp. 2d 723, 728 (E.D. Va. 2003).

143. *1-800 Contacts II*, 414 F.3d at 409.

144. *GEICO II*, 2005 U.S. Dist. LEXIS 18642, at *11.

The *WhenU* and *Google* lines of cases differ in their legal analysis as well. The *1-800 Contacts II* court distinguished its analysis explaining that the *GEICO* analysis put the “cart before the horse” by basing the prior finding of a protected trademark use on the finding that the disputed use created a likelihood of confusion.¹⁴⁵ The *1-800 Contacts* court stated that use, in commerce, and likelihood of confusion are three distinct elements of a trademark infringement claim, but use must be decided as a threshold matter.¹⁴⁶ While any number of activities may occur in commerce or create a likelihood of confusion, such activity is not actionable absent the use of a trademark under the Lanham Act.¹⁴⁷

B. The *WhenU* Courts’ Analysis Avoids Confusion Apparent in Precedent.

To reach the proper decision, the *WhenU* courts struggled against a background of confused precedent.¹⁴⁸ Underlying this confusion is the emphasis courts and scholars have placed on the “likelihood of confusion” analysis, with very little focus on what type of use is at issue. One influential treatise refers to the “likelihood of confusion” analysis as the “key-stone of infringement.”¹⁴⁹ Indeed, courts often move directly from the analysis of whether a valid mark exists to the “likelihood of confusion” analysis, entirely bypassing the use requirement.¹⁵⁰

This inattention to the fundamental uses protected by trademark leaves courts straining for language to allow disputed uses that, in fact, are non-trademark uses. For example, the court in *New Kids on the Block v. News America Publishing, Inc.*, surveyed descriptive, referential, and comparative advertising uses of marks.¹⁵¹ Referring to these as “nominative use[s]”

145. *1-800 Contacts II*, 414 F.3d at 411-12.

146. *Id.* at 412.

147. *Id.*

148. See *People for the Ethical Treatment of Animals v. Doughney*, 263 F.3d 359, 365 (4th Cir. 2001) (holding that preventing viewers from reaching plaintiff’s website or diverting viewers from plaintiff’s website is a “use”); *Brookfield Commc’ns, Inc. v. W. Coast Entm’t Corp.*, 174 F.3d 1036, 1066 (9th Cir. 1999) (granting preliminary injunctive relief based on the finding that the use of marks as “metatags” violates trademark law because it creates “initial interest confusion”). The *Brookfield* court considered “use in commerce” only to establish the seniority between the marks. *Brookfield Commc’ns*, 174 F.3d at 1050-53. The *Brookfield* court did not consider the specific type of use at issue, but did hold that the metatags did not constitute a fair use under the Lanham Act. *Id.* at 1065-66.

149. 3 MCCARTHY, *supra* note 51, § 23:6.

150. See *Brookfield Commc’ns*, 174 F.3d at 1053; *Lindy Pen Co. v. Bic Pen Corp.*, 725 F.2d 1240, 1243 (9th Cir. 1984).

151. 971 F.2d 302, 306-08 (9th Cir. 1992).

the court found they were best understood as “non-trademark use[s] of a mark.”¹⁵² Unfortunately, the court then analogized this non-trademark use to the Supreme Court decision in *Sony Corp. v Universal City Studios, Inc.*,¹⁵³ which held that private recording of copyrighted works for the purposes of “time-shifting” is a permitted use under copyright law.¹⁵⁴ The *New Kids on the Block* court held that nominative use of a trademark “lies outside the strictures of trademark law,” just as the home recording of “television shows for private home use does not implicate the copyright holder’s exclusive right to reproduction.”¹⁵⁵

This analogy is problematic on two fronts. First, home recording does implicate the copyright holder’s exclusive right to reproduce, but *Sony* established home recording as a fair use, a technical infringement that is nonetheless exempt from liability.¹⁵⁶ Second, unlike a copyright fair use, non-trademark use of a mark is simply beyond the scope of the limited protections created by trademark law. Thus, no “fair use” exception is necessary where the statute does not grant the mark holder exclusive rights to all uses. Instead of simply recognizing that nominative uses are indeed “outside the strictures of trademark law” and therefore not subject to the mark owner’s control, the *New Kids on the Block* court created a three-part, “nominative fair use defense” that a defendant must meet to have its nominative use excused.¹⁵⁷

This language of “fair use” is inapposite to trademark law. “Fair use” implies first that the trademark owner in fact has exclusive rights to the use in question but that the law permits defendant’s use of the mark. However, the Lanham Act does not convey to an owner the exclusive rights to use the mark, as a patent grants the exclusive right to practice an invention,¹⁵⁸ or as copyright grants exclusive rights to copy and distribute a work.¹⁵⁹ Rather, trademark conveys rights more limited in scope that protect only source identification uses of a mark.¹⁶⁰

152. *Id.* at 307-08.

153. 464 U.S. 417, 421 (1984).

154. 971 F.2d at 307 (referring to *Sony*, 464 U.S. at 447-51).

155. *Id.* at 307-08 (referring to *Sony*, 464 U.S. at 447-51).

156. *Sony*, 464 U.S. at 454-55 (“[W]e must conclude that this record amply supports the . . . conclusion that home time-shifting is fair use.”).

157. *Id.* at 308.

158. See 35 U.S.C. § 154(a) (2000) (“Every patent shall . . . grant to the patentee . . . the right to exclude others from making, using, offering for sale, or selling the invention . . .”).

159. See *Prestonettes, Inc. v. Coty*, 264 U.S. 359, 368 (1924); *United Drug Co. v. Theodore Rectanus Co.*, 248 U.S. 90, 97-98 (1918); *The Trademark Cases*, 100 U.S. 82,

By focusing on a defendant's claim to "fair use" rather than the trademark owner's claim to protection for the particular use in question turns the law on its head. Many, if not most uses, of a mark are not protected. The Lanham Act does not limit the public's right to these unprotected "uses." Thus, courts should require that a plaintiff demonstrate that the challenged use is one within the statutory protection of trademark law before beginning the likelihood of confusion inquiry or requiring the defendant to demonstrate the availability of an affirmative defense.

In *KP Permanent Make-Up, Inc. v. Lasting Impressions I, Inc.*, the Supreme Court indicated that a similar procedure is appropriate where a plaintiff claims infringement of an incontestable mark and defendant claims an affirmative defense.¹⁶¹ The Court held that the plaintiff must show likelihood of confusion as part of its prima facie case under 15 U.S.C. § 1115(b), and that the defendant has no independent burden of negating "the likelihood of any confusion in raising the affirmative defense that a term is used descriptively, not as a mark, fairly, and in good faith."¹⁶² Importantly, the Supreme Court held that a risk of confusion does not rule out fair use, overruling cases holding that a likelihood of confusion is inconsistent with a fair use defense.¹⁶³ Of the three overturned

93-94 (1879); see also 17 U.S.C. § 106 (describing exclusive rights granted by copyright).

160. See *New Kids on the Block*, 971 F.2d at 308; *The Trademark Cases*, 100 U.S. at 92. While patent and copyright grant their owners broader rights than are granted to trademark owners, these broader grants are subject to many limitations. See 35 U.S.C. § 101 (defining patentable inventions); 35 U.S.C. § 102 (requiring novelty); 35 U.S.C. § 103 (requiring non-obviousness); 35 U.S.C. § 112 (requiring adequate description and disclosure); 35 U.S.C. § 154(b) (limiting the patent term to 20 years); see also 17 U.S.C. § 102 (describing the subject matter of copyright, requiring original works of authorship, fixed in a tangible medium, and limiting copyright protection from extending to any idea, process, system, method of operation, concept, principle, or discovery); 17 U.S.C. §§ 107-112 (describing limitations on exclusive rights); 17 U.S.C. § 302 (describing the duration of copyrights for works created on or after January 1, 1978).

161. 543 U.S. 111, 124 (2004) [hereinafter *KP Permanent II*]; 15 U.S.C. § 1115(b) (2000). For a discussion of *KP Permanent*, see Adrienne Y. Cheng, Note, *KP Permanent Make-Up, Inc. v. Lasting Impression I, Inc.: Reconciling Fair Use and the Likelihood of Confusion*, 21 BERKELEY TECH. L.J. 425 (2006).

162. *Id.*; 15 U.S.C. § 1115(b)(4).

163. *KP Permanent II*, 543 U.S. at 116. The Court cited three cases finding that a likelihood of confusion determines the type of use a defendant can claim, expressly overruling the lower courts in: (1) *KP Permanent Make-Up, Inc. v. Lasting Impression I, Inc.*, 328 F.3d 1061, 1072 (9th Cir. 2003) [hereinafter *KP Permanent I*] (likelihood of confusion bars the fair use defense); (2) *PACCAR, Inc. v. TeleScan Techs., L.L.C.*, 319 F.3d 243, 256 (6th Cir. 2003) (stating that "a finding of a likelihood of confusion forecloses a fair use defense"); and (3) *Zatarains, Inc. v. Oak Grove Smokehouse, Inc.*, 698 F.2d 786,

cases two allowed the likelihood of confusion analysis to determine the type of use at issue rather than examining use independently.¹⁶⁴ In contrast, all three cases cited by the Supreme Court, holding that a likelihood of confusion does not bar fair use,¹⁶⁵ engage in separate analyses of the use in question.¹⁶⁶ While this correlation is not dispositive, it suggests that a distinct analysis of trademark use helps courts arrive at coherent outcomes.

If “[a]ctual use is the *sine qua non* of enforceable trademark rights”¹⁶⁷ for the purpose of reserving a trademark, it stands to reason that the same actual trademark use should be required to determine infringement, as the plain language of the statute indicates.¹⁶⁸ As new uses for marks arise, courts should hew closely to the purpose of trademark law—to grant limited, exclusive, source-identifying, commercial rights for the purpose

796 (5th Cir. 1983) (stating that alleged infringers were free to use words contained in a trademark “in their ordinary, descriptive sense, so long as such use [did] not tend to confuse customers as to the source of the goods”).

164. See *PACCAR, Inc.*, 319 F.3d at 249 (moving directly into the likelihood of confusion analysis); *KP Permanent I*, 328 F.3d at 1067 (bypassing the use analysis stating, “[o]nce the trademark holder shows that it has a protectable interest, the holder must show that the alleged infringer’s use of the mark ‘is likely to cause confusion, or to cause mistake, or to deceive’”); *Zatarains, Inc.*, 698 F.2d at 790-94, 796 (discussing the trademark classification of the plaintiff’s mark and holding that the defendants were “entitled to the fair use of the [term] to describe their product”).

165. *KP Permanent II*, 543 U.S. at 116. The court cited three cases finding no incompatibility with a likelihood of confusion and fair use. *Cosmetically Sealed Indus., Inc. v. Chesebrough-Pond’s USA Co.*, 125 F.3d 28, 30-31 (2d Cir. 1997) (stating that the fair use defense may succeed even if there is likelihood of confusion); *Shakespeare Co. v. Silstar Corp. of Am., Inc.*, 110 F.3d 234, 243 (4th Cir. 1997) (“[A] determination of likely confusion [does not] preclud[e] considering the fairness of use.”); *Sunmark, Inc. v. Ocean Spray Cranberries, Inc.*, 64 F.3d 1055, 1059 (7th Cir. 1995) (finding that likelihood of confusion did not preclude the fair use defense).

166. See *Cosmetically Sealed Indus.*, 125 F.3d at 30 (holding the “challenged [mark] . . . is a clear instance of a non-trademark use of words in their descriptive sense”); *Shakespeare Co.*, 110 F.3d at 243 (holding the “use of [the mark] was to take advantage of its functional and descriptive aspects” and that defendant sought “in good faith and not as a means of source-identification, to use a functional feature of a product”); *Sunmark, Inc.*, 64 F.3d at 1058 (“The initial question is whether [the defendant] used Sunmark’s mark at all.”).

167. 1 GILSON, *supra* note 10, § 3.02(1).

168. See 15 U.S.C. § 1127 (defining a “use in commerce” as a “bona fide use of a mark in the ordinary course of trade [A] mark shall be deemed to be in use in commerce . . . on services when it is used or displayed in the sale or advertising of services and the services are rendered in commerce”); 15 U.S.C. § 1051(a)(1) (“The owner of a trademark used in commerce may request registration of its trademark”); 15 U.S.C. §§ 1114(a), 1125(a)(1) (providing that infringement requires a “use in commerce” which is likely to cause confusion).

of aiding consumers, and facilitating competition. Where a new use arises, if the use does not implicate the source-identifying function of a mark, the use is not one the trademark owner should control.¹⁶⁹ This careful attention to the elements of trademark ownership clarifies the limit of the trademark owner's rights, frees the public and the market of an obstacle to competition, and encourages innovation that benefits the economy and public interest. To do otherwise nullifies the express statutory limits of trademark rights.

IV. CONCLUSION

By holding that invisible software coding cannot constitute a protected trademark use, the *WhenU* courts bring clarity, structure, and uniformity to use in trademark. Courts should follow the *WhenU* example and examine use as a distinct element of trademark infringement, requiring the plaintiff to show that the use in question is a trademark use deserving of protection. Use of a mark should constitute infringement only if it makes a *protected* trademark use of a mark *in commerce* and causes a "likelihood of confusion."

169. *New Kids on the Block v. News America Publ'g, Inc.*, 971 F.2d 302, 308 (9th Cir. 1992).

KP PERMANENT MAKE-UP, INC. V. LASTING IMPRESSION I, INC.: RECONCILING FAIR USE AND THE LIKELIHOOD OF CONFUSION

By Adrienne Y. Cheng

The Supreme Court's decision in *KP Permanent Make-up, Inc. v. Lasting Impression I, Inc.*¹ revolves around makeup and the use of a single term: *microcolor*. Like makeup, the facts of *KP Permanent* conceal a contemporary conflict over defining the contours of the public and private domains in trademark law. Commerce—encouraged through the protection of valuable assets such as trademark rights—fuels the modern global economy. Considering the quantity of goods and services available in the marketplace, brand recognition by faithful customers, potential consumers, and the public at large is a valuable asset. The association between a brand name, the quality of the product, and the source of that product drives sales and boosts stock prices. Thus, a business's right to use a mark exclusively is vital to its success in an ever-expanding global economy.²

Yet some argue that allowing a business the opportunity to gain a perpetual right in a mark has serious free speech implications since the use of those marks may constitute trademark infringement.³ The Constitution precludes Congress from making any law that limits freedom of expression.⁴ Inherent to this freedom is the right to use every word in the English language. As many free speech proponents have argued, common descriptive words should be freely used by the public, and should not be appropriated by businesses for their own profit. Such proponents are opposed to the power to persecute competitors through infringement suits or impoverish the English language through injunctions.

The balance that trademark law has negotiated between these two competing interests is fundamental to society's sense of entrepreneurship and fair play. The maintenance of this boundary is especially crucial because trademarks, unlike patents or copyrights, have potentially infinite duration.⁵

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1. 543 U.S. 111 (2004).

2. See 1 JEROME GILSON, TRADEMARK PROTECTION AND PRACTICE § 1.03(3)(a) (2005).

3. See *infra* Part III.

4. U.S. CONST. amend. I.

5. See 15 U.S.C. § 1059 (2000).

A trademark protects the source designation of a particular product, denotes its standard of quality, ensures consumer confidence, and protects the public from deception.⁶ As such, consumer *perception* determines whether a mark holder's rights are being infringed.⁷ 15 U.S.C. § 1114 defines trademark infringement as a use in commerce likely to cause confusion.⁸ Once trademark infringement has been established, 15 U.S.C. § 1115 provides a number of affirmative defenses, which protect a secondary user from liability.⁹ One such affirmative defense is the fair use defense.¹⁰

The Supreme Court granted certiorari in *KP Permanent* to resolve a split in the circuit courts' interpretation of the relationship between fair use and likelihood of confusion.¹¹ Under a literal reading of 15 U.S.C. § 1114 and § 1115(b)(4), likelihood of confusion and the fair use defense must necessarily coexist to some degree.¹² The Supreme Court, however, did not offer complete clarification of the relationship between likelihood of confusion and the fair use defense.¹³ Rather it held only that a defendant is not required to affirmatively prove the absence of confusion in order to succeed in presenting the affirmative defense of fair use.¹⁴ The Supreme Court's lack of guidance on the extent to which likelihood of confusion and fair use can coexist enabled the Ninth Circuit on remand to hold that "[s]ummary judgment on the defense of fair use is . . . improper."¹⁵ This subsequent Ninth Circuit holding unduly burdens the court with excess litigation and forces the defendant to litigate the highly fact intensive question of fair use.

Part I of this Note introduces the doctrine of likelihood of confusion, the fair use defense, and the history of the circuit split regarding whether likelihood of confusion preempts fair use. Part II examines in detail the facts of the Supreme Court's decision in *KP Permanent*, including its procedural history as well as subsequent proceedings in the Ninth Circuit on remand. Part III considers the extent to which the Supreme Court's narrow

6. 1 GILSON, *supra* note 2, § 1.03(1).

7. *See* AMF Inc. v. Sleekcraft Boats, 599 F.2d 341, 350 (9th Cir. 1979).

8. 15 U.S.C. § 1114 (2005).

9. 15 U.S.C. § 1115(b) (2005).

10. 15 U.S.C. § 1115(b)(4).

11. *See* KP Permanent Make-Up, Inc. v. Lasting Impression I, Inc., 543 U.S. 111 (2004).

12. *Id.* at 123.

13. *See id.*

14. *Id.* at 124.

15. KP Permanent Make-Up, Inc. v. Lasting Impression I, Inc., 408 F.3d 596, 609 (9th Cir. 2005).

holding concerning the burden of proof and its brief mention of the inherent coexistence of likelihood of confusion and the fair use defense result in an implicit judicial posture favoring trademark infringement plaintiffs while unduly burdening defendants claiming fair use. Part III also presents a possible solution to this conflict: separating the textual element from the mark as a whole in trademark infringement analysis. This Note concludes with Part IV.

I. BACKGROUND: LIKELIHOOD OF CONFUSION AND THE FAIR USE DEFENSE

This Part first explores likelihood of confusion as a threshold for trademark infringement. It then discusses fair use as a statutory defense against infringement, noting the difference in the courts' treatment of classic and nominative fair use, as well as the divergent history in the circuit courts' treatment of the relationship between likelihood of confusion and fair use.

A. Likelihood of Confusion as the Threshold for Trademark Infringement

A trademark distinguishes the source of a particular good from the source of goods manufactured or sold by others.¹⁶ In fact, "in the minds of the public, the primary significance of a [mark] is to identify the source of the product rather than the product itself."¹⁷ Therefore, the touchstone for determining trademark infringement is the extent to which the public is confused as to the source of a good or service. In order to establish infringement, the plaintiff must show that the defendant's practice is likely to cause confusion as to the origin of the goods or services.¹⁸

Under 15 U.S.C. § 1114, a person commits trademark infringement when she, "without the consent of the registrant[,] use[s] in commerce any reproduction, counterfeit, copy, or colorable imitation of a registered mark in connection with the sale, offering for sale, distribution, or advertising of any goods or services on or in connection with which *such use is likely to cause confusion*, or to cause mistake, or to deceive."¹⁹ Actual confusion is

16. 15 U.S.C. § 1127 (2005).

17. Wal-mart Stores, Inc. v. Samara Bros., 529 U.S. 205, 211 (2000) (quoting Inwood Labs., Inc. v. Ives Labs., Inc., 456 U.S. 844, 851 n.11 (1982)).

18. Two Pesos, Inc. v. Taco Cabana, Inc., 505 U.S. 763, 780 (1992).

19. § 1114(1)(a) (emphasis added).

not necessary, but possible confusion is inadequate.²⁰ The legal standard is likelihood of confusion, which requires proof that an appreciable number of reasonably prudent purchasers would be confused as to the source, sponsorship, and affiliation of the mark.²¹

Extremely relevant to the existence of trademark protection in a mark is a determination of that mark's level of distinctiveness.²² The more distinctive a mark, the greater trademark protection it is afforded. As a matter of law, "generic" marks are not distinctive and do not receive protection,²³ whereas arbitrary, fanciful, and suggestive marks are inherently distinctive and are automatically protected.²⁴ Descriptive marks fall somewhere in the middle of the spectrum, and are not considered inherently distinctive unless secondary meaning is established.²⁵ While a mark with demonstrated secondary meaning receives common law protection through its use in commerce, registering a descriptive mark with the Patent and Trademark Office provides prima facie evidence of validity and ownership and augments infringement remedies.²⁶

Once a mark has been registered and used for five consecutive years in the marketplace without any adverse claims, the court presumes that the trademark holder has an exclusive right to the mark.²⁷ When a senior user²⁸ with an exclusive right to the use of a mark brings an infringement suit against a junior user, the court must determine the likelihood that consumers would confuse goods or services bearing the junior mark as having

20. *Century 21 Real Estate Corp. v. Sandlin*, 846 F.2d 1175, 1178 (9th Cir. 1988) (citing *J.B. Williams Co. v. Le Conte Cosmetics*, 523 F.2d 187, 191 n.5, 6 (9th Cir. 1975), *cert. denied*, 424 U.S. 913 (1976)); 2 GILSON, *supra* note 2, § 5.01.

21. 9-III-43 GILSON, *supra* note 2, § 1125(a)(1)(A).

22. 1 GILSON, *supra* note 2, § 1.02(1)(c).

23. *KP Permanent Make-Up, Inc. v. Lasting Impression I, Inc.*, 408 F.3d 596, 602 (9th Cir. 2005) ("Generic marks are not capable of receiving protection because they identify the product, rather than the product's source.").

24. *Id.*; *Two Pesos, Inc. v. Taco Cabana, Inc.*, 505 U.S. 763, 768 (1992).

25. *See Park 'N Fly, Inc. v. Dollar Park & Fly, Inc.*, 469 U.S. 189, 194 (1985) ("Merely descriptive marks, which describe the qualities or characteristics of a product, may be registered only if the holder of the mark shows that the mark has acquired distinctiveness through secondary meaning.").

26. *See Coca-Cola Co. v. Overland, Inc.*, 692 F.2d 1250, 1254 (9th Cir. 1982) ("Federal Registration of a trademark endows it with a strong presumption of validity.").

27. 15 U.S.C. § 1115(b) (2005); *Park 'N Fly*, 469 U.S. at 198.

28. The "senior user," in this Note, refers to an individual who has registered a mark with the Patent and Trademark Office, whereas the "junior user" refers to an individual using a similar mark who could potentially be infringing. While the senior user is often the first to use a mark in commerce, a junior user's use of a mark can predate the senior user's use, as demonstrated by *KP Permanent*.

originated from the senior mark holder.²⁹ To do this, Ninth Circuit courts apply³⁰ the multi-factor balancing test outlined in *AMF Inc. v. Sleekcraft Boats*.³¹ According to *Sleekcraft*, the following eight factors are relevant to the likelihood of confusion: (1) the strength of the trademark holder's mark, (2) the proximity of the goods, (3) the similarity of the marks to one another, (4) any actual confusion in the marketplace, (5) overlapping marketing channels, (6) the degree of care exercised by a typical purchaser, (7) the intent of the defendant in selecting the mark, and (8) the probability of expansion such that likelihood of confusion could increase in the future.³²

The *Sleekcraft* factors are not exhaustive.³³ The variables the court considers are dependent on the particular facts presented.³⁴ The strength of the mark is highly probative in determining likelihood of confusion; the court affords it the "widest ambit of protection from infringing uses."³⁵ Evidence of actual confusion is "persuasive proof that future confusion is likely."³⁶ The higher the probability that the public would associate the producers of the related goods to one another, the less similarity is required between the marks for the court to find likelihood of confusion.³⁷

If a plaintiff meets the threshold showing likelihood of confusion, she has proven her prima facie trademark infringement case, and the burden shifts to the defendant to either undercut the plaintiff's evidence or, in the alternative, to assert an affirmative defense barring relief.³⁸

B. Fair Use: Classic and Nominative

Once a senior user demonstrates a prima facie case for trademark infringement, a junior user may avoid liability by claiming the affirmative defense statutorily defined at § 1115(b)(4), and commonly termed "fair use."³⁹ To claim protection under fair use, a junior user must prove "[t]hat

29. See *KP Permanent Make-Up, Inc. v. Lasting Impression I, Inc.*, 543 U.S. 111, 117 (2004).

30. See, e.g., *KP Permanent Make-Up, Inc. v. Lasting Impression I, Inc.*, 408 F.3d 596, 608 (9th Cir. 2005).

31. 599 F.2d 341, 348-49 (9th Cir. 1979); see also RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 21(a)-(f) (1995).

32. *Sleekcraft*, 599 F.2d at 348-49.

33. *Id.* at 348.

34. *Id.*

35. *Id.* at 349.

36. *Id.* at 352.

37. *Id.* at 350.

38. *KP Permanent Make-up, Inc. v. Lasting Impression I, Inc.*, 543 U.S. 111, 120 (2004).

39. 15 U.S.C. §1115(b)(4) (2000); *KP Permanent*, 543 U.S. at 116.

the use of the name, term, or device charged to be an infringement is a use, otherwise than as a mark, of the party's individual name in his own business, or of the individual name of anyone in privity with such party, or of a term or device which is descriptive of and used fairly and in good faith only to describe the goods and services of such party, or their geographic origin."⁴⁰

Under the fair use defense, if the senior user employs in commerce a descriptive term with incontestable secondary meaning as an element of a trademark, the junior user may still use the term without liability to describe his own product. But, if the term refers to the senior user's mark and thereby profits from the senior user's hard-earned reputation, the court would likely enjoin the junior user from use of the mark.⁴¹ A court will look at the good faith of the junior user and whether the junior user had intent to profit through the similarity of the terms.⁴²

Two types of fair use exist within trademark law: classic and nominative.⁴³ Nominative fair use is the use of the mark to "describe the [trademark holder's] product, *even if the [alleged infringers'] ultimate goal is to describe his own product.*"⁴⁴ For example, an advertisement by Adobe that its product Acrobat is compatible with the Microsoft XP operating system uses Microsoft's trademark to describe Microsoft's own product with the ultimate goal of conveying to Adobe's customers that its product is compatible with Microsoft's product. Employing a mark in such a way would constitute nominative fair use. Nominative fair use is an important defense against infringement, as the use of a trademark is often the only practical way of referring to a particular product or service.⁴⁵

Classic fair use, on the other hand, applies "where a defendant has used the plaintiff's mark only to describe his own product, and not at all to describe the plaintiff's product."⁴⁶ This situation most commonly arises where a mark with both a primary and secondary meaning is used in its primary descriptive sense. For example, while MOBILE gas may have the exclusive right to the use of their trademark name, it cannot prevent the

40. § 1115(b)(4).

41. See 1 GILSON, *supra* note 2, § 1.03(6)(b).

42. See *Sleekcraft*, 599 F.2d at 349.

43. Cairns v. Franklin Mint Co., 292 F.3d 1139, 1150 (9th Cir. 2002).

44. *Id.*

45. *New Kids on the Block v. New Am. Publ'g, Inc.*, 971 F.2d 302, 308 (9th Cir. 1992) ("Such nominative use of a mark- where the only word reasonably available to describe a particular thing is pressed into service . . . it does not implicate the source-identification function that is the purpose of trademark . . . such use is fair because it does not imply sponsorship or endorsement . . .").

46. *Cairns*, 292 F.3d at 1151.

use of the word “mobile” to describe a gas pump that can be moved to different places.⁴⁷ As detailed in Part II below, *KP Permanent* involves classic fair use.

C. Disagreement Among the Circuits

While application of the likelihood of confusion test is fairly consistent across the circuits, the circuit courts are split in their interpretations of fair use as a defense to trademark infringement. One line of cases holds that fair use is an absolute defense against likelihood of confusion,⁴⁸ while the other holds that prima facie evidence of likelihood of confusion preempts any claims of fair use.⁴⁹ This circuit split prompted the Supreme Court to grant certiorari in *KP Permanent*.⁵⁰

The Second, Fourth, and Seventh Circuits have interpreted fair use as protecting the use of descriptive words in commerce regardless of likelihood of confusion.⁵¹ In support of this holding, the Fourth Circuit reasoned that it “defies logic to argue that a defense may not be asserted in the only situation where it even becomes relevant.”⁵² Similarly, the Seventh Circuit reasoned that “the use of a similar name . . . to truthfully describe [one’s] own product does not constitute a legal . . . wrong, even if its effect [is] to cause the public to mistake the origin of the product.”⁵³

In contrast, the Fifth, Sixth, and Ninth Circuits held that likelihood of confusion bars a finding of fair use.⁵⁴ Specifically, the Fifth Circuit held that others are “free to use . . . words . . . in their ordinary, descriptive sense, so long as such use will not tend to confuse customers as to the

47. See Michael J. Smith, THE METROPOLITAN CORPORATE COUNSEL, “*A Beach Boy, a Playmate, and Five Guys from Boston Walk Into a Courtroom...*” – *Nominative Fair Use of Trademarks* (Akin Gump Strauss Hauer & Feld LLP), Feb. 2004, available at <http://www.akingump.com/docs/publication/648.pdf>.

48. See, e.g., *Cosmetically Sealed Industries, Inc. v. Chesebrough-Pond’s USA Co.*, 125 F.3d 28, 30 (2d Cir. 1997); *Shakespeare Co. v. Silstar Corp. of Am.*, 110 F.3d 234, 243 (4th Cir. 1997); *Sunmark, Inc. v. Ocean Spray Cranberries*, 64 F.3d 1055, 1059 (7th Cir. 1995).

49. See, e.g., *Zatarains, Inc. v. Oak Grove Smokehouse, Inc.*, 698 F.2d 786, 796 (5th Cir. 1983); *Paccar Inc. v. Telescan Techs.*, 319 F.3d 243, 256 (6th Cir. 2003); *KP Permanent Make-up, Inc. v. Lasting Impression I, Inc.*, 328 F.3d 1061, 1072 (9th Cir. 2003).

50. *KP Permanent Make-up, Inc. v. Lasting Impression I, Inc.*, 543 U.S. 111, 116 (2004).

51. *Cosmetically Sealed Industries*, 125 F.3d at 30; *Shakespeare*, 110 F.3d at 243; *Sunmark*, 64 F.3d at 1059.

52. *Shakespeare*, 110 F.3d at 243.

53. *Sunmark*, 64 F.3d at 1059.

54. *Zatarains*, 698 F.2d at 796; *Paccar*, 319 F.3d at 256; *KP Permanent*, 328 F.3d at 1072.

source of the goods.”⁵⁵ The Sixth Circuit held that “a finding of a likelihood of confusion forecloses a fair use defense.”⁵⁶ The Ninth Circuit held that a defendant “can only benefit from the fair use defense if there is no likelihood of confusion.”⁵⁷

II. *KP PERMANENT MAKE-UP, INC. V. LASTING IMPRESSION I, INC.*

A. Facts and Procedural History

KP Permanent and Lasting Impression I (“Lasting Impression”) are competitors in the permanent makeup industry.⁵⁸ Each company used the term “microcolor,” variously as one or two words and in singular or plural form, to describe a mixture of pigment and liquid used for injection under the skin.⁵⁹ KP Permanent used the term “microcolor” between 1990 and 1991 on advertising brochures, and since 1991 on pigment bottles.⁶⁰ In 1992, Lasting Impression applied for trademark registration on the words “Micro Color” in white scripts on a black square with a green line.⁶¹ In 1993, Lasting Impression’s application was approved, and in 1999, the registration became incontestable.⁶²

In 1999, KP Permanent released a ten-page brochure prominently displaying the term “microcolor” in a stylized font.⁶³ Lasting Impression demanded that KP Permanent cease its use of this trademark.⁶⁴ KP Permanent sought a declaratory judgment in federal district court, declaring KP Permanent’s use of the “microcolor” mark to be noninfringing, and Lasting Impression counterclaimed for trademark infringement.⁶⁵

Despite the incontestable standing of Lasting Impression’s mark as a whole (including the graphical elements such as the square and line), the district court held that both KP Permanent and Lasting Impression employed the word “microcolor” descriptively and not as a trademark, and

55. *Zatarains*, 698 F.2d at 796.

56. *Paccar*, 319 F.3d at 256.

57. *KP Permanent*, 328 F.3d at 1072.

58. *KP Permanent Make-up, Inc. v. Lasting Impression I, Inc.*, 543 U.S. 111, 114 (2004) (Permanent make-up is “a mixture of pigment and liquid . . . [injected] under the skin to camouflage injuries and modify nature’s dispensations”).

59. *Id.*

60. *Id.*

61. *Id.*

62. *Id.*

63. *Id.*

64. *Id.*

65. *Id.*

that neither party had acquired secondary meaning in the term.⁶⁶ This determination was relevant both to the degree of protection afforded to Lasting Impression, and the application of the fair use defense to KP Permanent's actions. Furthermore, because KP Permanent had used the term continuously throughout Lasting Impression's use and for a longer duration than Lasting Impression, the court held that KP Permanent had acted fairly and in good faith.⁶⁷ Thus, because KP Permanent had used the term microcolor in its ordinary descriptive sense, it had successfully proven a prima facie case of classic fair use.⁶⁸ Because the district court held that fair use was an absolute defense to trademark infringement, determining likelihood of confusion was not necessary and summary judgment was granted in favor of KP Permanent.⁶⁹

The Ninth Circuit disagreed with the district court's analysis and overturned their grant of summary judgment. First, the Ninth Circuit reasoned that the court could not separate the text from the mark in analyzing the degree of distinctiveness.⁷⁰ Thus, since the mark as a whole had become incontestable, the textual element "microcolor" had also become incontestable.⁷¹ The court further held that because Lasting Impression's mark had attained incontestability, Lasting Impression was entitled to a presumption of secondary meaning.⁷² In determining the proper application of the fair use defense, the court held that, unlike in a case of nominative fair use, "when the classic fair use defense is raised, it is still necessary to analyze likelihood of confusion."⁷³ In so holding, the court relied on the previous Ninth Circuit case of *Transgo, Inc. v. Ajac Transmission Parts Corp.*, stating "anyone is free to use a term in its primary, descriptive sense, as long as such use does not result in consumer confusion."⁷⁴ According to the Ninth Circuit, the classic fair use defense "requires that there not be a likelihood of confusion."⁷⁵ Therefore, the district court erred in not addressing likelihood of confusion before considering KP Perma-

66. *Id.*

67. *Id.*

68. *Id.*

69. *Id.*

70. *KP Permanent Make-up, Inc. v. Lasting Impression, Inc.*, 328 F.3d 1061, 1068-69 (9th Cir. 2003) (quoting *Park 'N Fly, Inc. v. Dollar Park & Fly, Inc.* 469 U.S. 189 (1985)).

71. *See id.* at 1068-69.

72. *Id.* at 1071.

73. *Id.* at 1072.

74. *Id.* at 1072 (citing *Transgo, Inc. v. Ajac Transmission Parts Corp.*, 911 F.2d 363, 366 n.2 (9th Cir. 1990)).

75. *Id.* at 1073.

ment's affirmative defense.⁷⁶ The Ninth Circuit reversed the district court's grant of summary judgment, and remanded to the district court for further proceedings in accordance with its opinion.⁷⁷ KP Permanent appealed, and the Supreme Court granted certiorari.⁷⁸

B. The Supreme Court's Decision

On its grant of certiorari, the Supreme Court limited its review to considering "whether a party raising the statutory affirmative defense of fair use to a claim of trademark infringement . . . has a burden to negate any likelihood that the practice complained of will confuse consumers about the origin of the goods or services affected."⁷⁹ The Supreme Court answered this question in the negative, holding unanimously that an accused infringer need not make a showing of the absence of consumer confusion as part of the presentation of a claim of fair use.⁸⁰ As to the relationship between fair use and likelihood of confusion, it recognized the necessary coexistence between the two, but did not decide whether or to what extent proof of likelihood of confusion bars the fair use defense.⁸¹

1. *Alleged Infringer Not Required to Prove Absence of Confusion in Order to Invoke Fair Use Defense*

The Court found that it was "incoheren[t]" to put the burden of proving absence of confusion on KP Permanent.⁸² If Lasting Impression meets its prima facie burden of proving probable confusion, KP Permanent may defend either by contradicting Lasting Impression's evidence of confusion or asserting an affirmative defense barring relief.⁸³ If the defendant had the burden of negating likelihood of confusion as part of the fair use defense, and successfully proved an absence of confusion, the plaintiff's case for infringement would also be negated, and the fair use defense would be superfluous.⁸⁴

76. *Id.*

77. *Id.* at 1073.

78. *KP Permanent Make-Up, Inc. v. Lasting Impression, Inc.*, 540 U.S. 1099 (2004).

79. *KP Permanent Make-up, Inc. v. Lasting Impression I, Inc.*, 543 U.S. 111, 114 (2004). The Court noted that while the Ninth Circuit did not explicitly address the burden of proof on this issue, "it appears to have placed it on KP [Permanent] to show absence of consumer confusion." *Id.*

80. *Id.* at 124.

81. *Id.* at 123-24.

82. *Id.* at 120.

83. *Id.*

84. *Id.*

Recognizing the disagreement among the Circuit Courts, the Supreme Court turned directly to the source—the black letter trademark legislation. Trademark infringement is defined (in part) in the United States Code as a “use in commerce . . . which . . . is likely to cause confusion, or to cause mistake, or to deceive.”⁸⁵ A necessary element of a plaintiff’s trademark infringement claim, then, is some measure of confusion between the plaintiff and defendant’s mark. The statutorily-defined fair use defense functions, according to the court, not as an extension of the definition of infringement but, as a defense to infringement, and therefore also serves to counteract the legal effect of evidence of likelihood of confusion.⁸⁶ The legislature created § 1115(b)(4) as a protection for the good-faith infringer who has been employing an incontestable mark descriptively.⁸⁷ It applies to the use of the “name, term, or device . . . otherwise than as a mark . . . of a term or device which is descriptive of and used fairly and in good faith only to describe the goods or services of such party, or their geographic origin.”⁸⁸ It would be unreasonable, the Court reasoned, to interpret the phrase “used fairly” in § 1115 to mean used in the absence of consumer confusion.⁸⁹ If the legislature had taken great lengths to elucidate probable confusion as the standard of infringement, it would not have been so careless as to tersely apply the phrase “used fairly” in the fair use defense to imply the lack of likelihood of confusion.⁹⁰ Therefore, the Court held that there was no requirement to prove non-confusion as part of the fair use defense.⁹¹

In the instant case, the fair use defense should apply once Lasting Impression has met the *prima facie* threshold of probable confusion.⁹² Therefore, KP Permanent may use the supposedly infringing term likely to cause confusion, if the use is fair, descriptive, and in good faith and is used singly to describe its own goods and services.⁹³

85. 15 U.S.C. § 1114(1)(a) (2000).

86. *See KP Permanent*, 543 U.S. at 119, 121.

87. *See* 15 U.S.C. § 1115(b)(4) (2000).

88. *Id.*

89. *KP Permanent*, 543 U.S. at 118.

90. *Id.*

91. *See id.* at 118.

92. *See id.* at 120.

93. *See* 15 U.S.C. § 1115(b)(4) (2005).

2. *The Coexistence of Likelihood of Confusion and Fair Use*

While the Supreme Court stated that the “mere risk of confusion will not rule out fair use,”⁹⁴ it did not elaborate further on the proper balancing between the two.

The Court noted in their analysis of the structural framework of trademark rights, trademark infringement, and the defenses against infringement, that tension between likelihood of confusion and the fair use defense was inevitable, because to some degree the two elements must necessarily coexist.⁹⁵ A plaintiff’s incontestable trademark creates the presumption that there is conclusive evidence of an exclusive right to use the registered mark in commerce.⁹⁶ Once exclusivity is proven, to assert a claim for trademark infringement in a court of law, a plaintiff must also show likelihood of confusion.⁹⁷ Only at this point, after the presentation of proof of the likelihood of confusion, does it become necessary for an alleged infringer to present the affirmative defense of fair use—therefore, fair use will never arise in a case where the likelihood of confusion is not also an issue.⁹⁸ This conception of fair use and the likelihood of confusion as co-existent is consistent with the Second, Fourth, and Seventh Circuits’ interpretation of the fair use defense, but conflicts with the Fifth, Sixth, and Ninth Circuits’ holdings that probable confusion bars fair use.

3. *Subsequent History*

The Ninth Circuit on remand held that while the degree of customer confusion does not *bar* fair use, it factors in evaluating fair use.⁹⁹ In fact, the Ninth Circuit followed the holding in *Shakespeare* by explicitly stating that “[t]o the degree that confusion is likely, a use is less likely to be found fair.”¹⁰⁰ The court went further to say that because likelihood of confusion is a highly factual matter, “[s]ummary judgment on the defense of fair use is . . . improper.”¹⁰¹

94. *KP Permanent*, 543 U.S. at 123.

95. *Id.*

96. *See* 15 U.S.C. § 1115(b).

97. *See* 15 U.S.C. § 1114(1)(a).

98. *See KP Permanent*, 543 U.S. at 121-22.

99. *KP Permanent Make-Up, Inc. v. Lasting Impression I, Inc.*, 408 F.3d 596, 609 (9th Cir. 2005).

100. *Id.* at 607-08 (quoting *Shakespeare Co. v. Silstar Corp. of Am.*, 110 F.3d 234, 243 (4th Cir. 1997)).

101. *Id.* at 608-09.

III. DISCUSSION

The Court's decision in *KP Permanent* leaves unresolved the ambiguity surrounding the precise contours of the relationship between likelihood of confusion and fair use. As a means of partially alleviating this tension, this Note proposes that the textual elements of marks should be isolated to allow for free expression while respecting the need for trademark protection.

A. The Unresolved Tension Between Likelihood of Confusion and Fair Use

Trademarks are intended to protect the commercial relationship between the producer and consumer.¹⁰² As such, the identity of the source is all-important, and the likelihood of confusion stands as the most obvious boundary line between legitimate and infringing uses. At the same time, the legislature created the classic fair use defense in order to protect the good-faith use of descriptive terms.¹⁰³ Without such a defense, descriptive terms employed in commerce would be removed from the public domain. The English language would be the subject matter of countless lawsuits. Likelihood of confusion is the touchstone of trademark infringement, but in certain circumstances, good faith should trump that confusion and protect an accused infringer from liability.

The Supreme Court was faced with this unresolved tension in *KP Permanent*. But instead of adding clarity to this inherent tension in trademark jurisprudence, the Supreme Court only acknowledged the tension, holding that "some degree" of confusion can coexist with a fair use defense, but not defining that degree.¹⁰⁴ The Supreme Court's decision, therefore, all but forced the Ninth Circuit to hold that "[s]ummary judgment on the defense of fair use is . . . improper," thus unduly burdening a trademark defendant.¹⁰⁵

The fair use defense should be a means of cutting short the length, burden, and cost of trial. Instead, by holding that "[s]ummary judgment on the defense of fair use is . . . improper," the Ninth Circuit forces defendants to choose between a lengthy and costly legal battle or settlement even if their use is fair.¹⁰⁶ While the Supreme Court described the legislative purpose of the Lanham Act's fair use defense, by not clearly ruling

102. See 1 GILSON, *supra* note 2, § 1.03[1].

103. See 15 U.S.C. § 1115(b)(4) (2005).

104. *KP Permanent Make-up, Inc. v. Lasting Impression I, Inc.*, 543 U.S. 111, 123-24 (2004).

105. *KP Permanent*, 408 F.3d at 609.

106. *Id.*

that fair use is an independent and prevailing defense against likelihood of confusion, the holding severely limits the effectiveness of the defense to protect a good-faith user.

The facts of *KP Permanent* would seem to epitomize the ideal case of fair use.¹⁰⁷ Both *KP Permanent* and *Lasting Impression* were competitors in the same market, a situation in which it is important to prevent a junior user from being unjustly enriched based on the goodwill of a competitor.¹⁰⁸ In addition, the term “microcolor” was (according to the district court) classified as descriptive, highlighting the issue of protecting descriptive terms from being permanently removed from the public domain.¹⁰⁹ Finally, *KP Permanent*’s use of the mark prior to *Lasting Impression*’s use of “microcolor” to describe their pigment technology tends to show a good-faith use.¹¹⁰

Yet, the Supreme Court did not delineate what degree of risk of confusion would rule out fair use, let alone indicate whether it thought *KP Permanent* was deserving of the fair use defense. In the absence of the Court’s guidance on this issue, the lower courts are left to negotiate an amorphous test which balances the likelihood of confusion with the good-faith intent of the infringer, likely leading, as before, to a divergent range of lower court rulings.

In the absence of more concrete direction from the Supreme Court regarding to what extent fair use may coexist with likelihood of confusion, trademark law will overly prejudice a defendant claiming fair use. By the time a claim has reached the court, the plaintiff will likely have met the threshold necessary to prove some likelihood of confusion. To only allow a defendant to assert fair use in situations of minimal likelihood of confusion would virtually nullify this defense. Jurisdictions that, before the Supreme Court’s decision in *KP Permanent*, held that the fair use defense was completely barred by evidence of likelihood of confusion will likely adopt a similar pro-plaintiff standard. By not delineating some standard for the balancing of probable confusion and fair use, the Supreme Court effectively condoned a continued split in interpretation, and perpetuated a system of inequitable justice dependant on one’s jurisdiction.

The lack of clarity in this matter also has a dampening effect on commerce. This rule, which in effect extends the protection of descriptive words in commerce, will likely handicap new entrants into existing mar-

107. See 3 GILSON, *supra* note 2, § 11.08(3)(d)(i).

108. *KP Permanent*, 543 U.S. at 114; see 1 GILSON, *supra* note 2, § 1.03[1].

109. *KP Permanent*, 543 U.S. at 115.

110. *Id.* at 114.

kets. As fewer and fewer English words are available for use, businesses, fearful of costly litigation, will opt to choose words less conducive to explaining their products to the public. Instead of furthering the goals of trademark protection by protecting businesses, courts could potentially stunt the growth of the commercial sector.

**B. Separating the Textual Element from the Mark as a Whole:
One Possible Solution to Resolving the Likelihood of
Confusion and Fair Use Dilemma**

Finding a solution to this inherent conflict is no easy task. For the sake of America's economic health and in the spirit of entrepreneurship, the government must endeavor to protect the goodwill capital of businesses. This goal is in direct competition with the public policy of fostering free speech and the right of the public to freely use common descriptive words.

Any line that the Supreme Court could draw between likelihood of confusion and fair use would be transitory at best, considering the ability of the legislative branch to effectuate a statutory solution. Even if the Supreme Court were to hold, for example, that a high likelihood of confusion preempts fair use but a low likelihood of confusion does not, all would not be solved. Such a solution would provide only a vague and unreliable metric and would effectively make fair use a "relative" defense, a result which does not seem to be supported by the statutory definition of fair use.¹¹¹

To solve a complicated problem with an equally complicated solution would be cruel. Any attempt at a meaningful solution to simplify the likelihood of confusion/fair use dilemma should be practical and easy to apply for the sake of providing businesses with a means to make quick judgments with low transaction costs. In seeking a solution for trademark law, it is helpful to examine how other areas of law deal with fair use in a comparable setting. Copyright law, for example, provides one possible solution in its emphasis on separating protectable from non-protectable elements during infringement analysis.¹¹² While the Supreme Court in *KP Permanent* never addressed this matter, both the district court and the Ninth Circuit Court of Appeals built their likelihood of confusion/fair use analysis upon the foundational question of whether the textual element can or cannot be separated from the incontestable mark as a whole.¹¹³ Follow-

111. See 15 U.S.C. § 1115(b)(4) (2005).

112. See 4 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 13.03[B][2] (2005).

113. *KP Permanent Make-up, Inc. v. Lasting Impression I, Inc.*, 328 F.3d 1061, 1068-69 (9th Cir. 2003).

ing this approach, namely delineating the textual element as a non-protectable element of a trademark, may allow circumvention of the potentially much more complex balancing test.

In the copyright context, courts remove the non-protectable elements of a copyrighted work from consideration before proceeding with the infringement analysis and comparing the original work with the allegedly infringing one to determine substantial similarity—the touchstone of copyright infringement.¹¹⁴ Courts then examine both the remaining protectable work as a whole to identify non-literal copying as well as the remaining protectable work in fragmented pieces to identify literal copying.¹¹⁵ Once substantial similarity has been determined, a defendant can argue the affirmative defense of fair use.¹¹⁶ In determining whether a use is fair, courts balance four factors: (1) the purpose and character of the use, (2) the nature of the copyrighted work, (3) the amount and substantiality of copying, and (4) the effect on the potential market for the copyrighted work.¹¹⁷

In *KP Permanent*, the district court considered the issue of protectable and non-protectable matter and analyzed the case based on its finding that the mark's textual element was not protectable.¹¹⁸ The Ninth Circuit reversed based on its own prior decision in *Park 'N Fly v. Dollar Park & Fly*.¹¹⁹ Plaintiff Park 'N Fly operated long-term parking lots near airports in several cities across the United States.¹²⁰ In 1969, plaintiff registered a mark of an airplane accompanied by the phrase "Park 'N Fly."¹²¹ By 1977, their mark became incontestable.¹²² Plaintiff then sued for infringement against defendant, Dollar Park and Fly, who operated an isolated long-term parking service near the airport in Portland, Oregon.¹²³ The district court held for the plaintiff on the grounds that "Park 'N Fly" was not a common descriptive term, nor a generic mark and that the defendant's mark was confusingly similar to the plaintiff's incontestable mark.¹²⁴

114. *See id.*

115. 4 NIMMER, *supra* note 112 § 13.03[A][1][c], [e][2].

116. 17 U.S.C. § 107 (2005); 3 NIMMER, *supra* note 112, §12.04[A][3][f][V].

117. 17 U.S.C. § 107.

118. *KP Permanent*, 328 F.3d at 1066.

119. 718 F.2d 327 (9th Cir. 1983), *rev'd on other grounds*, 469 U.S. 189 (1985).

120. *Id.* at 329.

121. *Id.* Park 'N Fly did not register for a service mark consisting of the phrase until 1977. *Id.*

122. *Id.*

123. *Id.*

124. *Park 'N Fly, Inc. v. Dollar Park & Fly, Inc.*, 1982 U.S. Dist. LEXIS 10039, at *6-*9 (D. Or. Jan. 22, 1982).

On appeal, the Ninth Circuit held that the textual element was the most salient feature of the trademark as a whole, and therefore the textual element itself deserved protection.¹²⁵ With regards to the term “park and fly,” the court reasoned that:

a trademark infringer need not expropriate the entire mark of another to be guilty of an enjoicable offense if the imitation is of the most salient feature of the mark in question.’ Since the words ‘park and fly’ constitute the most salient feature of [the plaintiff’s registered mark], any infringement on [the textual element] would also be an infringement on [the mark as a whole].¹²⁶

On a subsequent grant of certiorari, the Supreme Court, went even further to hold “that the holder of a registered mark may rely on incontestability to enjoin infringement and that such an action may not be defended on the grounds that the mark is merely descriptive.”¹²⁷

Park 'N Fly's Ninth Circuit and Supreme Court holdings are problematic. First, the Ninth Circuit’s reliance on the reasoning in *Carter-Wallace*, holding that the textual element—as the most salient feature of the mark as a whole—should be afforded the same protection as the mark as a whole, creates too strong of a presumption of incontestability for terms that qualify as common descriptive English phrases.¹²⁸ Second, the Supreme Court’s holding that an allegation of infringement of an incontestable mark may not be defended against on the ground of descriptiveness eliminates any possibility of correcting a Patent and Trademark Office registration mistake.¹²⁹

If a potentially descriptive textual element cannot be separated from the incontestable mark, then the presumption of incontestability strongly favors the plaintiff’s claim by effectively automatically accruing secondary meaning to the textual element.¹³⁰ Proponents of the “most salient feature” theory would argue that if the textual element truly is descriptive, the good-faith user should have been using the mark prior to the mark reaching incontestable status and asserted a claim for the mark. This analysis is flawed, however, in that a good-faith user who has the understanding that he or she is using the mark descriptively would not seek to

125. *Park 'N Fly*, 718 F.2d at 331.

126. *Id.* (internal citations omitted) (quoting *Carter Wallace, Inc. v. Proctor & Gamble, Co.*, 434 F.2d 794 (9th Cir. 1970)).

127. *Park 'N Fly, Inc. v. Dollar Park & Fly, Inc.*, 469 U.S. 189, 205 (1985).

128. *See Park 'N Fly*, 718 F.2d at 331.

129. *See Park 'N Fly*, 469 U.S. at 196.

130. *See Park 'N Fly*, 718 F.2d at 331.

assert any claim for his or her descriptive use. Rather, the mark holder, as the one in the best position to defend his or her rights, should be prevented from bringing an infringement suit, if he or she fails to take timely action against a secondary user of the mark.

The Supreme Court's absolute threshold of incontestability in *Park 'N Fly* unfairly favors the plaintiff. While incontestability should create a presumption of ownership and validity, holding the incontestable standard too high keeps a defendant from any meaningful avenue of redress. Just as in the patent system, where a defendant may try to invalidate the plaintiff's patent, a defendant in a trademark dispute needs a valid way of appealing what he or she considers a wrongful grant of registration.¹³¹ By acknowledging descriptiveness as a defense against incontestability, the Patent and Trademark Office recognizes that in the process of efficient and important work it sometimes makes mistakes. A registered mark might not have the secondary meaning it is purported to have.

KP Permanent's use of the textual element predating the registration of the mark should cast particular doubt on the true incontestability of the mark. This doubt in turn should weaken the strongly held presumption of Lasting Impression's absolute ownership. In *Park 'N Fly*, defendant Dollar Park and Fly claimed to have priority over Park 'N Fly in their use of the similar term through privity with a Seattle corporation sharing common ownership.¹³² Because the district court found no privity between the two companies, it did not address in what way prior usage affected incontestability.¹³³ Even if the Supreme Court were to hold that incontestability creates a virtually insurmountable threshold for an exclusive right to use, the Court should specifically consider the situation of prior usage. Prior use highlights the good-faith nature of the fair use infringer. Prior use also decreases the likelihood that the plaintiff's mark has accrued secondary meaning in the mark's textual element. By separating the textual element from the mark as a whole, the courts can still protect the overall look and feel of the registered mark, protecting the plaintiff's reliance in the validity of his or her mark while strengthening protection of the good-faith infringer.

The public policy of free speech supports the strengthening of the fair use defense by separately analyzing the textual element and the mark as a whole. Proponents of free speech have little interest in the mark as a whole since use of the mark itself is not necessary to ensure uninhibited expres-

131. 4 DONALD S. CHISUM, CHISUM ON PATENTS § 11.07(4) (2006).

132. *Park 'N Fly*, 469 U.S. at 192.

133. *Id.*

sion. But a textual element, if truly descriptive, should be maintained in the public domain. Hence, automatically lumping the text with the mark as a whole and granting the textual element incontestable status robs the public of the right to use common English words.

Some might argue that a defendant may use a descriptive term that is a textual element in a plaintiff's trademark if there is no other way for the defendant to describe his or her product. This argument does not resolve the issue of the court-endorsed removal of English verbiage from the public domain into an individual user's intellectual property portfolio. Since whether a textual element has secondary meaning or is merely descriptive is a matter of fact and not of law, a trier of fact ought to decide whether the textual element is descriptive. The district courts should therefore be given more discretion in this matter. The district court in *KP Permanent* did just this analysis, and held that "microcolor" was indeed descriptive.¹³⁴

The Supreme Court in *KP Permanent* did not address the Ninth Circuit's "most salient feature" argument.¹³⁵ By simply reversing the holding that the textual element is the most salient feature of a trademark as a whole, the Court could have strengthened the fair use defense without lowering the high likelihood of confusion threshold. The likelihood of confusion threshold can still be maintained in considering a mark as a whole. But by separately analyzing the textual element, a truly descriptive textual element is not as likely to confuse within its particular context as decided by a trier of fact.

IV. CONCLUSION

The Supreme Court's ruling clarifies the burden of proof for likelihood of confusion stating that the defendant does not have to prove absence of confusion.¹³⁶ This ruling, in a small way, protects the good-faith user from the highly insurmountable task of negating probable confusion, the element already shown by the plaintiff in his or her claim of infringement.¹³⁷ Despite the utility and benefits this clarification provides for trademark defendants, the ruling's narrow scope leaves open the question of the proper balance between likelihood of confusion and fair use. Lower

134. *KP Permanent Make-up, Inc. v. Lasting Impression I, Inc.*, 328 F.3d 1061, 1065 (9th Cir. 2003).

135. *See KP Permanent Make-up, Inc. v. Lasting Impression I, Inc.*, 543 U.S. 111, 123-24 (2004).

136. *Id.* at 124.

137. *See id.*

courts, offered little guidance, will continue in their split of interpretation of this essential feature of trademark infringement cases.

A ruling by the Supreme Court in favor of separating the textual element from the mark as a whole would have counterbalanced the strong judicial presumption against defendants by allowing defendants the legitimate use of descriptive terms contained within marks having incontestable standing. It would have protected the free use of English words without lowering the likelihood of confusion protection. The separation of the textual element from the mark as a whole would have delicately negotiated a practical resolution between the competing policy interests of protecting commercial goodwill and ensuring the free use of descriptive words for future generations.

LAMPARELLO V. FALWELL & BOSLEY MEDICAL V. KREMER: UNDERCUTTING THE APPLICABILITY OF INITIAL INTEREST CONFUSION TO TRADEMARK-IN-DOMAIN-NAME GRIPE SITES

By Yas Raouf

The availability of web space and the ease with which casual websites can be maintained have transformed the internet into a forum for personal expression where blogs¹ track writers' lives and gripe sites² host rants by dissatisfied customers. The proliferation of same-name gripe sites³ in particular has spawned litigation at the cross section of free speech and trademark rights. While courts have already resolved the fate of gripe sites charged with cybersquatting⁴ by carving out a safe harbor⁵ under the Anti-cybersquatting Consumer Protection Act (ACPA),⁶ the way in which infringement analysis treats such sites is only recently beginning to solidify.

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1. "A blog is a website for which an individual or a group frequently generates text, photographs, video or audio files, and/or links, typically (but not always) on a daily basis. The term is a shortened form of weblog. Authoring a blog, maintaining a blog or adding an article to an existing blog is called 'blogging.' Individual articles on a blog are called 'blog posts,' 'posts,' or 'entries.' The person who posts these entries is called a 'blogger.'" Blog, WIKIPEDIA: THE FREE ENCYCLOPEDIA, <http://en.wikipedia.org/wiki/Blog> (last visited Jan. 26, 2006).

2. A gripe site is a "website at the domain criticizing the mark owner and airing his dissatisfaction with the mark owner's business practices. In contrast to the squatter, the cybergriper's aim is to disparage the mark owner's business, rather than to profit from the domain name or website." Ryan J. Gilfoil, Note, *A Judicial Safe Harbor Under the Anti-Cybersquatting Consumer Protection Act*, 20 BERKELEY TECH. L.J. 185, 185 (2005).

3. *Id.* at 193 ("Same-name griping consists of setting up a complaint site at a domain name identical or confusingly similar to the mark, such as <mayflower-vanline.com> where the service mark is MAYFLOWER and the mark owner is a moving company."). These marks are to be distinguished from pejorative-suffix gripe sites with domain names like <microsoftsucks.com>.

4. "Cybersquatting" is the registering of a trademark as a domain name and offering for sale at extortionate prices to the mark owner. Cybersquatting: What It Is and What Can Be Done About It, <http://www.nolo.com/article.cfm/objectID/60EC3491-B4B5-4A98-BB6E6632A2FA0CB2/111/228/195/ART/> (last visited Jan. 26, 2006).

5. See generally Gilfoil, *supra* note 2.

6. Developed in response to questionable use of the Federal Trademark Dilution Act (FTDA) to pursue cybersquatting, the Anticybersquatting Consumer Protection Act imposes liability on a person only if he, "with a bad faith intent to profit from" a distinctive or famous mark, "registers, traffics in, or uses a domain-name" that is "identical or

In 2005, the Fourth and Ninth Circuits issued decisions in *Lamparello v. Falwell*⁷ and *Bosley Medical Institute, Inc. v. Kremer*⁸ clarifying the contours of commercial use and likelihood of confusion in cases where domain names employ trademarks in an allegedly infringing way. Both cases center on cybergrippers who launched same-name gripe sites about well-known commercial entities.⁹ Although not done explicitly, the courts advanced decisions that, in concert with one another, ultimately undercut both the applicability of initial interest confusion doctrine and courts' past willingness to view domain names as commercial uses under the Lanham Act. This disavowal of the outdated doctrine is appropriate in light of increased internet-user savvy and the negligible cost of internet navigation, and indicates an important shift in judicial analysis of trademark-in-domain-name cases.

Part I provides a brief primer on trademark infringement, and tracks the evolution of initial interest confusion and the accompanying willingness of courts to find that trademarks in domain names constitute a commercial use of that trademark. Part II of this Note reviews the decisions in *Falwell* and *Bosley* while Part III examines the impact of these cases on the applicability of initial interest confusion in future trademark cases and concludes that this shift in analysis is appropriate.

I. LEGAL PRIMER ON TRADEMARK INFRINGEMENT AND INITIAL INTEREST CONFUSION

While trademark law provides remedies for three types of illicit mark use—infringement under the Lanham Act,¹⁰ dilution under the Federal Trademark Dilution Act (FTDA),¹¹ and cybersquatting under the ACPA¹²—this Note deals almost exclusively with infringement. This Part outlines the statutory basis for infringement, the history of initial interest

confusingly similar to" the mark. Pub. L. No. 106-113, § 3002 (1999) (codified at 15 U.S.C. § 1125(d)(1)(B)(i)-(ix) (2005)).

7. 420 F.3d 309 (4th Cir. 2005).

8. 403 F.3d 672 (9th Cir. 2005).

9. "Reverend Falwell is a 'nationally known minister who has been active as a commentator on politics and public affairs Jerry Falwell Ministries can be found online at 'www.falwell.com,' a website which receives 9,000 hits (or visits) per day." *Falwell*, 420 F.3d at 311. "Bosley Medical provides surgical hair transplantation, restoration, and replacement services to the public." *Bosley*, 403 F.3d at 674.

10. Pub. L. No. 79-489, § 43(a) (1946) (codified at 15 U.S.C. § 1125(a) (2000)).

11. Pub. L. No. 104-98, § 3 (1996) (codified at 15 U.S.C. § 1125(c) (2000)).

12. Pub. L. No. 106-113, § 3002 (1999) (codified at 15 U.S.C. § 1125(d) (2000)).

confusion, and the application of the commerciality requirement for infringement in trademark-in-domain-name cases.

A. Defining Trademark and Infringement Under the Lanham Act

The Lanham Act defines a “trademark” as

any word, name, symbol, or device, or any combination thereof . . . used by a person, or . . . which a person has a bona fide intention to use in commerce . . . to identify and distinguish his or her goods, including a unique product, from those manufactured or sold by others and to indicate the source of the goods, even if that source is unknown.¹³

The Lanham Act prohibits infringement of such marks, defined as any unauthorized use of a mark

on or in connection with any goods or services . . . likely to cause confusion, or to cause mistake, or to deceive as to the affiliation, connection, or association of [the mark user] with another person, or as to the origin, sponsorship, or approval of [the mark user’s] goods, services, or commercial activities by another person.¹⁴

The purpose of restricting the use of trademarks is twofold:¹⁵ by protecting product identification, trademark law provides consumers with information useful in making purchase decisions, and encourages producers to provide quality products and services in order to grow customer goodwill.¹⁶

Drawing from the Lanham Act, there are two basic requirements for a finding of infringement: (1) the trademark is used commercially or in connection with the sale of goods or services and (2) there exists a likelihood of confusion.¹⁷ Whether a potentially infringing mark creates a likelihood of confusion in consumers as to the source of the product is determined by application of a multifactor test. While exact factors vary between federal

13. 15 U.S.C. § 1127 (2000).

14. 15 U.S.C. § 1125(a)(1)(A).

15. *Qualitex Co. v. Jacobson Prods. Co.*, 514 U.S. 159, 163-64 (1995).

16. “Goodwill” can mean “a consumer’s aggregated positive feelings towards the trademark owner’s products that may facilitate subsequent transactions with the trademark owner.” Eric Goldman, *Deregulating Relevancy In Internet Law*, 54 EMORY L.J. 507, 558 (2005).

17. This Note discusses the commerciality requirement in further detail in Section I.C.

circuits, the following set of factors from the *Restatement (Third) of Unfair Competition* is roughly standard:

- (a) the degree of similarity between the respective designations . . . ;
- (b) the degree of similarity in the marketing methods and channels of distribution used for the respective goods or services;
- (c) the characteristics of the prospective purchasers of the goods or services and the degree of care they are likely to exercise in making purchasing decisions;
- (d) the degree of distinctiveness of the other's designation;
- (e) when the goods, services, or business of the actor differ in kind from those of the other, the likelihood that the actor's prospective purchasers would expect a person in the position of the other to expand its marketing or sponsorship into the product, service, or business market of the actor;
- (f) when the actor and the other sell their goods or services or carry on their businesses in different geographic markets, the extent to which the other's designation is identified with the other in the geographic market of the actor.¹⁸

B. The History of Initial Interest Confusion

Though the Lanham Act conditions infringement on likelihood of confusion, a triad of cases gives rise to the doctrine of initial interest confusion,¹⁹ a distinct rule which allows a finding of infringement without application of the multifactor tests.²⁰ The following Section tracks the history of initial interest confusion and illustrates the courts' willingness to find that using a trademark in a domain name is a commercial use.

1. *Grotrian, Helfferich, Schulz, Th. Steinweg Nachf v. Steinway & Sons*

In the first case to introduce initial interest confusion, Steinway & Sons threatened to sue the German company Steinweg for infringement

18. RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 21 (1995). According to the Restatement, while all eight factors are to be considered in determining likelihood of confusion, "no mechanistic formula or list can set forth in advance the variety of elements that comprise the market context from which likelihood of confusion must be determined." *Id.* This test is similar to the seminal tests used by the Second Circuit in *Polaroid Corp. v. Polarad Elecs. Corp.*, 287 F.2d 492, 495 (2d Cir. 1961) and the Ninth Circuit in *AMF Inc. v. Sleekcraft*, 599 F.2d 341, 348-49 (9th Cir. 1979).

19. Jennifer E. Rothman, *Initial Interest Confusion: Standing at the Crossroads of Trademark Law*, 27 CARDOZO L. REV. 105, 114-21 (2005).

20. See *supra* note 18 and accompanying text.

when Steinweg began selling pianos under the “Grotrian-Steinweg” mark in the United States.²¹ The court ultimately decided that, even though any confusion as to the source of the piano would dissipate before the point of sale, the “Grotrian-Steinweg” mark would attract potential customers who, through a subliminal positive association with the mark “Steinway,”²² would give Grotrian-Steinweg credibility for its seeming affiliation with Steinway.²³ The court deemed this projection or transference²⁴ of credibility harmful, termed it “initial confusion,” and held Grotrian liable for trademark infringement.²⁵

2. *Mobile Oil Corp. v. Pegasus Petroleum Corp.*

The Second Circuit reified initial interest confusion as a problem of credibility transference when it found Pegasus Petroleum liable for trademark infringement under circumstances similar to those in *Grotrian*.²⁶ Upon founding of the company Pegasus Petroleum, Greg Callimanopulos sent letters to between 400 and 500 oil traders announcing it as part of the “Callimanopulos groups of companies.”²⁷ Pegasus Petroleum adopted as its symbol a pair of interlocking “P”s, distinct from Mobil Oil’s flying horse trademark.²⁸ The court held that the use of the name “Pegasus Petroleum” infringed Mobile Oil’s flying horse trademark because “Pegasus Petroleum would gain crucial credibility during the initial phases of a deal. For example, an oil trader might listen to a cold phone call from Pegasus

21. *Grotrian, Helfferich, Schulz, Th. Steinweg Nachf v. Steinway & Sons*, 523 F.2d 1331, 1333-35 (2d Cir. 1975).

22. In fact, Grotrian-Steinweg was connected to Steinway & Sons. Heinrich E. Steinweg began selling pianos in Germany under the name “Steinweg.” *Id.* at 1333. When he immigrated to the United States in 1850, he changed his name to Steinway and began selling pianos under the mark “Steinway & Sons.” *Id.* Heinrich’s oldest son remained in Germany for some time operating Steinweg until he sold the business in order to join his father and Steinway & Sons in the United States. *Id.* at 1334. As part of the sale of Steinweg, Heinrich’s son granted his successors the right to use the name “Steinweg.” Steinweg ultimately changed its name to “Grotrian, Helfferich, Schulz, Th. Steinweg Nachf.” *Id.*

23. *Id.* at 1342.

24. Goldman, *supra* note 16, at 559-60 (“[P]otential piano purchasers might transfer their good sentiments towards Steinway pianos to the benefit of Steinway’s competitor. Thus, if piano purchasers considered Steinway a credible choice based on their past interactions with the brand, Grotrian-Steinweg might also be considered a credible choice if the purchasers viewed the two competitors as related.”).

25. *Id.*

26. *Mobile Oil Corp. v. Pegasus Petroleum Corp.*, 818 F.2d 254, 260 (2d Cir. 1987).

27. *Id.* at 256.

28. *Id.*

Petroleum . . . when otherwise he might not, because of the possibility that Pegasus Petroleum is related to Mobil.”²⁹

3. *Brookfield Communications, Inc. v. West Coast Entertainment Corp.*

Departing from the Second Circuit’s focus on perceived sponsorship of goods for initial interest confusion, the Ninth Circuit in *Brookfield* redefined initial interest confusion as solving a problem of diversion. The plaintiff in *Brookfield* created MovieBuff, a software suite including searchable databases of movie credits, box office receipts, film development and release schedules, entertainment news, and contact lists of industry professionals.³⁰ Plaintiff sold the product and provided a searchable online database for its subscribers at the sites, <moviebuffonline.com> and <brookfieldcomm.com>.³¹ Defendant West Coast Entertainment Corporation—one of the nation’s largest video rental chains—also offered a searchable database at <westcoastvideo.com>, although its database aimed to help customers find movies to rent.³² Because West Coast used the term “moviebuff”³³ in the keyword and description metatags³⁴ for its site, some search engines returned the <westcoastvideo.com> link as a result for a search query on the term “moviebuff.”³⁵ Although the court conceded that consumers were never likely to be *confused*, it held West Coast had infringed Brookfield’s “Moviebuff” mark because consumers might be diverted to West Coast’s site and be satisfied with West Coast’s free database; Brookfield would thus lose potential customers and so suffer a financial detriment.³⁶ In other words, where *Grotrian* and *Mobil Oil* defined initial interest confusion as requiring actual consumer confusion—albeit confusion that dissipated before the point-of-sale—*Brookfield* cut likelihood of confusion entirely out of its infringement analysis.³⁷ According to *Brookfield*, then, any use of a mark that simply distracts or diverts a poten-

29. *Id.* at 259.

30. *Brookfield Commc’ns, Inc. v. W. Coast Entm’t Corp.*, 174 F.3d 1036, 1041 (9th Cir. 1999).

31. *Id.* at 1042.

32. *Id.* at 1042-43.

33. West Coast claimed it used the metatag “moviebuff” because its slogan was, “The Movie Buff’s Movie Store.” *Id.* at 1042.

34. “Meta tags are HTML elements used to provide structured metadata about a webpage. Such elements are placed as tags in the head section of an HTML document.” Meta tags, WIKIPEDIA: THE FREE ENCYCLOPEDIA, <http://en.wikipedia.org/wiki/Metatags> (last visited Feb. 17, 2006).

35. *Brookfield*, 174 F.3d at 1064.

36. *Id.* at 1062-64.

37. *See id.*

tial customer by presenting a similar but clearly distinct choice of product or producer should, in total disregard of the cornerstone of infringement analysis, be pronounced an infringement.³⁸

The evolution of initial interest confusion can be summarized as defining initial interest confusion first as confusion that occurs prior to the point of sale, and then initial interest regardless of any likely confusion.³⁹ While one may argue that initial interest confusion, especially in its latter incarnation, increases the likelihood of infringement findings,⁴⁰ the doctrine still requires the commercial requirement of any infringement or dilution claim to be met. Unfortunately for cybergrippers, courts have been quick to see this commercial threshold cleared in trademark-in-domain-name cases.

C. Trademarks in Domain Names as a Commercial Use

To the extent that mark owners bringing suits against cybergrippers usually claim confusion under both infringement and dilution⁴¹ theories,

38. "Although there is no source confusion in the sense that consumers know they are patronizing West Coast rather than Brookfield, there is nevertheless initial interest confusion in the sense that, by using 'moviebuff.com' or 'MovieBuff' to divert people looking for 'MovieBuff' to its website, West Coast improperly benefits from the goodwill that Brookfield developed in its mark. Recently in *Dr. Seuss*, we explicitly recognized that the use of another's trademark in a manner calculated 'to capture initial consumer attention, even though no actual sale is finally completed as a result of the confusion, may be still an infringement.'" *Id.* at 1062.

39. Rothman argues that while allowing trademark infringement actions on the basis of confusion occurring prior to the time of sale is sometimes justifiable under the Lanham Act and the principles behind trademark law; however, allowing a finding of trademark infringement when there is no likely confusion has no basis in the law or policies that support trademark protection. . . . Allowing trademark infringement or unfair competition actions in such circumstances violates the plain language of the Lanham Act, contravenes the goals and logic behind protecting trademarks, harms free and fair competition, limits public information and consumer choices, and violates the First Amendment.

Rothman, *supra* note 19, at 121-22.

40. Rothman explains that because (1) initial interest confusion has been used as a test separate and apart from traditional likelihood of confusion analysis, and (2) discount the sophistication of purchasers, and (3) count initial interest confusion as evidence of actual confusion, courts are more likely to find infringement under the doctrine. Rothman, *supra* note 19, at 141-45.

41. Though aspects of dilution other than its commercial requirement are not central to the thesis of this Note, a brief and general description follows: Under the FTDA, courts can enjoin any commercial use of a mark in commerce that dilutes the distinctiveness of another, famous trademark. 15 U.S.C. § 1125(c) (2000). In determining a mark's fame, courts may consider any number of factors, including but not limited to duration and ex-

courts have sometimes treated two distinct commercial references in the Lanham Act as interchangeable and have thus found unauthorized mark use by cybergrippers to be commercial—and therefore infringing—even when any commercial presence on the site in question is trivial.⁴² The first reference is “use in commerce”—a jurisdictional element under § 1114(1)(a) and § 1125(a) of the Lanham Act that simply creates a federal cause of action for trademark violations.⁴³ The second reference is the “noncommercial use” exception to the FTDA under § 1125(c)(4)(B), which is meant to further the function of the First Amendment commercial expression doctrine and protect “parody, satire, editorial, and other forms of expression that are not part of a commercial transaction.”⁴⁴ Though the Supreme Court has defined “commercial expression” as that “which does no more than propose a commercial transaction,”⁴⁵ there is no bright line between commercial and noncommercial expression.⁴⁶ First Amendment doctrine protects those commercial expressions that contain a communicative message even if the primary expression is meant to make a profit.⁴⁷ In applying the noncommercial use exception under § 1124(c)(4)(B), it is difficult to determine whether the First Amendment protects unauthorized mark use in expression that can neither be characterized as strictly commercial nor strictly communicative.⁴⁸

Courts have rolled what should be two distinct commercial analyses—whether a use is commercial with respect to federal trademark jurisdiction and whether said use is an immune noncommercial exception to the FTDA—into one and equated jurisdictional commerciality with commerciality under § 1125(c)(4)(b) without considering whether the use contains a communicative message. As a result of this conflation, courts have come

tent of use of the mark; degree of inherent or acquired distinctiveness of the mark; degree of recognition of mark; and the use of the mark by third parties. *Id.* § 1125(c)(4)(A)-(H). Claimants under the FTDA need not prove likelihood of confusion or competition or relation between the goods or services of the plaintiff and defendant, but must show either blurring or tarnishment. The Act explicitly lists three categories of use as nonactionable: fair use of a famous mark by someone other than the owner in comparative advertising or in identifying competing goods or services; noncommercial use; and all forms of news and reporting. *Id.* § 1125(c)(4)(A).

42. Blossom Lefcourt, *The Prosecution of Cybergrippers Under the Lanham Act*, 3 CARDOZO PUB. L. POL’Y & ETHICS J. 269, 274 (2004).

43. *Id.* at 293-94.

44. *Id.* at 294 (citing 141 CONG. REC. S19310 (daily ed. Dec. 29, 1995) (statement of Sen. Orrin Hatch)).

45. *Id.* (citing *Bolger v. Youngs Drug Prod. Co.*, 463 U.S. 60, 67 (1983)).

46. *Id.*

47. *Id.*

48. *Id.*

to hold unauthorized mark use by cybergrippers to be commercial, and therefore infringing, even when any commercial presence on the site in question is trivial.⁴⁹

1. *PETA, Inc. v. Doughney*

While a string of cases illustrates this judicial tendency,⁵⁰ *PETA, Inc. v. Doughney*⁵¹ is emblematic of the way courts have analyzed trademark-in-domain-name cases with respect to both the commercial requirements of federal trademark law and initial interest confusion and so warrants the focus of this Note, especially as it was decided by the same court that decided *Falwell*.

The issue at bar in *PETA* was defendant Doughney's registration of the domain name <peta.org>.⁵² Intended to parody the organization People for the Ethical Treatment of Animals, Doughney's site signaled that its content was not affiliated with or sponsored by PETA.⁵³ Seeking only enjoinder of use of the domain name, PETA sued Doughney for infringement, unfair competition, dilution, and cybersquatting.⁵⁴ Though Doughney responded by claiming his website was a constitutionally protected parody of PETA, the district court granted PETA's motion for summary judgment.⁵⁵

The Fourth Circuit affirmed the district court's finding, citing Doughney's concession that his use was "in commerce"⁵⁶ under § 1125(a) and,

49. A plaintiff must establish five elements in order to prove infringement under § 1114 and § 1125(a):

(1) that Plaintiff possess the mark; (2) that Defendant uses the Plaintiff's mark; (3) that such use occurs in commerce; (4) in connection with the sale or offering for sale, distribution, or advertising of goods or services; and (5) in a way that is likely to cause confusion among consumers.

PETA, Inc. v. Doughney, 113 F. Supp. 2d 915, 919 (E.D. Va. 2002).

50. See, e.g., *Jews For Jesus v. Brodsky*, 993 F. Supp. 282 (D.N.J. 1998); *Planned Parenthood Fed'n of Am. v. Bucci*, 42 U.S.P.Q.2d 1430 (S.D.N.Y. 1997).

51. 263 F.3d 359 (4th Cir. 2001).

52. *Id.* at 362.

53. Doughney's site included: the title "People Eating Tasty Animals"; a statement that the site was a "resource for those who enjoy eating meat, wearing fur and leather, hunting, and the fruits of scientific research"; links to meat, fur, leather, hunting, and animal research organizations holding views directly opposing PETA's; and a second statement reading, "Feeling lost? Offended? Perhaps you should, like, exit immediately" where the phrase "exit immediately" was hyperlinked to PETA's official website. *Id.* at 363.

54. *Id.* at 363.

55. *Id.* at 363-64.

56. *Id.* at 365.

relying on *Planned Parenthood*,⁵⁷ classified his use as “in connection” with the sale of goods as required for service or trademark infringement and unfair competition under § 1114.⁵⁸ According to the court, Doughney needed not actually sell or advertise any good or service directly on his site for his use to constitute a use “in connection with the sale of goods”—he needed only to have “prevented other users from obtaining or using PETA’s goods or services” or “connected [his] website to other’s [sic] goods or services.”⁵⁹ That is, Doughney’s site wreaked sufficient harm on PETA because prospective users of PETA’s site who mistakenly access Doughney’s may not continue to search for PETA’s page out of anger, frustration, misdirection to other commercial websites through Doughney’s links, or the belief that PETA’s page does not exist.⁶⁰

With the threshold requirement of commerciality satisfied, the court moved into an analysis of the likelihood of confusion Doughney’s use created. With respect to Doughney’s parody claim, the court defined parody as a work conveying two simultaneous-but-contradictory messages: that it

57. *Id.* at 365-66.

[In *Planned Parenthood*,] the court ruled that the defendant used the plaintiff’s mark “in connection with” the distribution of services “because it is likely to prevent some Internet users from reaching plaintiff’s own Internet web site. Prospective users of plaintiff’s services who mistakenly access defendant’s web site may fail to continue to search for plaintiff’s own home page, due to anger, frustration, or the belief that plaintiff’s home page does not exist.” The same reasoning applies [in *PETA*] because Doughney’s use of PETA’s mark is “likely to prevent Internet users from reaching [PETA’s] own Internet web site. The prospective users of [PETA’s] services who mistakenly access Defendant’s web site may fail to continue to search for [PETA’s] own home page, due to anger, frustration, or the belief that [PETA’s] home page does not exist.”

Id. (citing *Planned Parenthood Fed’n of Am. v. Bucci*, 42 U.S.P.Q.2d 1430 (S.D.N.Y. 1997)).

58. To make out a case for service or trade mark infringement and/or unfair competition, a Plaintiff must prove the following elements: (1) that Plaintiff possesses a Mark; (2) that Defendant uses the Plaintiff’s Mark; (3) that such use occurs in commerce; (4) in connection with the sale or offering for sale, distribution, or advertising of goods or services; and (5) in a way that is likely to cause confusion among consumers. *Id.* at 364 (citing 15 U.S.C. §§ 1114, 1125(a)).

59. *Id.* at 365 (citing *Planned Parenthood*, 42 U.S.P.Q.2d at 1435 which found the plaintiff liable for creating <www.plannedparenthood.com> as a parody website containing information antithetical to plaintiff’s views because “prospective users of plaintiff’s services who mistakenly access defendant’s web site may fail to continue to search for plaintiff’s own home page, due to anger, frustration, or the belief that plaintiff’s home page does not exist”).

60. *Id.* at 366.

is the original, and that it is not.⁶¹ Though the court subscribed to the rule that likelihood of confusion must be determined by considering the potentially infringing use in its entirety, the court disregarded the content of Doughney's site, explaining that the domain name conveyed one message—that the site was affiliated with or sponsored by PETA.⁶² The court then added that because the content of the site conveyed a second message—that the site was not affiliated with or sponsored by PETA—and because that second message was conveyed only when a viewer read the site's content, seeing or typing the domain name and accessing the web site constitute “two separate and nonsimultaneous activities.”⁶³ As such, there was no parody by confusion—only confusion as to the sponsorship of the site.⁶⁴

II. CASE SUMMARIES: *LAMPARELLO V. FALWELL* AND *BOSLEY V. KREMER*

Although courts to date have been willing to find the use of trademarks in domain names commercial under the Lanham Act and have applied initial interest analysis, albeit sometimes informally, to render that use infringement, *Falwell* and *Bosley* combine to undermine both the commercial and confusion prongs of that approach. The following Sections summarize the facts and disposition of both cases.

A. *Lamparello v. Falwell*

1. *Facts and Procedural History*

Lamparello registered the website <fallwell.com> after Reverend Jerry Falwell made comments about homosexuals during an interview which Lamparello found offensive.⁶⁵ The site, which contains in-depth criticisms of Falwell's views on homosexuality, explicitly warns viewers that the site is not affiliated with Jerry Falwell's ministry.⁶⁶ Though Falwell contended neither that Lamparello sold goods or services on his website⁶⁷ nor that

61. *Id.*

62. *Anheuser-Busch, Inc. v. L&L Wings, Inc.*, 962 F.2d 316, 318 (4th Cir. 1992) (citing 2 J. MCCARTHY, TRADEMARKS AND UNFAIR COMPETITION § 23:28 (2d ed. 1984)).

63. *PETA*, 263 F.3d at 367 (citing *Planned Parenthood*, 42 U.S.P.Q.2d at 1435).

64. *Id.* at 366-67.

65. *Lamparello v. Falwell*, 420 F.3d 309, 311 (4th Cir. 2005).

66. The disclaimer reads “If you would like to visit Rev. Falwell's website, you may click here”; where “here” is hyperlinked to Reverend Falwell's official website. *Id.*

67. The parties agree that Lamparello did not sell goods or services on his gripe site <www.fallwell.com>, though at one point the site included a link to the <Amazon.com> webpage for a book offering Bible interpretations Lamparello endorsed. *Id.*

Lamparello's site reduced the number of visits to his official site at <falwell.com>, Falwell sent Lamparello letters asking him to cease and desist using "fallwell" or any other variation on the Reverend's name as a domain name.⁶⁸ Lamparello sought declaratory judgment of noninfringement, while the Reverend filed counter claims of trademark infringement, false designation of origin, unfair competition, and cybersquatting.⁶⁹ The parties filed cross-motions for summary judgment.⁷⁰ The district court enjoined Lamparello from using Falwell's mark, required Lamparello to transfer the domain name to Falwell, and denied Falwell's request for statutory damages or attorney fees.⁷¹ Both Lamparello and Falwell appealed.⁷²

2. *The Fourth Circuit's Opinion*

The Fourth Circuit held that Lamparello's use of the mark caused no likelihood of confusion.⁷³ The court declined to resolve the question of what constitutes commercial speech and avoided determining whether the infringement and false designation of origin sections of the Lanham Act apply exclusively to commercial speech since Falwell's claims of trademark infringement failed regardless of these inquiries.⁷⁴

The Fourth Circuit applied a multifactor likelihood of confusion test comprised of the following seven factors, which need not all be considered or equally weighed: the strength or distinctiveness of the mark; the similarity of the marks; the similarity of the goods or services identified by the

68. *Id.*

69. As with *Bosley*, at issue in this case is Reverend Falwell's cybersquatting claim under the ACPA. While the court's disposition on this matter is not entirely necessary to the thrust of this Note, it is noteworthy. Cybersquatting requires proof that the defendant (1) had a bad-faith intent to profit from using the domain name, and (2) the domain name is identical or confusingly similar to or dilutive of the distinctive and famous mark. 15 U.S.C. § 1125(d)(1)(A) (2000). Although the ACPA was enacted to prevent cybersquatters from registering domain names in order to sell them to legitimate owners of the mark, to prevent auctioning of domain names, defrauding customers, or diverting customers from the mark-owner's site to the cybersquatter's own site, the ACPA counsels that comment and criticism constitute a "bona fide noncommercial or fair use." 15 U.S.C. § 1125(d)(1)(B)(i)(IV). Falwell could not demonstrate that Lamparello had a bad-faith intent to profit from use of the <www.falwell.com> domain name, as Lamparello clearly used the site only to criticize the Reverend's views. As such, Lamparello was entitled to summary judgment, and the judgment of the district court was reversed. *Falwell*, 420 F.3d at 321-22.

70. *Id.* at 312.

71. *Id.*

72. *Id.*

73. *Id.* at 314.

74. *Id.* at 312-13; see also 15 U.S.C. §§ 1114(1), 1125(a)(1)(A).

marks; the similarity of the facilities the two parties used in their businesses; the similarity of the advertising used by the parties; the defendant's intent; and actual confusion.⁷⁵

Applying this test, the Fourth Circuit held that there was no likelihood of confusion because no one would believe that Falwell had sponsored a site criticizing himself. Though Lamparello used a domain name similar to Falwell's distinctive mark, the Fourth Circuit noted that the parties' sites looked nothing alike.⁷⁶ Lamparello did not sell goods or services on his site, and so, did not attempt to divert the Reverend's customers.⁷⁷ Lamparello's site simply offered views opposing Jerry Falwell's.

The court also explained that Falwell was necessarily unsuccessful under initial interest confusion, which forbids a competitor from luring potential customers away from a producer by "initially passing off its goods as those of the producer's, even if confusion as to the source of the goods is dispelled by the time any sales are consummated."⁷⁸ The Fourth Circuit specified that it has never adopted initial interest confusion and that it evaluates likelihood of confusion by studying the use of the mark in the context in which it is seen by the ordinary customer—not by comparing similar marks outside of their contexts, or, in this case, looking at domain names apart from their underlying content.⁷⁹ Even if the court were to adopt the initial interest confusion doctrine, Lamparello would be found free of liability because his use of Falwell's mark was not for business or financial gain; gripe sites do not equal an effort by an unauthorized mark-user to "capture the markholder's customers and profits."⁸⁰ Because the district court failed to consider the allegedly infringing domain name and the underlying content of Lamparello's website, the Fourth Circuit reversed the district court holding and granted summary judgment in favor of Lamparello.

B. *Bosley Medical Institute, Inc. v. Michael Kremer*

1. Facts and Procedural History

Dissatisfied with the hair replacement procedure performed by a Bosley Medical ("Bosley") physician, defendant Michael Kremer launched two gripe sites: <BosleyMedical.com> and <BosleyMedicalVio-

75. *Falwell*, 420 F.3d at 314-15.

76. *Id.* at 315.

77. *Id.*

78. *Id.* at 316.

79. *Id.*

80. *Id.* at 317.

lation.com>.⁸¹ Five days after registering the domain names, Kremer delivered to the founder and president of Bosley a letter outlining the content of the sites, which included negative testimonials from clients, and offered Bosley an opportunity to talk with Kremer before the sites went live.⁸²

Kremer began using <BosleyMedical.com> in 2001.⁸³ He earned no revenue from the website and sold no goods or services on the site.⁸⁴ The site contained no direct links to Bosley's competitors' sites. However, the site included a link to the website of Public Citizen, the organization that represented Kremer in this case, and <BosleyMedicalViolations.com>, a sister gripe site which linked to the newsgroup <alt.baldspot> displaying ads for Bosley's competitors.⁸⁵

Bosley, as owner of the registered trademark "Bosley Medical," brought suit alleging trademark infringement, dilution, and unfair competition, but did not argue initial interest confusion.⁸⁶ The district court ruled that Kremer's use of "Bosley Medical" in his site's domain name was noncommercial and unlikely to cause confusion.⁸⁷ Therefore, the court granted Kremer summary judgment on the issues of infringement and dilution.⁸⁸ Bosley appealed.

81. *Bosley Med. Inst., Inc. v. Kremer*, 403 F.3d 672, 672 (9th Cir. 2005). Defendant's use of the site <BosleyMedicalViolation.com> was not challenged in this action. *Id.* at 675.

82. *Id.* at 672.

83. *Id.* at 675.

84. *Id.*

85. *Id.*

86. *Id.* at 675. Bosley has used the mark "Bosley Medical" since 1992 and registered the mark with the United States Patent and Trademark Office in January of 2001. Bosley also owns the trademarks "Bosley," "Bosley Healthy Hair," "Bosley Healthy Hair Formula," and "Bosley." *Id.* at 674 n.1.

87. *Id.*

88. Also at issue in this case were Bosley's claims under the ACPA and California's anti-SLAPP rule. While the issues under these statutes are not entirely relevant to the discussion of this Note, the fate of Bosley's claims under them is noteworthy. The district court dismissed Bosley's ACPA claim because Kremer did not use Bosley's mark in a commercial way. *Id.* at 680. The Ninth Circuit held that because the ACPA does not require commercial use, the district court should have confined its inquiry to the nine elements of the ACPA, particularly the issue of whether Kremer has a bad-faith intent to profit from his use of Bosley's mark in the domain name by making an extortionate offer for its sale. *Id.* 681. Because Bosley was prevented from conducting discovery on Kremer's possible bad faith, the Ninth Circuit reversed the lower court's granting of summary judgment for Kremer and remanded for further review. The hallmark of a SLAPP suit is that it "lacks merit, and is brought with the goals of obtaining an economic advantage over a citizen party by increasing the cost of litigation to the point that the citizen party's case will be weakened or abandoned, and of deterring future litigation." *Id.* at

2. *The Ninth Circuit's Opinion*

The Ninth Circuit framed the issue at bar as whether Kremer's use of Bosley Medical as his domain name was "in connection with a sale of goods or services"⁸⁹ as required by § 1114 of the Lanham Act for a finding of infringement.⁹⁰ According to the Ninth Circuit, none of Bosley's assertions show Kremer's use of the mark to be in connection with the sale of goods or services.⁹¹ It found Kremer's site does not contain commercial links; the site contains only a link to another site, which links to a discussion group, which in turn contains advertising.⁹² The Ninth Circuit found this "roundabout path" to advertisement too weak to qualify Kremer's site—and hence his use of Bosley's mark—as commercial.⁹³ The court also found no evidence that Kremer intended to sell the domain name itself.⁹⁴ Finally, while Kremer's use of Bosley's mark may have dissuaded consumers from purchasing Bosley's products, it could not have misled consumers into buying a competing product as "no customer will mistakenly purchase a hair replacement service from Kremer under the belief that the service is being offered by Bosley."⁹⁵ As such, the Ninth Circuit affirmed summary judgment for Kremer on the issues of infringement and dilution.⁹⁶

III. ANALYSIS

The recent decisions in both the Fourth Circuit in *Falwell* and the Ninth Circuit in *Bosley* signal that courts deem protection against potential initial interest confusion from trademarks in domain names alone inappropriate. Courts are recasting initial interest confusion as only one spoke in the likelihood of confusion wheel, if not rejecting the doctrine totally. At the very least, courts are being more selective, by way of evaluating commercial use, in which trademark-in-domain-name cases even warrant in-

682. Because domain names are not automatically entitled to nor denied First Amendment protection, and it was not apparent from the evidence that Bosley sought to squelch Kremer's free speech, the Ninth Circuit reversed the lower court's anti-SLAPP finding. *Id.*

89. *Id.* at 677.

90. 15 U.S.C. § 1114(1)(a) (2000).

91. *Bosley*, 403 F.3d at 677-79.

92. *Id.* at 675.

93. *Id.* at 678.

94. It also could not be charged, then, that his website was used "in connection with the sale of good or services" for enabling extortion. *Id.*

95. *Id.* at 680.

96. *Id.* at 682.

fringement analysis. This Part discusses the shift in infringement analysis within *Falwell* and *Bosley*, then demonstrates why this move away from initial interest confusion is appropriate.

A. *Falwell* and *PETA*: The Fourth Circuit Corrects Its Unofficial Stance On Initial Interest Confusion

The thrust of the holding in *Falwell* can hardly be termed remarkable. In refusing to hold Lamparello liable for infringement for using a trademark in the domain name of his noncommercial gripe site absent any bad faith intent to profit from its registration, the Fourth Circuit simply continues a line of cases in which courts have provided a “judicial safe harbor for pure criticism of a mark owner regardless of the domain name used.”⁹⁷ What is striking about the court’s 2005 decision in *Falwell*, however, is that it seriously undermines its own 2001 opinion in *PETA v. Doughney*, and in so doing, reverses the court’s unofficial stance on initial interest confusion.

Though the *PETA* court did not explicitly rely on initial interest confusion, its infringement holding was steeped in the doctrine. The court acknowledged “that parody engenders some initial confusion”⁹⁸ but then held Doughney’s use of the PETA trademark did not constitute a parody.⁹⁹ Because the domain name <www.peta.org> did not alone convey a parodic message, the court effectively reasoned, Doughney’s mis-executed parody would likely cause internet users to become initially interested in visiting his site under the mistaken apprehension that it was affiliated with PETA.¹⁰⁰ Thus, the court actually held Doughney liable for the credibility-transferring initial interest confusion that had been deemed infringement by the *Grotrian* and *Mobile* courts because an internet user might decide to investigate <www.peta.org> in his initial search stages because of the possibility that the site was related to the official group, People for the Ethical Treatment of Animals. The court never discussed whether Doughney’s use of the “PETA” mark might have momentarily given the site’s viewers the idea that the products or services sold on the thirty-something sites <www.peta.org> linked to met PETA’s standards. Hence, the court there did not contemplate the diversion category of initial interest present in *Brookfield*—the chance that a viewer might be diverted or distracted by PETA’s competitors’ links even though, once he read the site, no viewer

97. Gilfoil, *supra* note 2, at 186.

98. *PETA*, 263 F.3d at 366.

99. *Id.* at 367.

100. *Id.* at 366-67.

could reasonably be confused as to PETA's lack of affiliation with the site.

Factually, there is no material difference between *PETA* and *Falwell*.¹⁰¹ Although Doughney's site is branded a failed attempt at parody while Lamparello's is justified as a gripe site, both sites use another party's mark as the domain name for sites which post views antithetical to those of the entities on which they base their domain names. Yet, the same court returned different infringement verdicts, declaring Doughney's site likely to cause confusion and Lamparello's not. The inconsistent outcome of *Falwell* is derived from the court's decision to consider the domain name in the context in which it is ordinarily seen by a consumer—that is, in conjunction with the site's content.¹⁰² The court illustrates such analysis in its explanation of how Lamparello's use fails the court's seven-factor likelihood of confusion test: "After even a quick glance at the content of the website at www.falwell.com, no one would believe that Reverend Falwell sponsored a site criticizing himself."¹⁰³ In *Falwell*, then, the court moves beyond simply stating that it does not endorse initial interest confusion.¹⁰⁴ In treating an allegedly infringing domain name of a gripe site as inextricably bound with the underlying content and requiring that a court consider both during its likelihood of confusion analysis,¹⁰⁵ the Fourth Circuit renders the initial interest confusion doctrine a useless wrench in the likelihood of confusion toolbox vis-à-vis gripe sites. Any confusion the domain name inspires in the viewer will be immediately dissipated by his simultaneous view of the clearly critical and non-confusing content. In other words, there is no initial phase of viewing a website that consists only of reading the domain name in likelihood of confusion analysis; the court, apparently modeling its approach on what it perceives is the way internet users encounter sites, sees the entire website at once.¹⁰⁶ Confusion radiates from its entirety or not at all.

101. The fact that Lamparello had no material links to goods or services while Doughney did only significantly enters the court's analysis in determining whether either use is commercial, i.e., whether either case meets the threshold commercial use requirement that proceeds confusion analysis. This difference, then, does not enter the court's evaluation of likelihood of confusion.

102. *Falwell*, 420 F.3d at 316.

103. *Id.* at 315. The court goes on to say as part of its initial interest confusion analysis that "to determine whether a likelihood of confusion exists as to the source of a gripe site like that at issue in this case, a court must look not only to the allegedly infringing domain name, but also to the underlying content of the website." *Id.* at 318.

104. *Id.* at 316.

105. *Id.* at 318.

106. *See id.*

The Fourth Circuit's seemingly new rule corrects its weakest point of analysis in *PETA*. The Lanham Act contains no bright line rule exempting parody from trademark infringement, yet the court's reasoning proceeded along the following lines: since <PETA.org> is not a successful parody, its initial message does not communicate its own negation, therefore the use of the mark is confusing, and so, an infringing use. With this logic, the *PETA* court basically substituted initial interest confusion for its multifactor likelihood of confusion test, giving great weight and dispositive power to only one of seven factors—actual confusion—and accepting initial *interest* as a valid form of this actual *confusion*.¹⁰⁷ In *Falwell* the court correctly disallows initial interest confusion the power to support a finding of infringement by itself.

B. *Bosley*: A Tacit Undermining of *PETA* Reasoning

The Ninth Circuit *Bosley* decision also calls into question the likelihood of confusion and commerce aspects of the *PETA* decision. First, in finding that no customer will mistakenly purchase hair replacement services from Kremer under the confused belief that the service is offered by *Bosley*, the *Bosley* court implies that any likelihood of confusion analysis of a gripe site must consider the domain name and underlying site content together: in order to consider services offered on any website, a court must look at the content of the site and not just the domain name. If the court considers domain names in conjunction with site content, there is no room for initial confusion caused by the domain name alone. Thus, with respect to trademark-in-domain-names, *Bosley* narrows the doctrine of initial interest confusion as much as *Falwell*.

The Ninth Circuit also showed a reluctance to find the website in *Bosley* a use in commerce. The court called the two-link removal of Kremer's gripe site from the products advertised at <alt.baldspot> a "roundabout path . . . too attenuated to render Kremer's [gripe] site commercial."¹⁰⁸ This interpretation signals a shift away from cases that quickly and without much analysis assumed websites were necessarily commercial,¹⁰⁹ and provides a more nuanced and sophisticated analysis of

107. Courts have sometimes applied initial interest confusion as a test "separate and apart from the traditional likelihood of confusion analysis." Rothman, *supra* note 19, at 141. Rothman argues that courts often disregard several factors of the multifactor likelihood of confusion test, while some courts have allowed evidence of initial interest—and not confusion—to meet the actual confusion requirement of many of these multifactor tests. Rothman, *supra* note 19, at 145.

108. *Bosley*, 403 F.3d at 678.

109. See *Jews For Jesus v. Brodsky*, 993 F. Supp. 282 (D.N.J. 1998) (finding a same-name gripe site espousing a religious doctrine commercial under trademark law because

commerce on the internet. The Ninth Circuit's analysis in *Bosley* illustrates an understanding that not all websites using a trademark in their domain names are necessarily used in commerce or in connection with the sale of goods or services.

C. The Shift Away From Initial Interest Confusion is Appropriate

The Fourth and Ninth Circuits' disavowal of initial interest confusion with regards to trademark gripe sites such as those in *Falwell* and *Bosley* is appropriate on two counts. First, internet users today are savvier than searchers have been in the past or courts once thought them to be. Second, internet navigation mistakes can be corrected at a cost negligible to the searcher.

1. Increased Searching Savvy

The *PETA* court adopts a paternalistic stance in eliminating junior mark users like Doughney in an effort to protect internet users ("searchers") from content they did not purposefully seek. This protective effort, however, assumes searchers follow links haphazardly, are helplessly and gullibly stranded once they do, and that courts can divine what these searchers were actually looking for in the first place. But these assumptions are baseless.

Searchers have two primary ways of accessing a site: (1) conduct a search by entering keywords into a search engine, or (2) enter a URL directly into the navigation bar of any browser.¹¹⁰ If a searcher elects to use a search engine, he will most likely be presented site listings, each accompanied by filter content¹¹¹ meant to help him decide whether to invest time in a given result by accessing the site and reviewing its content.¹¹² In fact, searching may educate the searcher about how better to select better keywords. For example, a search engine might return a query of its own—"did you mean Jerry Falwell"—in response to a searcher's entry of the

it asserted views antithetical to those of the mark holder and because it might diverted internet users from accessing the mark holder's official site); *PETA v. Doughney*, 113 F. Supp. 2d 915, 919 (E.D. Va. 2002) (finding a same-name gripe-site commercial for diverting internet searchers from reaching the official site of the mark holder); *Planned Parenthood Fed'n of Am. v. Bucci*, 42 U.S.P.Q.2d 1430 (S.D.N.Y. 1997) (finding a same-name gripe site commercial because it diverted internet searchers from the mark holder's official site).

110. Goldman, *supra* note 16, at 517.

111. Filtering content could include the page title, an excerpt from the page, summary or description of the website, or category into which the website has been placed by the search engine. Goldman, *supra* note 16, at 516-17.

112. Goldman, *supra* note 16, at 516-17.

keywords “Jerry” and “Fallwell,” thereby tipping off the searcher that she may have misspelled the Reverend’s last name. The truth, then, that emerges about searcher behavior is that searchers expect to recast their search terms and objectives. A searcher implements a nuanced assessment of a site’s relevancy in deciding if a site matches his search objective.¹¹³ Because searchers are not expert in grading the relevancy of search results,¹¹⁴ and because results never consist solely of perfectly relevant results, searchers expect to sort through sites, and search engines provide them with sufficient information to do so.¹¹⁵ Exposure to a domain name no longer can reasonably be said to lead a searcher to expect the information on the underlying site to be relevant. Because searchers are skeptical of relevancy, their expectations of site credibility are necessarily lowered and credibility-transference becomes less harmful.

The truth about most searchers, then, is that they are not haphazardly following links to domains completely stripped of content. Even where a searcher decides to invest time in accessing a site simply because its domain name suggests relevancy, he will be forced to reassess the relevancy of the site the moment he reviews the content. If a searcher determines a website does not meet his search objectives—whether he got there by way of search engine, direct URL entry, or a trick or unscrupulous practice meant to lure him there—he can change his search or remedy his mistaken apprehension at a trivial cost.

2. *The Negligible Cost of Searching and Search Revision on the Internet*

While the cognitive process behind a searcher’s moves on the internet might be complex, internet navigation in and of itself is not. A searcher can move from site to site via hyperlinks in a fraction of a second: he can back out of the site with a single click of his browser’s back button, enter a new web address into the address bar of his browser, try another site on the results list produced by the search engine, or redirect his search with improved search terms.¹¹⁶ Any of these options consumes just a moment of the searcher’s time—a cost not on par with what initial interest aimed to guard.¹¹⁷ Since searchers are conditioned to weed through pages until their

113. Goldman, *supra* note 16, at 516-17.

114. Goldman, *supra* note 16, at 516-17.

115. Goldman, *supra* note 16, at 518-19.

116. Goldman, *supra* note 16, at 520-21.

117. One major justification for initial interest confusion is to prevent the practice of baiting and switching. Rothman, *supra* note 19, at 161. “Baiting and switching involves initially passing off one’s goods as those of another One aspect of baiting and switching involves ‘luring’ an unwary consumer by creating initial confusion.”

search objectives are met, users are inclined to move quickly and skim content.¹¹⁸ The Ninth Circuit's decision in *Bosley* suggests courts are becoming aware of the casual and speedy way in which internet users navigate. In calling Kremer's site's two-link removal from an advertisement too weak to satisfy the FTDA's "commercial use in commerce" requirement, the court ultimately chipped away at diversion-style initial interest.¹¹⁹ If movement on the internet is fast and low-cost, then searchers who enter Kremer's site expecting it to be a bona fide Bosley Medical site may not be likely to end their search there out of anger, frustration, or the belief that Bosley has no official site.¹²⁰ Searchers will probably simply click the "back" button on their browsers and continue trying to meet their search objectives. The cost of this correction in the event an internet-user is initially confused is trivial and expected by users. To the extent searchers might find even the minimal cost of search correction annoying, levying the consequences of infringement to prevent their perturbation is too strong a remedy. When initial interest confusion and findings of commerciality quickly shut down trademark-in-domain-name gripe sites, both freedom of expression and consumer protection and education are heavily restrained.

IV. CONCLUSION

While the *Bosley* and *Falwell* courts lay initial interest confusion to rest with respect to gripe sites alone, the ultimate impact of their reasoning suggests the doctrine is obviated in its entirety with respect to all cases of

Rothman, *supra* note 19, at 161. A classic example of the substantial cost initial interest confusion can impose on consumers is articulated by the court in *Brookfield Communications, Inc. v. West Coast Entertainment Corp.*, 174 F.3d 1036, 1064 (9th Cir. 1999). Drawing from the issue at bar in *Brookfield*: "suppose West Coast's competitor (let's call it "Blockbuster") puts up a billboard on a highway reading – "West Coast Video: 2 miles ahead at Exit 7" – where West Coast is really located at Exit 8 but Blockbuster is located at Exit 7. Customers looking for West Coast's store will pull off at Exit 7 and drive around looking for it. Unable to locate West Coast, but seeing the Blockbuster store right by the highway entrance, they may simply rent there. Even consumers who prefer West Coast may find it not worth *the trouble to continue searching for West Coast* since there is a Blockbuster right there. Customers are not confused in the narrow sense: they are fully aware that they are purchasing from Blockbuster and they have no reason to believe that Blockbuster is related to, or in any way sponsored by, West Coast." *Id.* (emphasis added). Clearly, the trouble of getting back to a highway entrance and then driving until West Coast Video—the desired producer in this case—is found is much greater than clicking a back button on a browser.

118. Goldman, *supra* note 16, at 519.

119. See *Bosley*, 403 F.3d at 678.

120. See *id.*

potential infringement. Initial interest or initial confusion comprises only one factor in evaluating confusion. The idea that initial confusion dissipates and only threatens credibility transference, or never exists but in the form of distraction, does not warrant a doctrine separate from and superior to traditional infringement analysis. Such an idea simply determines how strongly the actual confusion factor in a multifactor test militates toward or against a finding of infringement. To this extent, the function of the initial interest confusion doctrine is provided for by the Lanham Act's infringement and dilution sections. Scholars and critics have weighed in on initial interest confusion as not only unnecessary, but ultimately harmful in its contravention of justifications for trademark protection, consumer interests, fair competition, and even trademark law itself.¹²¹ It appears courts are beginning, if only slightly, to mold their thinking accordingly and take a step in the right direction.

121. See generally Rothman, *supra* note 19 (discussing the problems caused by the use of initial confusion and the doctrine's conflict with basic trademark law, unfair competition principles, intellectual property laws, and the First Amendment); Goldman, *supra* note 16; Stacey L. Dogan & Mark A. Lemley, *Symposium: Trademarks And Consumer Search Costs on the Internet*, 41 HOUS. L. REV. 777 (2004) (arguing that increased internet trademark cases threatens the purpose of the Lanham Act).

ADDITIONAL DEVELOPMENTS—TRADEMARK

THE TRADEMARK DILUTION REVISION ACT OF 2005

H.R. 683, 109th Cong. (2005)

Congress is currently considering, the Trademark Dilution Revision Act of 2005 (“TDRA”), a bill that would revise the Federal Trademark Dilution Act as follows: (1) it would change the burden of proof on trademark owners alleging dilution from a showing of “actual dilution” to proof that the mark is “likely to cause dilution”; (2) it would clarify the definition and relevant factors for determining which marks are “famous”; (3) it would alter the definition of dilution to explicitly cover dilution by tarnishment; and (4) it would alter the “fair use” and First Amendment-based exclusions from actionable dilution. The bill, H.R. 683, was met with overwhelming support in the House of Representatives, passing with a vote of 411 to 8, and is currently under review by the Senate Judiciary Committee.

The Federal Trademark Dilution Act of 1995 bars use of a mark that dilutes the distinctiveness of a famous mark even in the absence of a likelihood of consumer confusion. Under *Moseley v. V Secret Catalogue, Inc.*, 537 U.S. 418 (2003), a plaintiff bringing a dilution claim must show “actual dilution,” or a lessening of the famous mark’s capacity to distinguish goods and services. The TDRA would effectively reverse the decision in *Moseley* by amending 15 U.S.C. § 1125 to provide for relief against mark use that is “likely to cause dilution” of famous marks. The House Judiciary Committee’s report on the bill branded the *Moseley* standard as overly exacting, because in most cases, an injunction against the dilutive use would be ineffective by the time actual, provable dilution had occurred.

The TDRA also redefines a “famous” mark as one that is “widely recognized by the general consuming public of the United States.” This provision would overturn a Second Circuit decision holding that marks are only considered “famous” for purposes of dilution protection if they are inherently distinctive. See *Savin Corp. v. Savin Group*, 391 F.3d 439 (2d Cir. 2004). Currently, 15 U.S.C. § 1125 identifies eight factors relevant to determining whether a mark is distinctive or famous. The TDRA, on the other hand, lists only three relevant factors in this inquiry—the duration and reach of publicity of the mark, the volume and extent of sales, and actual recognition of the mark—making the degree of inherent or acquired distinctiveness of the mark irrelevant.

The TDRA also explicitly provides that both dilution by blurring—or impairment of the famous mark’s distinctiveness—and dilution by tarnishment—harm to the famous mark’s reputation—are actionable. The definition for dilution by blurring under the TDRA permits reference to several factors, such as the degree of similarity between the allegedly violating mark and the famous mark, and the degree of distinctiveness of the famous mark. The definition for dilution by tarnishment is more straightforward, encompassing any “association arising from the similarity between a mark or trade name and a famous mark that harms the reputation of the famous mark.”

Finally, the TDRA would amend section 43(c)(4) of the Lanham Act, which currently provides several exclusions to actionable dilution, including fair use in comparative advertising, noncommercial use, and news reporting or commentary. The TDRA leaves the comparative advertising and news reporting exceptions intact, but replaces the noncommercial use exclusion with an exclusion for “[f]air use of a famous mark by another person, other than as a designation of source for the person’s goods or services, including for purposes of identifying and parodying, criticizing, or commenting upon the famous mark owner or the goods or services of the famous mark owner.”

***YELLOW CAB CO. OF SACRAMENTO V.
YELLOW CAB OF ELK GROVE, INC.***
419 F.3d 925 (9th Cir. 2005)

The Ninth Circuit held that a plaintiff alleging infringement of an unregistered mark has the burden of proving that the mark is not generic and therefore protectable.

Yellow Cab Company of Sacramento (“Sacramento Cab”) filed an action against Yellow Cab of Elk Grove (“Elk Grove Cab”) alleging trademark infringement under the Lanham Act. Sacramento Cab had been in operation in the Sacramento area, including the suburb of Elk Grove, since 1922. At the time of the suit, it operated approximately ninety cabs and had a number of exclusive business accounts. In 2001, Elk Grove Cab, a one-cab taxi operation, began operations in Elk Grove. “Yellow Cab of Sacramento” was not a federally registered mark. The district court granted Elk Grove Cab’s motion for summary judgment, holding that the plaintiff has the burden to prove that a nonregistered mark is not generic. Further, the court held in the alternative that “yellow cab” is a generic term, and that even if it were a descriptive term, Sacramento Cab failed to demonstrate secondary meaning.

Sacramento Cab appealed, and the Ninth Circuit reversed on the grounds that the district court erred in determining that there were no genuine issues of material fact concerning genericness and secondary meaning. However, the Ninth Circuit agreed with the district court that the plaintiff bears the burden of proof establishing that the mark was not generic. The Ninth Circuit noted that when a plaintiff pursues a trademark action regarding a federally registered mark, the mark is presumed valid and the burden of proving that the mark is generic rests on the defendant. However, if the mark has not been federally registered and the defendant argues that the mark is generic, the burden shifts to the plaintiff to show the mark is valid and *not* generic. Here, the mark was not federally registered, but since Sacramento Cab came forward with evidence raising a genuine issue of material fact as to whether “yellow cab” was generic or had acquired secondary meaning, summary judgment was not appropriate.

APPLE COMPUTER, INC. V. DOES: AN UNSATISFYING RESOLUTION TO THE CONFLICT BETWEEN TRADE SECRET LAW, JOURNALIST'S PRIVILEGE, & BLOGGING

By Tori Praul

Apple Computer is known for two things: remarkable innovation and devoted fans. Jason O'Grady, Nick Ciarelli, and Kasper Jade are three of these fans. As a testament to their passion for Apple products, these individuals publish online news magazines devoted to providing information about upcoming products.¹ The sources of this information are not known since the websites solicit tips anonymously.² However, individuals with access to product development specifications, such as Apple employees, are the likely sources of many of the proprietary leaks that occasionally appear on the sites.

Under California law, unreleased confidential business information qualifies as a trade secret, and knowing dissemination of such information may constitute misappropriation.³ Taking hold of this doctrine, Apple Computer decided to sue a number of unknown (Doe) defendants for trade

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1. See Think Secret—Apple Mac Insider News, <http://www.thinksecret.com> (last visited Feb. 6, 2006) (Publisher Nick Ciarelli uses the pseudonym, Nick dePlume, for correspondence related to the website.); O'Grady's Power Page—Your Mobile Technology Destination, <http://www.powerpage.org> (last visited Feb. 6, 2006) (Jason O'Grady publishes this website); AppleInsider, <http://www.appleinsider.com> (last visited Feb. 6, 2006) (Kasper Jade is the pseudonym used by the owner of AppleInsider, who also performs reporting and editorial functions). Monish Bhatia, who publishes the Mac News Network and provides a hosting service to several sites, including AppleInsider, is an additional non-party journalist involved in the suit. See generally Electronic Frontier Foundation, Apple v. Does Case Summary, http://www.eff.org/Censorship/Apple_v_Does/case_summary.pdf (last visited Feb. 6, 2006).

2. See Think Secret, Anonymous Email Form, <http://www.thinksecret.com/contact> (last visited Feb. 6, 2006).

3. 1 ROGER M. MILGRIM, MILGRIM ON TRADE SECRETS § 1.01 (2005).

secret misappropriation, thus commencing *Apple Computer, Inc. v. Does*.⁴ In doing so, Apple sought information from the e-mail service provider of O'Grady's website. In response, the website operators sought a protective order based on California's shield law and the journalist's privilege granted under the First Amendment to protect the confidentiality of their communications.⁵ Therefore, this case raised two important questions. First, does the journalist's privilege apply to the disclosure of trade secrets? And second, do the online informants in the *Apple* litigation qualify as journalists for the purpose of the privilege? The answers to these questions have widespread implications for the future of the journalist's privilege since evolving technology allows non-traditional media entities unprecedented opportunities to disseminate information.

In *Apple v. Does*, the journalist privilege and trade secret law became intertwined and produced complex legal questions. The rise of the internet has important implications for both of these two areas of law. In a time when an employee can anonymously release information to a substantial audience, businesses are faced with the growing challenge of maintaining secrets. Along these same lines, when any individual is able to provide articles, opinions, and criticisms by simply publishing a website, issues of categorizing and imposing standards of conduct on non-traditional publishers become difficult.

Bloggers like O'Grady envision themselves as journalists, entitled to the same privileges as traditional reporters. Many commentators expected the court in *Apple v. Does* to directly address this contention.⁶ Yet, they were sadly disappointed. The court instead skirted the issue of whether the website operators qualified as journalists and focused on whether the journalist's privilege applies in cases of trade secret misappropriation. The court held that the information failed to qualify for protection regardless of the bloggers' status as reporters. In doing so, the court avoided ruling on an important and timely matter—one that will likely arise again in the near future.

4. Complaint, *Apple Computer, Inc. v. Doe No. 1*, No. 1-04-CV-032178 (Cal. Super. Ct. Dec. 13, 2004) [hereinafter *Apple Complaint*]. See generally Electronic Frontier Foundation (EFF), *Apple v. Does Case Summary*, http://www.eff.org/Censorship/Apple_v_Does/case_summary.pdf (last visited Mar. 9, 2006).

5. Notice of and Motion by Non-Party Journalists for Protective Order, *Apple Computer, Inc. v. Doe No. 1*, No. 1-04-CV-032178 (Cal. Super. Ct. Feb. 14, 2005).

6. See generally Declan McCullagh, *Apple's Subpoenas Challenged in Court*, CNET NEWS.COM (Feb. 14, 2005), http://news.com.com/Appels+subpoenas+challenged+in+court/2100-1030_3-5576037.html; Eric Bangeman, *Apple News Sites Challenge Subpoenas*, ARS TECHNICA (Feb. 14, 2005), <http://arstechnica.com/news.ars/post/20050214-4613.html>.

In addition to its refusal to define journalists, the court offered weak reasoning for its holding. The court failed to consider the crucial distinction between civil and criminal cases in the journalist's privilege cases. Further, the court misconstrued the consideration of the public interest surrounding the free flow of information, which weighs heavily in favor of maintaining confidentiality. The court's ad-hoc reasoning and misapplication of tests illustrates the need to develop a standard that gets at the substance of the issue.

This Note will shed light on the historical context of this topic, examine the issues implicated when trade secret law and journalism clash, and propose a standard for evaluating future cases of this nature. Part I provides a legal primer on both the journalist's privilege and trade secrets. Part II examines the *Apple v. Does* decision, outlining the rationale underlying the court's holding. Part III considers the current state of journalism and the need for evolution of the journalist's privilege, concluding that rather than focusing on the nature information or the means of its dissemination, courts should consider the information-gathering process and the intent of publishers when drawing the line between trade secret protection and journalistic freedom.

I. LEGAL BACKGROUND

A. Journalist's Privilege

The issue of privilege has garnered much attention from the media and public in the last year. The jailing of Judith Miller on charges of contempt for refusing to disclose the source of sensitive information alerted the public, courts, and Congress to potential problems with the federal privilege.⁷ Less than six months after the D.C. Circuit held that neither the First Amendment nor common law protected sources in the context of a grand jury proceeding, members of Congress proposed the Free Flow of Information Act to create a federal shield law.⁸ The purpose of the legislation was to create clear standards for federally compelled disclosure of information from the news media.⁹ Currently, federal privilege is rooted in the First Amendment and common law, while reporters are statutorily protected in many states by shield laws.¹⁰

7. See *In re Grand Jury Subpoena (Miller)*, 397 F.3d 964 (D.C. Cir. 2005).

8. H.R. 3323, 109th Cong. (2005).

9. *Id.*

10. See generally THE REPORTER'S COMMITTEE FOR FREEDOM OF THE PRESS, THE REPORTER'S PRIVILEGE (2002), available at <http://www.rcfp.org/cgi-local/privilege/contents.cgi?f=browse> (summarizing applicable state and federal laws).

1. *Federal Privilege and State Shield Laws*

Attempts to claim a privilege of confidentiality predate the founding of the American Republic. In 1735, John Peter Zenger, the publisher of the first politically independent newspaper in North America, was indicted for seditious libel when he published satirical attacks against a governor.¹¹ Although he was not the author of the disputed articles, his name was attached to them as publisher. After refusing to name the source of his information and spending nine months in jail, a jury returned a verdict of not guilty and Zenger was released.¹²

Despite this long history, it was not until 1848 that a court directly addressed the issue of privilege, jailing a reporter for contempt when he refused to disclose the source of secret documents.¹³ In the years that followed, courts generally rejected the concept of privilege, favoring the flow of evidence at trial over the unencumbered dissemination of information to the public.¹⁴ In contrast, the American Newspaper Guild Code of Ethics acknowledged the importance of maintaining source confidentiality as early as 1934, providing that "Newspapermen shall refuse to reveal confidences or disclose sources of confidential information in court or before judicial or investigating bodies."¹⁵

Courts did not recognize the existence of such a privilege until the late 1950s. *Garland v. Torre*¹⁶ marked the first attempt of a journalist to use the First Amendment to protect the disclosure of information. The actress Judy Garland sued CBS for defamation based on statements published in a column written by Marie Torre.¹⁷ Ms. Garland, however, did not know the identity of the informant and therefore deposed Ms. Torre to discover the source of the comments.¹⁸ Ms. Torre refused to disclose the identity, asserting that the right to refuse disclosure of confidential information was guaranteed by the First Amendment. Although the court ultimately determined that the information in question was not protected, *Garland* was the first decision to recognize that compelled disclosure of a journalist's

11. RODNEY A. SMOLLA, SMOLLA AND NIMMER ON FREEDOM OF SPEECH §§ 1.3-4 (3d ed. 2005).

12. *Id.*; see also Paul Marcus, *The Reporter's Privilege: An Analysis of the Common Law*, Branzburg v. Hayes, and Recent Statutory Developments, 25 ARIZ. L. REV. 815, 817 (1984).

13. *Ex parte Nugent*, 18 F. Cas. 471 (D.C. Cir. 1848).

14. See Marcus, *supra* note 12, at 818-19.

15. Theodore Campagnolo, *The Conflict Between State Press Shield Laws and Federal Criminal Proceedings: The Rule 501 Blues*, 38 GONZ. L. REV. 445, 452 (2002).

16. 259 F.2d 545 (2d Cir. 1958).

17. *Id.* at 545.

18. *Id.*

sources could abridge the First Amendment guarantee of freedom of the press.¹⁹

The Supreme Court's 1972 decision in *Branzburg v. Hayes*²⁰ marked an important development in the doctrine of journalist's privilege and the last time that the Court considered the constitutionality of the privilege. Holding that a reporter may be compelled to testify in grand jury trials, the court explained that "the Constitution does not . . . exempt the newsman from performing the citizen's normal duty of appearing and furnishing information relevant to the grand jury's task."²¹ The majority emphasized the inherent secrecy of grand jury proceedings as a distinguishing characteristic from other court proceedings.²² Justice Powell's concurrence stressed the limited nature of the holding, stating that "[t]he asserted claim to privilege should be judged on its facts by the striking of a proper balance between freedom of the press and the obligation of all citizens to give relevant testimony with respect to criminal conduct."²³

In the years following *Branzburg*, courts have interpreted the decision as establishing a qualified privilege.²⁴ Because the Court's analysis was confined to the duty of journalists in grand jury proceedings, most courts recognize the limited nature of the holding and have treated claims of privilege as requiring case-by-case analysis in "balancing freedom of the press against compelling and overriding public interest in the information being sought."²⁵ Subsequent to the *Branzburg* decision, virtually every court confronted with the issue of the journalist's privilege in civil actions has recognized the need for a balancing approach that emphasizes the particular facts of each case.²⁶

The political turmoil that characterized the 1960s and 1970s and the media's attempts to report on controversial topics such as the Vietnam

19. *Id.* at 548.

20. 408 U.S. 665 (1972).

21. *Id.* at 691.

22. *Id.* at 695.

23. *Id.* at 710 (Powell, J., concurring).

24. See SMOLLA, *supra* note 11, § 25.26; see also Marcus, *supra* note 12, at 836-39.

25. *Zelenka v. State*, 266 N.W.2d 279, 287 (Wis. 1978).

26. See, e.g., *In re Petroleum Products Antitrust Litig.*, 680 F.2d 5 (2d Cir. 1982); *Zerilli v. Smith*, 656 F.2d 705 (D.C. Cir. 1981); *Gulliver's Periodicals Ltd. v. Chas. Levy Circulating Co.*, 455 F. Supp. 1197 (N.D. Ill. 1978); *Senear v. Daily Journal-Am.*, 641 P.2d 1180 (Wash. 1982); *Caldero v. Tribune Pub. Co.*, 562 P.2d 791 (Idaho 1977); see also Marcus, *supra* note 12, at 856-59 (discussing court interpretations of the *Branzburg* holding).

War led to tension between the government and journalists.²⁷ The growing numbers of subpoenas issued to the media during the Nixon administration and the push for protection of journalists that refused to disclose their sources illustrated this heated conflict.²⁸ This conflict was further demonstrated by the Justice Department's issuance of *Guidelines for Subpoenas of the News Media*, which encouraged negotiation between lawyers and reporters and advised limited use of subpoenas, requiring that the Attorney General eventually approve all subpoenas issued to journalists.²⁹

States also responded in force, enacting shield laws to protect journalists from charges of contempt for refusing to disclose sensitive information obtained during the newsgathering process.³⁰ Prior to *Branzburg*, nineteen states had legislated privileges.³¹ Since the opinion, nearly every state has enacted some sort of rule to address claims of news media privilege.³² These laws vary in their scope of protection. Some provide for the disclosure of sources and information in certain situations.³³ Others protect disclosure of sources under all circumstances, but allow disclosure of information.³⁴ Still others provide an absolute privilege for both the infor-

27. See Kraig L. Baker, Comment, *Are Oliver Stone and Tom Clancy Journalists? Determining Who Has Standing to Claim the Journalist's Privilege*, 69 WASH. L. REV. 739, 745 (1994).

28. See Michael E. Deutsch, *The Improper Use of the Federal Grand Jury: An Instrument for the Internment of Political Activists*, 75 J. CRIM. L. & CRIMINOLOGY 1159, 1179-83 (1984).

29. The Guidelines were first announced in a speech by the Attorney General and then in Department of Justice Memo. No. 692 (Sept. 2, 1970). They state:

The Department of Justice recognizes that compulsory process in some circumstances may have a limiting effect on the exercise of First Amendment rights. In determining whether to request issuance of a subpoena to the press, the approach in every case must be to weigh that limiting effect against the public interest to be served in the fair administration of justice

See *Branzburg v. Hayes*, 408 U.S. 665, 707 n.41. They also state: "The Department of Justice does not consider the press an investigative arm of the government. Therefore, all reasonable attempts should be made to obtain information from non-press sources before there is any consideration of subpoenaing the press." See *id.* These guidelines were later codified and formally adopted by the Department of Justice as 28 C.F.R. § 50.10 (2003), which specifically state that "the prosecutorial power of the government should not be used in such a way that it impairs a reporter's responsibility to cover as broadly as possible controversial public issues." *Id.*

30. Campagnolo, *supra* note 15, at 448-51.

31. *Id.* at 448.

32. *Id.* at 449. The author notes in footnote eighteen that "Mississippi, Utah, and Wyoming have no statutory or decisional law on reporter's privileges." *Id.*

33. *Id.* at 450.

34. *Id.*

mation and source.³⁵ The common characteristic of these laws is that they are generally more protective than the privilege offered through the state and federal constitutions.³⁶ Because actions brought in state court usually depend on state law, these shield laws are most often the basis upon which claims of privilege are examined.³⁷

2. California Law

The California Legislature passed its first shield law in 1935,³⁸ which protected newsmen from being adjudged in contempt for refusing to disclose sources.³⁹ In 1965, the legislature transferred the privilege sections from the California Code of Civil Procedure to the Evidence Code § 1070. Section 1070(a) provides as follows:

A publisher, editor, reporter, or other person connected with or employed upon a newspaper, magazine, or other periodical publication, or by a press association or wire service, or any person who has been so connected or employed, cannot be adjudged in contempt by a judicial, legislative, administrative body, or any other body having the power to issue subpoenas, for refusing to disclose in any proceeding as defined in Section 901, the source of any information procured while so connected or employed for publication in a newspaper, magazine or other periodical publication, or for refusing to disclose any unpublished information obtained or prepared in gathering, receiving or processing of information for communication to the public.⁴⁰

Interpretation of the protections afforded by these provisions is mixed. Some decisions have held that § 1070 and the state constitution confer an

35. *Id.*

36. See The Reporter's Committee for Freedom of the Press, The Reporter's Privilege Compendium: An Introduction, <http://www.rcfp.org/cgi-local/privilege/item.cgi?i=intro> (last visited Feb. 27, 2006).

37. See The Reporter's Committee for Freedom of the Press, The Reporter's Privilege Compendium: Q & A, <http://www.rcfp.org/cgi-local/privilege/item.cgi?i=questions> (last visited Feb. 27, 2006).

38. 1935 Cal. Stat. 1608-10.

39. See *KSDO v. Superior Court*, 136 Cal. App. 3d 375, 380 (Ct. App. 1982) (discussing evolution of California Shield Law).

40. CAL. EVID. CODE § 1070(a) (2005). Section 1070(b) provides protection for television and radio news reporters as well. Californians further expressed their interest in protecting the free flow of information from the news media to the public when they passed Proposition 5, titled "Freedom of Press," in 1980. The passage of this proposition amended article I, section 2 of the California Constitution to include nearly identical language as § 1070.

absolute protection against forced disclosure, whereas others confine the language only to contempt.⁴¹

California follows the test established by the California Supreme Court in *Mitchell v. Superior Court*⁴² to evaluate whether civil claims override privilege in a given case. In determining whether a "newsperson has a privilege to refuse to reveal confidential sources or information obtained from those sources," the court set out five factors to consider: (1) "the nature of the litigation and whether the reporter is a party"; (2) "the relevance of the information sought to plaintiff's cause of action"; (3) the concern that "discovery should be denied unless the plaintiff has exhausted all alternative sources of obtaining the needed information"; (4) "the importance of protecting confidentiality in the case at hand"; and (5) in cases of defamation, the fact that a court may require a showing of a prima facie case.⁴³

The court recognized that "[s]ince contempt is generally the only effective remedy against a non-party witness, the California enactments grant such witnesses virtually absolute protection against compelled disclosure."⁴⁴ When faced with a subpoena for confidential information, a journalist has the option of producing the materials or fighting the request. A judge may then order the journalist to disclose materials for in camera inspection to determine their relevance. If the journalist chooses to oppose

41. Compare *In re Willon*, 47 Cal. App. 4th 1080, 1091 (Ct. App. 1996) ("[O]n its face, article I, sec. 2b does appear to provide absolute protection to those engaged in the newsgathering process . . . in civil proceedings the provision has been construed to provide 'the highest possible level of protection' from disclosure of materials sought by a civil litigant.") (citing *Playboy Enters., Inc. v. Superior Court*, 154 Cal. App. 3d 14, 27-8 (1984), and *Mitchell v. Superior Court*, 37 Cal. 3d 268, 274 (1984), and *New York Times Co. v. Superior Court*, 51 Cal. 3d 453, 456 (1990)), with *KSDO*, 136 Cal. App. 3d at 383 ("It is an immunity from contempt, not a privilege against disclosure.")

42. 37 Cal. 3d 268 (1984).

43. *Id.* at 279-83. Circuit courts follow a similar three-part balancing test set out in Justice Stewart's dissent in *Branzburg*: (1) Is the information relevant to the case? In civil actions, judges often require a showing of more than mere relevance or materiality—the information must go "to the heart of the plaintiff's claim." (2) Can the information be obtained by alternative means? Most courts adhere to the rule that a party requesting data must show that "he has exhausted every reasonable alternative source of information." (3) Is there a compelling interest in obtaining the information sought? This criterion is generally used on an ad hoc basis to balance the interests served in dissemination of information against the maintenance of the confidential relationship. Marcus, *supra* note 12, at 856-59; *Branzburg v. Hayes*, 408 U.S. 665, 713 n.1 (Stewart, J., dissenting).

44. *Mitchell*, 37 Cal. 3d at 274.

such an order, the court's only available action is to charge the reporter with contempt, which may result in a fine or imprisonment.⁴⁵

Mitchell also distinguished *Branzburg*, explaining that the criminal nature of a grand jury proceeding is much different than ordinary civil litigation.⁴⁶ In so holding, the *Mitchell* court looked to *Baker v. F & F Investment* and clarified that:

the Court's concern with the integrity of the grand jury as an investigating arm of the criminal justice system distinguishes *Branzburg* [S]urely in civil cases, courts must recognize that the public interest in a non-disclosure of journalists' confidential news sources will often be weightier than the private interest in compelled disclosure.⁴⁷

The balancing of interests in evaluating claims of privilege in civil and criminal cases has been markedly different—criminal cases consider the public's interest in enforcement of the law and guaranteeing a fair trial for defendants, whereas in civil cases the interest centers around fairness to private litigants.⁴⁸ The distinction relies on the essentially public interest in the First Amendment and the predominantly private interest of the civil litigant.⁴⁹ As a result, courts often find for the journalist in civil cases because the interest in the free flow of information outweighs the interest in a private claim.

B. Trade Secret Law

Trade secret law is in apparent conflict with First Amendment doctrine. Trade secret law focuses on preventing disclosure rather than allowing information to flow freely. The purpose of trade secret law is to encourage innovation by protecting the proprietary information of businesses.⁵⁰ Unlike modern patent, copyright, and trademark law, trade se-

45. See generally THE REPORTERS COMMITTEE FOR FREEDOM OF THE PRESS, THE REPORTER'S PRIVILEGE (2002), available at <http://www.rcfp.org/privilege>.

46. *Mitchell*, 37 Cal. 3d at 278.

47. *Id.* at 277 (citing *Baker v. F & F Inv.*, 470 F.2d 778, 784-85 (2d Cir. 1972)).

48. *Id.*

49. *Id.*

50. *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 481 (1974) ("The maintenance of standards of commercial ethics and the encouragement of invention are the broadly stated policies behind trade secret law."); see also RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 39 cmt. a, b (1995) ("[T]he law of trade secrets thus reflects the accommodation of numerous interests, including the trade secret owner's claim to protection against the defendant's bad faith or improper conduct . . . and the interest of the public in encouraging innovation and in securing the benefits of vigorous competition.").

crets are governed primarily by state law.⁵¹ Trade secret is further distinct from other categories of intellectual property in that it is rooted in property, contract, and tort law.⁵² The doctrine evolved on the state level from a common law tort to its modern statutory form in a somewhat ad hoc fashion.⁵³ Variation exists among the states, but trade secret law is generally unified in the *Restatement (First) of Torts* and the Uniform Trade Secrets Act (UTSA).⁵⁴ Forty-five states now adhere to the UTSA or a modified version of it, including California.⁵⁵ These laws provide trade secret owners with avenues to protect their proprietary information and offer remedies in cases of misappropriation.

While enforcement of confidentiality requirements is key to protecting trade secrets, it is by no means absolute. Exceptions to the doctrine are allowed if a criminal act is involved or if disclosure would be in the public interest.⁵⁶ The *Restatement (Second) of Agency* allows disclosure of confidential information “in the protection of a superior interest.”⁵⁷ In addition, the *Restatement of Torts* also provides that disclosure of another’s trade secret may be granted in order to promote a public interest.⁵⁸ Because the basic principles of common law trade secret protection are codified in the UTSA, the exceptions under tort and agency law are also incorporated.⁵⁹

1. *Civil Provisions in California*

Codified in Civil Code §§ 3426-3426.11, California’s modified version of the UTSA defines “misappropriation” as follows:

(b) “Misappropriation” means:

- (1) Acquisition of a trade secret of another by a person who knows or has reason to know that the trade secret was acquired by improper means; or

51. 3 ROGER M. MILGRIM, *MILGRIM ON TRADE SECRETS* § 13.02[2] (2005). For a discussion of various characterizations of trade secret in case law, see *RESTATEMENT (THIRD) OF UNFAIR COMPETITION* § 39 cmt. b (1995).

52. ARTHUR H. SEIDEL, *WHAT THE GENERAL PRACTITIONER SHOULD KNOW ABOUT TRADE SECRETS AND EMPLOYMENT AGREEMENTS* 1.01 (1995).

53. *RESTATEMENT (THIRD) OF UNFAIR COMPETITION* § 39 cmt. b.

54. UNIF. TRADE SECRETS ACT, Table of Jurisdictions Wherein Act Has Been Adopted, 14. U.L.A. 529, 529 (2005).

55. *Id.*

56. See Terry Morehead Dworkin & Elletta Sangrey Callahan, *Employee Disclosures to the Media: When Is a “Source” a “Sourcerer”?*, 15 *HASTINGS COMM. & ENT. L.J.* 357, 386-89 (1993).

57. *RESTATEMENT (SECOND) OF AGENCY* § 395 cmt. f (1957).

58. *RESTATEMENT OF TORTS* § 757 cmt. d (1939).

59. UNIF. TRADE SECRETS ACT, Prefatory Note (1985), 14. U.L.A. at 531.

- (2) Disclosure or use of a trade secret of another without express or implied consent by a person who:
- (A) Used improper means to acquire knowledge of the trade secret; or
 - (B) At the same time of disclosure or use, knew or had reason to know that his or her knowledge of the trade secret was:
 - (i) Derived from or through a person who had utilized improper means to acquire it;
 - (ii) Acquired under circumstances giving rise to a duty to maintain its secrecy or limit its use; or
 - (iii) Derived from or through a person who owed a duty to the person seeking relief to maintain its secrecy or limit its use; or
 - (C) Before a material change of his or her position, knew or had reason to know that it was a trade secret and that knowledge of it had been acquired by accident or mistake.⁶⁰

The statute defines a trade secret as any information that “derives independent economic value . . . from not being generally known to the public or other persons who can obtain economic value from its disclosure or use,” provided that the information is “the subject of efforts that are reasonable under the circumstances to maintain its secrecy.”⁶¹

2. *Criminal Provisions in California*

California also provides statutory criminal protection of trade secrets in Penal Code § 499(c). While providing an identical definition for trade secret, the statute differs from the UTSA in defining misappropriation as theft in certain situations:

- (b) every person is guilty of theft who, with intent to deprive or withhold the control of a trade secret from its owner, or with an intent to appropriate a trade secret to his or her own use or to the use of another, does any of the following:
- (1) Steals, takes, carries away, or uses without authorization, a trade secret.
 - (2) Fraudulently appropriates any article representing a trade secret entrusted to him or her.

60. CAL. CIV. CODE § 3426.1(b) (2005).

61. *Id.* § 3426.1(d).

(3) Having unlawfully obtained access to the article, without authority makes or causes to be made a copy of any article representing a trade secret.

(c) [Any of the above acts] shall be punished by imprisonment in the state prison, or in a county jail not exceeding one year, or by a fine not exceeding five thousand dollars (\$5,000), or by both that fine and imprisonment.⁶²

In addition to such an act, the prosecution of trade secret theft under the Penal Code requires: (1) existence of a trade secret with particularity; (2) efforts to maintain that information as a trade secret were undertaken by the trade secret owner; and (3) intent on the part of the defendant to actually "appropriate."⁶³

Despite the existence of criminal penalties for trade secret misappropriation, such cases are rarely prosecuted since courts are reluctant to treat intellectual property as the equivalent of other forms of property.⁶⁴ Moreover, civil remedies are often sufficient to address misappropriation, obviating the need for criminal prosecution for trade secret misappropriation. Those prosecutions that do occur typically involve surveillance operations initiated by police after being alerted by owners of potential theft.⁶⁵ These cases are vastly different from the situation before the court in *Apple v. Does*.

II. *APPLE COMPUTER, INC. V. DOES*

A. Procedural History

PowerPage and AppleInsider are websites devoted to publishing information about Apple products.⁶⁶ During the month of November 2004, a number of articles were posted on these two sites detailing upcoming and unannounced Apple products. Along with technical specifications of the

62. CAL. PENAL CODE § 499(c) (2005).

63. 3 MILGRIM, *supra* note 51, § 12.06[1][c] n.36.

64. *See id.* § 12.06[1] n.6 ("When intellectual property is introduced, that often is seen to add a dimension, particularly where high technology is also in play, which tends to discourage prosecutors.").

65. *See generally* *People v. Gopal*, 171 Cal. App. 3d 524 (Ct. App. 1985) (representatives of company contacted police and participated in sting operation to catch Gopal selling proprietary information); *People v. Dolbeer*, 214 Cal. App. 2d 619 (Ct. App. 1963) (placing defendant under police surveillance upon notification from the trade secret owner).

66. *See* O'Grady's PowerPage, Your Mobile Technology Destination, <http://www.powerpage.org> (last visited Feb. 27, 2007); AppleInsider, Apple Insider News & Rumors, <http://www.appleinsider.com> (last visited Feb. 27, 2007).

product “Asteroid,”⁶⁷ an exact replica of a drawing found on an Apple slide was also published.⁶⁸ Given the nature of the information, Apple assumed that its own employees were likely the source of the disclosure.⁶⁹ Apple questioned the twenty-six employees that had access to the slides in question to no avail.⁷⁰

In response to these posts, Apple filed a complaint in Superior Court of California in Santa Clara County, alleging misappropriation of trade secrets by several Doe defendants.⁷¹ The complaint sought injunctive relief and damages.⁷² At the same time, Apple filed an *ex parte* application to subpoena AppleInsider and PowerPage for discovery of all documents, including e-mails “relating to the identity of any person that supplied information relating to the product.”⁷³ Although Apple never served the websites with subpoenas, on February 4, 2005, Apple served PowerPage’s e-mail service provider, Nfox, with a subpoena for discovery of the same information.⁷⁴ Nfox did not object to the subpoenas and ten days later, on February 14, 2005, the website operators filed for a protective order to prevent discovery of their e-mail communications.⁷⁵ Upon denial of the motion for protective order, the operators filed a petition with the Califor-

67. “Asteroid” was the codename of a FireWire audio interface for GarageBand, Apple’s music-creation software. See Posting of Barb Dybwad to TUAW.com, <http://www.tuaw.com/2004/11/23/codename-asteroid-apple-develops-firewire-audio-interface-for> (Nov. 23, 2004, 5:14 PM).

68. Apple Computer, Inc. v. Doe No. 1, No. 1-04-CV-032178, at 6 (Cal. Super. Ct. Mar. 11, 2005) (order denying motion for protective order).

69. Redacted Declaration of Robin Zonic, In Support of Apple’s Opposition to EFF’s Motion for Protective Order at 2, Apple Computer, Inc. v. Doe No. 1, No. 1-04-CV-032178 (Cal. Super. Ct. Sept. 9, 2005) [hereinafter Zonic Declaration]; Redacted Declaration of Al Ortiz, Jr., In Support of Apple’s Opposition to EFF’s Motion for Protective Order at 2-3, Apple Computer, Inc. v. Doe No. 1, No. 1-04-CV-032178 (Cal. Super. Ct. Sept. 9, 2005) [hereinafter Ortiz Declaration].

70. Zonic Declaration, *supra* note 69, at 9; Ortiz Declaration, *supra* note 69, at 3.

71. Apple Complaint, *supra* note 4.

72. *Id.*

73. Supplement to *Ex Parte* Application for an Order for Issuance of Commission and Granting Leave to Serve Subpoenas at 3, Apple Computer, Inc. v. Doe No. 1, No. 1-04-CV-032178 (Cal. Super. Ct. Dec. 14, 2004).

74. Notice of Deposition of Nfox.com, Apple Computer, Inc. v. Doe No. 1, No. 1-04-CV-032178 (Cal. Super. Ct. Feb. 4, 2005).

75. Notice of Motion for Protective Order, Apple Computer, Inc. v. Doe No. 1, No. 1-04-CV-032178 (Cal. Super. Ct. Feb. 14, 2005).

nia Court of Appeal for a writ of mandate to overturn the Superior Court decision.⁷⁶

B. Court's Analysis

The Superior Court's analysis of petitioners' motion for protective order limited the issue to one of discovery—Apple needed to know the identities of the Doe defendants in order to pursue a cause of action for misappropriation, and e-mails sent to the website operators could possibly provide this information. Noting that balance is essential in evaluating a claim with such competing interests, the court emphasized the fact that California allows broad discovery and provides for protections of intellectual property in both civil and criminal law.⁷⁷ The court first considered the trade secret issue and found that Apple made out a prima facie case for misappropriation.⁷⁸ Also, determining that Apple had made adequate efforts at internal discovery, the court held that external discovery was necessary to identify the individual defendants.⁷⁹ The court then evaluated whether the journalist's privilege precluded such discovery from the publishers of the Apple product information.⁸⁰

1. Trade Secret Misappropriation

The court first evaluated whether the articles revealing information about the Apple products constituted a violation of trade secret law. To do so, it looked to the California Uniform Trade Secrets Act (CUTSA), Civil Code §§ 3426-3426.11 and—despite the fact that no criminal charges were filed—California Penal Code § 499(c). The court found that the information disclosed by the Does was a trade secret because it constituted confidential product information not yet released to the public. Further, because acquisition of a trade secret by a person who knows or has reason to know that it was acquired by improper means qualifies as misappropriation, the court determined that Apple had made a prima facie case for violation of trade secret law.⁸¹ Explaining that the statutes “reflect this state's strong commitment to the protection of proprietary business information . . . and support a compelling interest of disclosure which may, in the

76. Petitioners and Non-Party Journalists Jason O'Grady et al., *Petition for Writ of Mandate and/or Prohibition*, O'Grady v. Superior Court, No. H028579 (Cal. Ct. App. Mar. 22, 2005).

77. *Apple Computer, Inc. v. Doe No. 1*, No. 1-04-CV-032178, at 6 (Cal. Super. Ct. Mar. 11, 2005) (order denying motion for protective order).

78. *Id.* at 4-6.

79. *Id.* at 4.

80. *Id.* at 7-11.

81. *Id.* at 4-6.

proper civil case, outweigh First Amendment rights," the court concluded that such factors weighed against the motion for protective order.⁸²

2. *Journalists and Privilege*

Next, the court analyzed whether privilege protected the movants from disclosing their sources by focusing on three inquiries: Are the authors journalists? If so, does the need for discovery outweigh the federal privilege? Finally, are movants protected under California's shield law?

In analyzing the movants' claim to protection as journalists under the First Amendment and California's reporter's shield law, the court addressed briefly the question of whether bloggers qualified as journalists.⁸³ Acknowledging the difficulty of defining "journalist" as the variety of media expands, the court offered no firm opinion on which category best described the movants.⁸⁴

The difficulty in determining the scope of "journalists" failed to present a problem in this case since the court found that "even if the movants are journalists, this is not the equivalent of a free pass . . . [t]he journalist's privilege is not absolute" and journalists cannot refuse to disclose crime-related information.⁸⁵ Because the court determined that this case constituted trade secret misappropriation and California provides criminal penalties for such acts, the court treated this as a criminal case. In support of this stance, the court quoted *Branzburg*, which stated that "[t]he preference for anonymity of those confidential informants involved in actual criminal conduct is presumably a product of their desire to escape criminal prosecution, and this preference, while understandable, is hardly deserving of constitutional protection."⁸⁶ According to this analysis, the court apparently reasoned that because movants published information they knew or should have known was a trade secret, they were engaging in criminal activity and, thus, not protected as journalists.

The court's analysis of whether the interest in discovery outweighed the federal privilege rested on the standard articulated in *Mitchell v. Superior Court* for evaluating the competing interests in civil actions.⁸⁷ Upon analysis of the five factors, the court determined that it would be impossible for Apple to move forward without knowledge of the identity of the defendants, and that movants failed to show the public interest in disclo-

82. *Id.* at 6.

83. *Id.* at 8-9.

84. *Id.* at 8.

85. *Id.* at 9.

86. *Branzburg v. Hayes*, 408 U.S. 665, 691 (1972).

87. 37 Cal. 3d 268 (1984).

sure of the trade secrets. Therefore, discovery was both appropriate and necessary.⁸⁸

A third question posed to the court was whether movants were protected by the California shield law. Because this action was brought in state court, California law dictates whether the movants are protected from revealing their sources. In analyzing O'Grady's claim to protection, the court noted that the law is often misconstrued to provide more widespread protection than it should.⁸⁹ Quoting California Evidence Code § 1070(a) and § 1070(b), the court held that California's law offers limited protection by simply creating an immunity for journalists from being held in contempt for refusing to disclose the identity of their sources.⁹⁰ According to the court, whether O'Grady qualified as a journalist was irrelevant in evaluating this issue because "no license is conferred to anyone to violate valid criminal laws."⁹¹ As with many other forms of privilege, such as attorney-client or doctor-patient, the court explained, exceptions are made in cases involving criminal conduct.⁹² This determination, coupled with the fact that trade secret misappropriation is a criminal offense in California that is not protected by the shield law, led the court to determine that O'Grady was not protected from disclosing the contents of the e-mails in question.⁹³

III. DISCUSSION

The *Apple v. Does* court was faced with the challenge of determining not only whether the journalist's privilege applies in a case of alleged trade secret misappropriation, but also whether the website operators qualified as journalists for this purpose. The court avoided answering the latter question and instead focused on the interplay between privilege and trade secret law. Regardless of whether the court reached the proper conclusion, the decision relied on muddled reasoning and misapplication of precedent to determine that the website operators were not protected from disclosing confidential information. This case illustrates the complications that arise from the changing nature of journalism and a need for the law to account for this evolution in its treatment of such issues.

88. *Apple Computer, Inc. v. Doe No. 1*, No. 1-04-CV-032178, at 9-10 (Cal. Super. Ct. Mar. 11, 2005) (order denying motion for protective order).

89. *Id.* at 10.

90. *Id.*

91. *Id.* at 11.

92. *Id.*

93. *Id.* at 13.

A. Critique of the *Apple* Decision

1. *The Court Wrongly Applied Branzburg to a Civil Matter*

The reliance on *Branzburg* in analyzing this case was a misapplication of a criminal standard to a civil action. The *Branzburg* Court dealt with the very limited question of whether reporters called to testify before a grand jury should be required to divulge sources in furtherance of an investigation.⁹⁴ Holding that the First Amendment does not exempt journalists from performing their duty as citizens to aid such criminal investigations, the Court established one scenario under which reporters may be required to break from the confidential relationship.⁹⁵ Nonetheless, Justice Powell's concurrence is often cited in support of the concept of journalist's privilege.⁹⁶ While explaining that grand jury investigations are unique in nature and therefore subject to different standards, he noted situations in which a reporter may not be required to disclose confidential information:

If the newsman is called upon to give information bearing only a remote and tenuous relationship to the subject of the investigation, or if he has some other reason to believe that his testimony implicates confidential source relationships without a legitimate need of law enforcement, he will have access to the court on a motion to quash and an appropriate protective order may be entered. The asserted claim to privilege should be judged on its facts by the striking of a proper balance between freedom of the press and the obligation of all citizens to give relevant testimony with respect to criminal conduct.⁹⁷

Subsequent holdings have consistently recognized the limited application of this decision. For example, in *Zerilli v. Smith*, the D.C. Circuit held that "in civil cases, where the public interest in effective criminal law enforcement is absent, *Branzburg* is not controlling."⁹⁸ Because most civil actions do not implicate the constitutional rights of other individuals, courts have not been hesitant to side with the media.⁹⁹

94. *Branzburg v. Hayes*, 408 U.S. 665, 682 (1972).

95. *Id.* at 697.

96. *Id.* at 709-10 (Powell, J., concurring).

97. *Id.* at 710 (Powell, J., concurring).

98. 656 F.2d 705, 711 (D.C. Cir. 1981); *see also* *Mazzella v. Philadelphia Newspapers, Inc.*, 479 F. Supp. 523, 526 (E.D.N.Y. 1979) ("interests that (civil) litigants have in forcing disclosure are typically not as compelling"); *Gilbert v. Allied Chem. Corp.*, 411 F. Supp. 505, 510 (E.D. Va. 1976) (in civil cases the interests in disclosure are "much less weighty than those involved in criminal proceedings").

99. *See* *Marcus*, *supra* note 12, at 851.

The court in *Apple v. Does* erred in applying the standard articulated in *Branzburg* to the particular set of facts before it. Unlike the *Apple* case, *Branzburg* did not contemplate the theoretical possibility of criminal prosecution but instead answered specific questions brought before the Court. By applying *Branzburg*, the court portrayed the *Apple* case as a criminal one rather than focusing on the true nature of the proceeding—a private action to protect intellectual property rights.¹⁰⁰ In doing so, it failed to acknowledge the public interest in maintaining the confidentiality of the reporter-source relationship, affording greater weight to Apple's private interest in protecting proprietary information. Although there is a compelling interest in enforcing trade secret law, infringing upon the journalist's privilege by requiring the disclosure of confidential information was questionable in this case.

2. *The Court Misconstrued the Factors Set Out in Mitchell*

Mitchell v. Superior Court established the test for balancing the interests between discovery in a civil suit and the journalist's privilege of confidentiality.¹⁰¹ In *Apple*, the court's analysis of the five-factor test found that the overall balance favored disclosure of the confidential information. In doing so, the court correctly evaluated factors two and five but misconstrued the requirements set out in factors one, three, and four. Had the court properly applied the test, the balance likely would have weighed against disclosure.

a) Factor One: Is the Reporter a Party?

The first *Mitchell* factor states that less protection is afforded to cases where the entity asserting the privilege is a party to the suit.¹⁰² This is a necessary safeguard to prevent the use of such a privilege to protect oneself from the legal ramifications of allegedly illegal acts. However, the court's analysis glossed over the question of whether the journalists in question were parties to the suit, finding that this factor likely weighed in favor of disclosure. Apple argued, and the court agreed, that because the website operators *may* be members of the Doe group, and because Apple maintains the option to pursue action against them in the future, the court

100. *Apple Computer, Inc. v. Doe No. 1*, No. 1-04-CV-032178, at 8-9 (Cal. Super. Ct. Mar. 11, 2005) (order denying motion for protective order). ("Reporters and their sources do not have a license to violate criminal laws such as Penal Code § 499c . . . [and] journalists cannot refuse to disclose information when it relates to a crime.").

101. *Mitchell v. Superior Court*, 37 Cal. 3d 268 (1984).

102. *Id.* at 279.

should treat them as parties.¹⁰³ However, the website operators had yet to be named as parties to either a civil or criminal action for misappropriation of Apple's trade secrets. By treating the website operators as parties, the court failed to properly balance this consideration. Had the true standard been applied, this factor likely would have weighed against disclosure.

b) Factor Three: Have All Other Sources of Information Been Exhausted?

The third factor set out in *Mitchell* requires that discovery be denied unless all alternative sources of obtaining the necessary information have been exhausted. The court stated that “[c]ompulsory disclosure of sources is the ‘last resort,’ permissible only when the party seeking disclosure has no other practical means of obtaining the information.”¹⁰⁴ In the current case, Apple by no means met the requirement for exhausting all alternative sources of information. In fact, Apple's investigation was limited to simply questioning the twenty-six employees that had access to the trade secrets.¹⁰⁵

Merely interviewing employees, however, does not qualify as an adequate effort to obtain the information. Case law has demonstrated on several occasions that the party seeking the information faces a high burden, and that resorting to abridgement of the confidentiality privilege should be avoided unless absolutely necessary.¹⁰⁶ Faced with the question of whether compelled disclosure was appropriate in a case where the requesting party had not deposed individuals likely to have relevant information, the court in *Zerilli* held that “[a]ppellants cannot escape their obligation to exhaust alternative sources simply because they feared that deposing . . . employees would be time-consuming, costly, and unproductive.”¹⁰⁷ Along these same lines, the Second Circuit in *In re Petroleum Products Antitrust Regulation* required the parties to conduct further depositions before requesting confidential information.¹⁰⁸

103. Plaintiff Apple Computer, Inc.'s Opposition to Motion for Protective Order at 6-7, *Apple Computer, Inc. v. Doe No. 1*, No. 1-04-CV-032178 (Cal. Super. Ct. Feb. 25, 2005).

104. *Mitchell*, 37 Cal. 3d at 282.

105. Zonic Declaration, *supra* note 69, at 9.

106. *See, e.g.*, *Baker v. F & F Invest.*, 470 F.2d at 784 (2d Cir. 1972); *Gilbert v. Allied Chem. Corp.*, 411 F. Supp. 505 (E.D. Va. 1976); *KSDO v. Superior Court*, 136 Cal. App. 3d 375 (Ct. App. 1982); *Senear v. Daily Journal-Am.*, 641 P.2d 1180 (Wash. 1982); *Zerilli v. Smith*, 656 F.2d 705 (D.C. Cir. 1981).

107. *Zerilli*, 656 F.2d at 715.

108. *In re Petroleum Products Antitrust Litig.*, 680 F.2d 5, 8 (2d Cir. 1982).

Apple argued that questioning employees about the leak was sufficient to meet the requirement set out in *Zerilli* because the employees were at risk of being terminated if found to be untruthful.¹⁰⁹ This claim does not hold water. Deposition of a witness under oath—exposing her to legal repercussions for perjury—is much more likely to elicit the truth than a mere interview. The court’s finding in the current case that Apple’s efforts were adequate to meet this requirement was mistaken.

c) Factor Four: What is the Public Interest in Protecting Confidentiality?

The court’s analysis of the fourth *Mitchell* factor was an egregious mischaracterization of the requirements and purpose of that test. *Mitchell* examined the public interest in protecting the confidentiality of sources in a given case.¹¹⁰ Instead, the California Superior Court interpreted this factor as “the public good served by protecting the misappropriation of trade secrets.”¹¹¹ Such portrayal is contrary to the actual test. By defining the public interest as protecting misappropriation rather than protecting the free flow of information, the court failed to adequately consider this question. In fact, the court did not consider any factors other than Apple’s rights; therefore ignoring *Mitchell*’s call for a balancing of interests.

The court focused on whether the public interest was served by revealing Apple trade secrets, yet the proper test is whether the public is served by ensuring continued existence of the privilege of confidentiality. Stating that “an *interested public* is not the same as the *public interest*”¹¹² and that “movants are doing nothing more than feeding the public’s insatiable desire for information,”¹¹³ the court simply wrote off the notion that privilege might apply in this case.

3. *The Court Misread the California Shield Law*

Californians voiced their interest in protecting journalists from compelled disclosure of confidential information when they amended the state constitution to include such a provision.¹¹⁴ California’s shield law is now

109. Real Party in Interest Apple Computer, Inc.’s Response to Briefs of Amici Curiae at 21, *O’Grady v. Superior Court*, No. H028579 (Cal. Ct. App. Apr. 7, 2005).

110. *Mitchell*, 37 Cal. 3d at 282-83 (“[T]he court should consider the importance of protecting confidentiality in the case at hand.”).

111. *Apple Computer, Inc. v. Doe No. 1*, No. 1-04-CV-032178, at 9-10 (Cal. Super. Ct. Mar. 11, 2005) (order denying motion for protective order).

112. *Id.* at 12.

113. *Id.*

114. Proposition 5, passed in 1980, states:

codified in both the Evidence Code as well as the California Constitution and protects journalists from being adjudged in contempt for “refusing to disclose any unpublished information.”¹¹⁵

The *Apple* court’s analysis focused on the limitations rather than the protections granted by a shield law. Holding that the shield law offers only the limited protection from being found in contempt, the court failed to acknowledge the significance of such protection.¹¹⁶ *Mitchell*, along with other cases, has recognized that contempt is the only effective remedy against non-party witnesses; thus, California law, in effect, grants an absolute protection.¹¹⁷

The court’s focus on the potential for, rather than absence of, criminal prosecution confused the issue once again. From this standpoint, the court argued that the shield law does not allow any person to violate criminal laws.¹¹⁸ Although this statement is true, it fails to address the real question of whether California law protects a third-party journalist from compelled disclosure as part of a civil suit. The action in question was not a criminal proceeding against the website operators, but a civil suit against unnamed defendants in which a third-party internet service provider was subpoenaed for private information.¹¹⁹

B. Journalism Today

1. Trade Secrets, the Internet, and the Journalist’s Privilege

The rationale behind the journalist’s privilege is simple: ensuring confidentiality of sources encourages the dissemination of important informa-

A publisher, editor, reporter, or other person connected with or employed upon a newspaper, magazine, or other periodical publication, or by a press association or wire service, or any person who has been so connected or employed, shall not be adjudged in contempt by a judicial, legislative, or administrative body, or any other body having the power to issue subpoenas, for refusing to disclose the source of any information procured while so connected or employed for publication in a newspaper, magazine or other periodical publication, or for refusing to disclose unpublished information obtained or prepared in gathering, receiving or processing of information for communication to the public.

CAL. CONST. art. I § 2(b)

115. CAL. EVID. CODE § 1070 (2005); CAL. CONST. art. I § 2(b).

116. *Apple Computer, Inc. v. Doe No. 1*, No. 1-04-CV-032178, at 10-11 (Cal. Super. Ct. Mar. 11, 2005) (order denying motion for protective order).

117. *Mitchell*, 37 Cal. 3d at 274.

118. *Apple Computer, Inc. v. Doe No. 1*, No. 1-04-CV-032178, at 11 (Cal. Super. Ct. Mar. 11, 2005) (order denying motion for protective order).

119. *Id.* at 2-4.

tion, thereby creating a more informed society.¹²⁰ Blackstone recognized the importance of this concept at English common law and argued that “liberty of the press is indeed essential to the nature of a free state.”¹²¹ The interaction between this protection and criminal law raises difficult questions about competing values that form the basis of our system. On one hand, the privilege may, at times, hinder investigations by preventing discovery of critical information. However, the existence of such an exception may, at other times, be crucial in furthering the policing function of the press and the enlightenment of the public. Whereas a finding that no privilege exists may aid in solving an immediate crime by providing short-term information gain, in the long term, repeated denial of the privilege would likely result in fewer sources coming forward to work with the press and, thus, fewer crimes being solved overall.

The degree to which claims of trade secret misappropriation should alter the traditional application of the privilege depends largely on the type of legal action involved and the importance of discovering the information in question. For example, criminal prosecution for trade secret misappropriation is arguably of greater public importance than a private action seeking damages because it serves the larger function of preventing public harm. Despite the interest in protecting proprietary information, trade secret law must comport with First Amendment doctrine. Yet the California Superior Court failed to recognize this distinction in its analysis of *Apple v. Does*.

2. *The Difficulty of Defining “Journalists”*

With expanding communications media and the accessibility of the internet, the opportunities to make one’s voice heard abound. In an age when any person can write and publish an article, a standard must be established to determine which rules should govern such publications. The flawed and seemingly ad hoc reasoning behind the California Superior Court’s holding indicates a hesitancy to address this question. Although purportedly an issue of furthering the public interest in protecting trade secrets, the effort of the court to stretch current law in order to find in favor of disclosure may imply a different rationale.

One possible reason for such a finding would be to avoid the question of whether bloggers qualify as journalists and whether they are, thus, able to claim the privilege. By simply finding that privilege did not apply in the current case, the court easily avoided this issue. Had the court found that

120. Marcus, *supra* note 12, at 815-16.

121. SMOLLA, *supra* note 11, § 1.5.

privilege may apply in such a case, it would have then been forced to rule on whether privilege applies to the parties in question. The implications of this question reach much further than the limited holding that disclosure was appropriate in the *Apple* case.

Previous courts have grappled with the definition of journalist and generally found that the applicability of privilege hinges on the intent at the outset of the information gathering process.¹²² For example, the Second Circuit denied the privilege to the author of an unpublished manuscript about a high-profile attempted murder case after she failed to show intent to disseminate the information to the public at the inception of the process.¹²³ Following the same reasoning, the Ninth Circuit held that privilege applied to the author of an investigative book, since the information was gathered with the intent to publish.¹²⁴

Had the *Apple* court addressed the question, it likely would have employed one of three basic approaches. First, the court could have focused on who is gathering the information and whether the individual is associated with an established news media organization. Another approach is to consider what product the individual will likely produce from the information-gathering process. Considering whether it is news of political interest, criminal activity, or mere gossip would provide some metric for measuring whether such activity qualifies as journalism. A third approach focuses on the process and intent of the information gathering. Of these three considerations, the intent-based test yields the fairest results.

By considering who is gathering the information, courts would likely favor media conglomerates over smaller publications. Such a distinction is unfair and incompatible with one of the key purposes of journalism—to offer opposing viewpoints to the public. Expanding mediums of communicating information offer a new context for evaluation of these questions. A test that favors major media companies discourages representation of the full host of ideas and criticisms that help to shape an informed citizenry. The proliferation of internet journalism has changed the traditional mold that defines the “who,” so considering only the credentials of the information gatherer simply begs the question.

122. See *von Bulow v. von Bulow*, 811 F.2d 136 (2d Cir. 1987) (establishing that the test is whether person seeking to invoke privilege had “the intent to use material—sought, gathered, or received—to disseminate information to the public and [whether] such intent existed at the inception of the newsgathering process”); *Shoen v. Shoen*, 5 F.3d 1289 (9th Cir. 1995) (holding that the author of an investigative book had standing to invoke journalist’s privilege).

123. *von Bulow*, 811 F.2d at 145-46.

124. *Shoen*, 5 F.3d at 1294.

The same type of problem arises in focusing on the product of the information-gathering process. Evaluation of the type of news produced is, by its very nature, a subjective analysis. The implications of relying on such an analysis could lead to unfair treatment of publications based on the type of information they report. Information that may not seem important in one instance may be critical in others. Furthermore, subjective analysis of what constitutes newsworthy information should not be left in the hands of courts.

Because of the problems presented by these first two approaches, a focus on the purpose behind the gathering of information is a far more appropriate method to ensure fair treatment of entities claiming to be journalists. Not only is this approach the most compatible with the core principles of journalism, it also furthers the public interest in maintaining the free flow of information. By adhering to a standard that examines the reason an entity obtained information, courts wield an objective tool of analysis that will allow them to make judgments without becoming distracted by considerations of whether the product is newsworthy or whether the source is reputable.

The growing community of bloggers presents a striking example of the difficulties inherent in creating such definitions. One of the problems of expanding the definition of journalism is the lack of mechanisms to ensure ethical behavior and adherence to a certain level of professionalism. The codes of ethics and community standards that characterize traditional journalism go far in regulating the conduct of the profession. However, as the class of journalists expands the continued efficacy of these norms may come into question.

IV. CONCLUSION

Apple Computer, Inc. v. Does illustrates the growing difficulties posed for both trade secret law and journalism by the proliferation of internet communication. In hearing this case, the court passed on the opportunity to answer the questions raised by these conflicts. However, these issues will undoubtedly persist and become more prevalent, eventually forcing courts or legislatures to create standards for dealing with similar situations. In doing so, courts should consider the purpose behind the journalist's privilege and hesitate before deeming certain practices unworthy based on the medium through which they are performed. Defining a standard that reaches beyond traditional conceptions of journalism will prove crucial to address the changing nature of communication in today's increasingly wired society.

ADDITIONAL DEVELOPMENTS—TRADE SECRET

DIGITAL ENVOY, INC. v. GOOGLE, INC.

370 F. Supp. 2d 1025 (N.D. Cal. 2005)

2005 U.S. Dist. LEXIS 33855 (N.D. Cal. Sept. 8, 2005)

2005 U.S. Dist. LEXIS 27939 (N.D. Cal. Nov. 8, 2005)

2006 U.S. Dist. LEXIS 6454 (N.D. Cal. Jan. 24, 2006)

2006 U.S. Dist. LEXIS 6449 (N.D. Cal. Jan. 25, 2006)

In three separate rulings, the District Court for the Northern District of California decided that the California Uniform Trade Secrets Act (UTSA) preempts state unfair competition and unjust enrichment claims.

Digital Envoy, Inc., developed a technology that, by referencing a user's internet protocol address, could approximate the user's geographic location. Google, Inc. licensed the technology for use in its AdWords program. The AdWords program works by analyzing search terms entered by users and returning advertisements relevant to their search. Digital Envoy's technology expanded the AdWords program's capabilities, allowing the program to return geographically appropriate advertisements. After licensing the technology, Google launched AdSense, a program similar to AdWords, but which displays advertisements on the websites of third parties. Digital Envoy sued, claiming that Google's use of its technology in its AdSense program amounted to "distributing" and "sharing" Digital Envoy's database, violating the licensing agreement between the parties. Digital Envoy claimed relief based upon: (1) misappropriation of trade secrets in violation of the UTSA; (2) unfair competition under the Lanham Act, 15 U.S.C. § 1125(a); (3) unfair competition under the California Business Code; (4) unfair competition based upon state common law; (5) unjust enrichment; and (6) breach of contract.

Google moved for summary judgment on all claims asserting that the license agreement permitted Google's use of Digital Envoy's technology, that Digital Envoy's state common law claims for unfair competition, unjust enrichment, and breach of contract are preempted by the California Uniform Trade Secrets Act ("CUTSA"), Cal. Civ. Code § 3426.7(b), and that Digital Envoy cannot sustain its Lanham Act claim as a matter of law. The magistrate judge, sitting by consent of both parties, rejected Google's assertion regarding the licensing agreement, finding instead that the license was reasonably susceptible to meanings offered by both corporations, which raised a genuine issue of material fact. The magistrate agreed

with Google that Cal. Civ. Code § 3426.7(b) preempted Digital Envoy's claims for unfair competition and unjust enrichment because section 3426.7(b) explicitly states that the CUTSA does not preempt claims based upon breach of contract or "other claims that are not based on trade secret misappropriation," and reasoned that "there would be no need for inclusion of this provision in California's statutory scheme unless the UTSA preempted other claims based upon misappropriation." The magistrate also granted summary judgment on Digital Envoy's Lanham Act claim because Digital Envoy and Google were not "commercial competitors." The magistrate allowed the case to proceed on Digital Envoy's claims alleging misappropriation of trade secrets and breach of contract.

In September 2005, the court denied Digital Envoy's motion for summary judgment, stating that the license agreement expressly prohibited Google from licensing its proprietary technology to third parties, and that Google violated that prohibition by providing such access as a component of Google's AdSense program.

In November, Google moved for partial summary judgment, asserting that their contract barred or circumscribed the recovery of an aggrieved party absent "willful misconduct." Google further argued that Digital Envoy could not recover damages for trade secret misappropriation under Cal. Civ. Code § 3426.3(a) because Digital Envoy could not establish a causal nexus between Google's alleged misuse of Digital Envoy's proprietary technology and any gain received by Google. Digital Envoy disputed both assertions. The court granted summary judgment with regard to Digital Envoy's claims for actual damages, which the court concluded were barred by the terms of the agreement. Digital Envoy, however, was not precluded from seeking "unjust enrichment" for its claim for trade secret misappropriation.

In January of 2006, the court granted Google's motion for partial summary judgment regarding damages. The next day, however, the court vacated this judgment due to the pendency of amended counterclaims filed by Google.

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CYBERLAW

E-MAIL PRIVACY AFTER *UNITED STATES V. COUNCILMAN*: LEGISLATIVE OPTIONS FOR AMENDING ECPA

By Katherine A. Oyama

In 1986, Congress passed the Electronic Communications Privacy Act (ECPA) to update federal surveillance law and establish privacy safeguards for emerging technologies.¹ ECPA amended Title III of the Omnibus Crime Control and Safe Streets Act of 1968²—the federal wiretap law—which until then protected voice, but not electronic, communications from interception. ECPA restructured the earlier law into three major sections: Title I (the Wiretap Act), Title II (the Stored Communications Act, or SCA), and Title III (the Pen Register Act).³ Passed prior to the public adoption of the internet for daily communication purposes,⁴ ECPA pro-

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1. Pub. L. No. 99-508, S. REP. NO. 99-541, at 1, *reprinted in* 1986 U.S.C.C.A.N. at 3555 (stating that ECPA’s purpose was to clarify federal privacy protections amid advances in technology and establish federal protections for electronic communications); *see also In re Pharmatrak Privacy Litig.*, 329 F.3d 9, 18 (1st Cir. 2003) (“The paramount objective of the Wiretap Act is to protect effectively the privacy of communications.”).

2. Pub. L. No. 90-351, S. REP. NO. 90-1097 (1968); *see also* DANIEL J. SOLOVE & MARC ROTENBERG, *INFORMATION PRIVACY LAW* 323 (2003).

3. *See* Wiretap Act, 18 U.S.C. §§ 2510-2522 (2000 & Supp. II 2002); Stored Communications Act, 18 U.S.C. §§ 2701-2711 (2000 & Supp. II 2002); Pen Register Act, 18 U.S.C. §§ 3121-3127 (2000 & Supp. II 2002). This Note does not address the Pen Register Act which governs the use of devices that trace “envelope information” (including “addressing and routing information” for e-mail) as opposed to the Wiretap Act and the Stored Communication’s Act provisions governing “content information.” Orin S. Kerr, *Internet Surveillance Law After the USA PATRIOT Act: The Big Brother That Isn’t*, 97 NW. U. L. REV. 607, 611 (2003). This Note also does not address the Foreign Intelligence Surveillance Act (FISA), 50 U.S.C. §§ 1801-1863 (2000 & Supp. II 2002) which governs the U.S. government’s “foreign intelligence” surveillance activities as opposed to ECPA’s provisions governing domestic surveillance by ordinary law enforcement.

4. The number of U.S. internet users in 1986 was estimated to be 64,000 people. Roger J. Rusch & Robert Sharples, *Ten Small Technological Surprises Along The Road To The 21st Century*, SATELLITE NEWS, June 25, 2001. By 1994, only two percent of U.S. households had internet access. DIV. OF SCI. RES. STUDIES, NAT’L SCI. FOUND., THE AP-

vides the statutory framework governing the interception of electronic communications under the Wiretap Act⁵ and access to stored electronic communications under the SCA.⁶

The First Circuit's recent en banc decision in *United States v. Councilman* raises concern about the continued viability of ECPA's provisions.⁷ In *United States v. Councilman*,⁸ a divided panel of the First Circuit held that an Internet Service Provider's real-time surveillance of its customers' e-mail during the course of transmission did not violate the Wiretap Act because the communication was obtained from temporary storage rather than a non-storage component of the internet's vast e-mail infrastructure.⁹

PLICATION AND IMPLICATIONS OF INFOR. TECHNOLOGIES IN THE HOME: WHERE ARE THE DATA AND WHAT DO THEY SAY: THE SOCIODEMOGRAPHICS OF ACCESS AND ADOPTION (2001), available at <http://www.nsf.gov/statistics/nsf01313/pdf/front.pdf>. A 2005 study found that sixty-three percent of American adults — approximately 128 million people — use the internet. PEW INTERNET & AM. LIFE PROJECT, INTERNET: THE MAINSTREAMING OF ONLINE LIFE 58, available at http://www.pewinternet.org/pdfs/Internet_Status_2005.pdf. The study also found that “[E]mail is still the killer app. It is the No. 1 activity and time consumer for the vast majority of Internet users.” *Id.* at 63.

5. 18 U.S.C. § 2511 (2000); see, e.g., Daniel J. Solove, *Reconstructing Electronic Surveillance Law*, 72 GEO. WASH. L. REV. 1264, 1278-79 (2004).

6. 18 U.S.C. § 2701 (2000); see, e.g., Solove, *supra* note 5, at 1279; see also Deirdre K. Mulligan, *Reasonable Expectations in Electronic Communications: A Critical Perspective on the Electronic Communications Privacy Act*, 72 GEO. WASH. L. REV. 1557, 1557 (2004).

7. 418 F.3d 67 (1st Cir. 2005) [hereinafter *Councilman III*]; see *Konop v. Hawaiian Airlines, Inc.*, 302 F.3d 868, 874 (9th Cir. 2002) (“ECPA was written prior to the advent of the Internet . . . the existing statutory framework is ill-suited to address modern forms of communication . . .”); *United States v. Steiger*, 318 F.3d 1039, 1047 (11th Cir. 2002) (“Until Congress brings [ECPA] in line with modern technology, protection of the Internet . . . will remain a confusing and uncertain area of the law.”) (citation omitted); see also Patricia L. Bellia, *Surveillance Law Through Cyberlaw's Lens*, 72 GEO. WASH. L. REV. 1375, 1396-97 (arguing that “[s]tored communications have evolved in such a way that these provisions, often referred to as the Stored Communications Act (“SCA”), are becoming increasingly outdated and difficult to apply”); Mulligan, *supra* note 6, at 1559 (concluding that “[m]any who supported [ECPA] would agree that it has failed to keep pace with changes in and on the Internet and therefore no longer provides appropriate privacy protections”).

8. 373 F.3d 197, 198 (1st Cir. 2004) [hereinafter *Councilman II*], *reh'g en banc granted* and *opinion withdrawn* by, 385 F.3d 793 (2004), *rev'd* by, 418 F. 3d 67 (1st Cir. 2005) (noting that “[i]t may well be that the protections of the Wiretap Act have been eviscerated as technology advances”).

9. See *Councilman II*, 373 F.3d at 203 (stating that “the e-mails in this case were accessed by the procmail as they were *being transmitted and in real time*”) (emphasis added).

Following widespread public criticism,¹⁰ the First Circuit agreed to rehear the case en banc and reversed the decision.¹¹ The en banc court concluded that the Wiretap Act applies to an electronic communication in transient, electronic storage intrinsic to the communication process.¹² Thus, an electronic communication in temporary, electronic storage may be covered by both the Wiretap Act and the SCA.

Although Councilman may now be held liable under the Wiretap Act, a growing body of case law underscores the importance of the SCA for governing internet surveillance law.¹³ Given the constantly changing nature of technology and the increased use of electronic communications, it is imperative that Congress amend ECPA and close the gap in privacy safeguards for e-mail highlighted in *Councilman*. The all-or-nothing disparity in privacy protection from ISP surveillance afforded to an e-mail under the Wiretap Act and the SCA results in judicial determinations of ISP criminal liability based on minor—and sometimes even arbitrary—differences in surveillance technology rather than the underlying privacy interests at stake.¹⁴ In addition, it is equally important that courts use a principled rather than technology-dependent approach in interpreting ECPA's underlying intent.

This Note argues that the SCA's liability exemption for service providers is overbroad. Part I provides an overview of ECPA and describes key cases governing e-mail surveillance by state and private actors. Part II discusses the *Councilman* cases. Part III analyzes three statutory problems that remain despite the First Circuit's enlightened en banc decision and evaluates the arguments for and against proposed ECPA amendments to increase privacy protections for electronic communications.

This Note concludes that in the short term, Congress should amend ECPA's definition of "intercept" to protect the public interest in a secure electronic communications network and limit the broad service provider

10. See, e.g., *Intercepting E-Mail*, N.Y. TIMES, July 2, 2004, at A18 (stating that *Councilman* "sets up a frightening precedent, one that must be reversed by the courts, if not the Congress"); see also Mark Jewell, *Court Allows E-Mail Interception, Raising Privacy Questions*, USA TODAY, June 30, 2004, http://www.usatoday.com/tech/news/internetprivacy/2004-06-30-scotus-e-mail-intercept_x.htm; Kim Zetter, *Court Creates Snoopers' Heaven*, WIRED NEWS, July 6, 2004, <http://www.wired.com/news/privacy/0,1848,64094,00.html>.

11. *Councilman III*, 418 F.3d at 69.

12. *Id.* at 79.

13. See *infra* Section I.C.

14. See *Councilman II*, 373 F.3d 197, 200 n.3 (1st Cir. 2004) ("In this appeal, we are more concerned with the mechanism used to send and receive e-mail and therefore highlight those sections of the stipulation.").

exception for ISPs. Congress should also reconsider the larger issue of electronic communications privacy generally and e-mail communications specifically to ensure that electronic surveillance law keeps pace with advancements in technology.

I. THE ELECTRONIC COMMUNICATIONS PRIVACY ACT (ECPA)

This Part discusses the constitutional framework and statutory provisions that specify the conditions under which law enforcement may intercept wire, oral, and electronic communications and the penalties for unauthorized interceptions.

A. The Constitutional Framework

The Supreme Court has interpreted the U.S. Constitution as providing a fundamental “right to privacy,” located within the undefined “penumbras” of the Bill of Rights¹⁵ and the Fourteenth Amendment’s concept of personal liberty.¹⁶ The concept of personal liberty contained in the Bill of Rights guarantees a “right to privacy” encompassing both “explicit protection against government intrusion into the home and personal effects”¹⁷ and “implicit protection of autonomy and free choice.”¹⁸

In *Katz v. United States*,¹⁹ the Supreme Court found that the Fourth Amendment requires law enforcement to obtain a search warrant when monitoring phone calls made from a public telephone booth. In his concurrence in *Katz*, Justice Harlan articulated the “reasonable expectation of privacy test” for determining whether the Constitution protects an individ-

15. *Griswold v. Connecticut*, 381 U.S. 479, 483-85 (1965) (stating that the U.S. Constitution protects the right to privacy although its text does not explicitly reference the term “privacy”). For example, privacy is protected by the First Amendment’s freedom of association clause and guarantee of the right to speak anonymously, the Third Amendment’s protection for privacy of the home, the Fourth Amendment’s guarantee that people have the right “to be secure in their persons, houses, papers, and effects, against unreasonable searches and seizures . . .” and the Fifth Amendment’s right against self-incrimination. DANIEL J. SOLOVE & MARC ROTENBERG, *INFORMATION PRIVACY LAW* 20-21 (2003) (citing U.S. CONST. amends. I, III-V).

16. U.S. CONST. amend. IV (“[N]or shall any State deprive any person of life, liberty, or property, without due process of the law . . .”).

17. Will Thomas DeVries, Note, *Protecting Privacy in the Digital Age*, 18 BERKELEY TECH. L.J. 283, 286 (2003).

18. *Id.*

19. 389 U.S. 347, 353 (1967) (overturning *Olmstead v. United States*, 277 U.S. 438 (1928), in which the Court found no reasonable expectation of privacy against wiretaps, and finding that individuals have a reasonable expectation of privacy in telephone conversations).

ual's right to privacy from intrusion by the government.²⁰ The two-pronged test requires that (1) an individual "have exhibited an actual (subjective) expectation of privacy,"²¹ and (2) "the expectation be one that society is prepared to recognize as [objectively] 'reasonable.'"²²

In *United States v. Miller*,²³ the Supreme Court held that an individual loses her substantive due process right to information privacy²⁴ once information is "revealed" to a third-party service provider. Perhaps, as internet technology advances, the law will recognize a constitutionally-protected expectation of privacy in the content of e-mail messages.²⁵ For now, ECPA's procedural safeguards concerning stored communications address the gap left by the unclear application of the Fourth Amendment to cyberspace. ECPA's statutory framework is thus increasingly important to protecting personal privacy in the digital age.

B. The Legislative Framework

In *Councilman III*, the court analyzed two statutory schemes, the Wiretap Act and the SCA, to determine which law governed the company's e-mail surveillance activities.²⁶ Professor Daniel J. Solove expressed a commonly-held view concerning the scope of the Wiretap Act as follows: "[i]f a communication is being transmitted from its origin to a destination, the Wiretap Act applies; if it is stored electronically in a computer, the Stored Communications Act governs."²⁷ An overview of ECPA's relevant provisions is provided below.

20. *Id.* at 361 (Harlan, J., concurring). See generally DANIEL J. SOLOVE & MARC ROTENBERG, *INFORMATION PRIVACY LAW* 21 (2003).

21. *Katz*, 389 U.S. at 361.

22. *Id.*

23. 425 U.S. 435 (1976) (holding that defendant had no reasonable expectation of privacy in personal financial records revealed to a third-party bank).

24. See, e.g., *Whalen v. Roe*, 429 U.S. 589, 598-600 (1977) (finding a constitutionally-protected zone of privacy that includes the interest in avoiding disclosure of personal matters).

25. Professor Bellia argues that *Miller* and *Katz* should not be read as holding that mere reliance on a third party to transmit a communication eliminates an expectation of privacy in the contents of the message. Bellia, *supra* note 7, at 1405 ("[W]ith respect to Internet communications, neither the service provider's technical ability to gain access to the contents of a communication, nor the ability of the communication's recipient to reveal the contents of the communication, should, without more, eliminate a subscriber's expectation of privacy in communications stored with a service provider.").

26. 418 F.3d 67, 80 (1st Cir. 2005).

27. Solove, *supra* note 5, at 1283.

1. *The Wiretap Act*

Before ECPA, the federal wiretap laws protected only wire (voice) and oral communications from interception.²⁸ Title I of ECPA, the Wiretap Act, extended the federal wiretap law's protections to electronic communications.²⁹ The Wiretap Act makes it illegal for anyone to "intentionally intercept[] . . . any wire, oral, or electronic communication"³⁰ and governs communications in transit.³¹ The term "intercept" is currently defined in the Wiretap Act as the "acquisition of the contents of any wire, electronic, or oral communication through the use of any electronic, mechanical, or other device."³² In 2001, Congress passed the USA PATRIOT Act and amended ECPA's definition of "wire communication" by moving the protection of stored voice communications—such as voice-mail messages—from the Wiretap Act to the SCA.³³

Under the Wiretap Act, wire and electronic service providers are exempt from the interception provisions in the Act only if the interception occurs during the normal course of business and is necessary to provide the service.³⁴ Specifically, the Wiretap Act states that an operator of a switchboard, or an agent of a telecommunications or electronic communications service provider, may intercept a communication in the normal

28. See Pub. L. No. 90-351, S. REP. NO. 90-1097 (1968).

29. S. REP. NO. 99-541, at 1, *reprinted in* 1986 U.S.C.C.A.N. at 1. ECPA defines "electronic communication" as "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 . . . but does not include . . . any wire or oral communication . . ." 18 U.S.C. § 2510(12) (2000).

30. 18 U.S.C. § 2511(1)(a) (2000).

31. See *Steve Jackson Games, Inc. v. U.S. Secret Serv.*, 36 F.3d 457, 458 (5th Cir. 1994) (holding that interception of an "electronic communication" under the Wiretap Act requires that the acquisition of the contents of a communication occurs *contemporaneous with its transmission*).

32. 18 U.S.C. § 2510(4) (2000).

33. Pub. L. No. 107-56, 115 Stat. 272 (2001). Prior to the amendment, ECPA defined "wire communication" as:

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 . . . furnished or operated by any person engaged in providing or operating such facilities for the transmission of interstate or foreign communications or communications affecting interstate or foreign commerce *and such term includes any electronic storage of such communication.*

18 U.S.C. § 2510(1) (2000) (emphasis added). After the amendment, the reference to electronic storage was deleted from the definition of "wire communication." 18 U.S.C. § 2510(1) (2000 & Supp. II 2002).

34. 18 U.S.C. § 2511(2)(a)(i) (2000).

course of employment while engaged in an activity necessary to render the service.³⁵ However, the Act prohibits service providers from engaging in random monitoring and observing except in the case of service-quality control checks.³⁶

A second exception under the Wiretap Act applies if one of the parties to the communication consents to the surveillance.³⁷ Therefore, private individuals and law enforcement agents may secretly record a communication to which they are a party. However, the consent exception does not apply when an interception is carried out for the purpose of committing a criminal or tortious act in violation of state or federal law.³⁸

Communications governed by the Wiretap Act enjoy generous protection. Law enforcement must seek court orders to obtain the protected communications and offenders face serious criminal sanctions.³⁹ Under the Wiretap Act, a request for an electronic surveillance order must be made by a high-level official to a court under oath,⁴⁰ and a federal judge must find that (1) particular communications concerning a specific offense will be obtained through the interception (the probable cause requirement),⁴¹ and (2) alternatives to wiretapping either failed or are unlikely to succeed (the minimization requirement).⁴²

Under the Wiretap Act's exclusionary rule, "[a]ny aggrieved person . . . may move to suppress the contents of any wire or oral communication

35. See 18 U.S.C. § 2511(2)(a)(i) which states:

It shall not be unlawful under this chapter for an operator of a switchboard, or an officer, employee, or agent of a provider of wire or electronic communication service, whose facilities are used in the transmission of a wire or electronic communication, to intercept, disclose, or use that communication in the normal course of his employment while engaged in an activity which is a necessary incident to the rendition of his service or to the protection of the rights or property of the provider of that service, except that a provider of wire communication service to the public shall not utilize service observing or random monitoring except for mechanical or service quality control checks.

Id. The Act also makes it illegal for a service provider to disclose a communication while in transmission. 18 U.S.C. § 2511(3)(a).

36. *Id.* § 2511(2)(a)(i).

37. *Id.* § 2511(2)(c)-(d).

38. *Id.* § 2511(2)(d).

39. Professor Orin Kerr refers to a court order under the Wiretap Act as a "super search warrant." Kerr, *supra* note 3, at 621.

40. 18 U.S.C. §§ 2516, 2518(1) (2000).

41. *Id.* § 2518(3).

42. *Id.* § 2518(1)(c).

intercepted pursuant to this chapter, or evidence derived therefrom.”⁴³ However, because the exclusionary rule explicitly lists only wire and oral communications, this suppression remedy does not protect electronic communications.⁴⁴ Thus, a defendant in a criminal trial can suppress evidence obtained by the illegal interception of a phone conversation but not an e-mail.⁴⁵ Finally, violations of the Wiretap Act can result in fines of a minimum of \$10,000 per violation⁴⁶ as well as up to five years’ imprisonment.⁴⁷

2. *The Stored Communications Act (SCA)*

Congress created the SCA to control access to stored electronic communications maintained by a service provider.⁴⁸ The SCA makes it illegal for anyone to “access[] without authorization a facility through which an electronic communication service is provided; or . . . exceed[] an authorization to access that facility; and thereby obtain[], alter[], or prevent[] authorized access to a wire or electronic communication while it is in electronic storage in such system.”⁴⁹ Under the SCA, violations can result in fines of up to \$1,000 per violation and up to one years’ imprisonment.⁵⁰ If the unauthorized access was committed for purposes of commercial gain, then the prison sentence may be increased to five years.⁵¹

ECPA defines “electronic storage” as “(A) any temporary, intermediate storage of a wire or electronic communication incidental to the electronic transmission thereof; and (B) any storage of such communication by an electronic communication service for purposes of backup protection of such communication.”⁵² The requirement that the electronic storage be temporary, intermediate storage “incidental” to the transmission under subsection A or for the purposes of backup protection under subsection B limits the scope of the SCA. According to the Department of Justice’s narrow construction of the term “electronic storage,” the contents of an e-mail

43. *Id.* § 2518(10)(a).

44. See Orin S. Kerr, *Lifting the “Fog” of Internet Surveillance: How a Suppression Remedy Would Change Computer Crime Law*, 54 HASTINGS L.J. 805, 824 (2003).

45. See Solove, *supra* note 5, at 1282.

46. 18 U.S.C. § 2520(c)(2)(B) (2000).

47. *Id.* § 2511(4)(a).

48. See *id.* § 2701(a)(1).

49. *Id.* § 2701(a)(1)-(2).

50. *Id.* § 2701(b)(1)-(2) (2000 & Supp. II 2002) (providing increased criminal punishment “if the offense is committed for purposes of commercial advantage, malicious destruction or damage, or private commercial gain, or in furtherance of any criminal or tortious act”).

51. *Id.*

52. *Id.* § 2510(17)(A)-(B).

communication stop being “temporary, intermediate storage” and fall outside ECPA’s scope once the recipient opens the e-mail.⁵³ The SCA also governs access to customer records. Customer record information includes the customer’s name, address, phone numbers, and billing records and is protected less rigorously than other forms of stored communications.⁵⁴

The SCA does not apply to “the person or entity providing a wire or electronic communications service.”⁵⁵ Thus, ISPs are exempt from liability under the SCA. Unlike the Wiretap Act’s service provider exemption, which is limited by a requirement that the interception occur during “the normal course of his employment while engaged in any activity . . . necessary . . . to the rendition of . . . service,”⁵⁶ the SCA’s service provider exception provides an absolute exemption regardless of purpose.⁵⁷ Similar to the Wiretap Act, the SCA also contains a consent exception.⁵⁸ The SCA immunizes conduct authorized “by a user of [an electronic communication service] with respect to a communication of or intended for that user.”⁵⁹

The procedure for obtaining permission to access a stored communication that has been in storage for 180 days or less is a regular warrant supported by probable cause.⁶⁰ For a communication that has been in storage for more than 180 days, the government must provide prior notice to the subscriber and obtain “an administrative subpoena, a grand jury subpoena,

53. COMPUTER CRIME AND INTELLECTUAL PROP. SECTION, U.S. DEP’T OF JUSTICE, SEARCHING AND SEIZING COMPUTERS AND OBTAINING ELECTRONIC EVIDENCE IN CRIMINAL INVESTIGATIONS § III.B 86-87 (2002) [hereinafter CCIPS MANUAL], available at <http://www.cybercrime.gov/s&smanual2002.htm>; see also *Fraser v. Nationwide Mut. Ins. Co.*, 135 F. Supp. 2d 623, 636 (E.D. Pa. 2001) (“[R]etrieval of a message from post-transmission storage is not covered by the Stored Communications Act. The Act provides protection only for messages while they are in the course of transmission.”), *aff’d on other grounds*, 352 F.3d 107 (3d Cir. 2003). *But see Theofel v. Farey-Jones*, 359 F.3d 1066, 1075-76 (9th Cir. 2004) (holding that the SCA applies to both read and un-read e-mail messages held in storage by an ISP).

54. 18 U.S.C. § 2703(c)(1)(C) (2000 & Supp. II 2002). The USA PATRIOT Act amended the list to include “records of session times and durations,” “any temporarily assigned network address,” and “any credit card or bank account number.” Solove, *supra* note 5, at 1283; see Pub. L. No. 107-56, § 210, 115 Stat. 272 (2001) (amending 18 U.S.C. § 2703(c)(2)).

55. 18 U.S.C. § 2701(c)(1) (2000). The SCA also exempts “a user of that service with respect to a communication of or intended for that user.” *Id.* § 2701(c)(2).

56. *Id.* § 2511(2)(a)(i).

57. *Id.* § 2701(c)(1).

58. *Id.* § 2702(b)(3).

59. *Id.* § 2701(c). The SCA also provides exceptions for disclosures to law enforcement under certain conditions. *Id.* § 2702(b) (2000 & Supp. II 2002).

60. *Id.* § 2703(a) (2000).

a trial subpoena, or a court order.”⁶¹ In this case, the government need only offer “specific and articulable facts showing that there are reasonable grounds” to believe the communications sought are “relevant and material to an ongoing criminal investigation.”⁶²

Overall, the SCA is considerably less stringent than the Wiretap Act. Whereas the Wiretap Act imposes strong procedural standards and penalties against the government, service providers, and third parties who intercept electronic messages, the procedure for law enforcement to obtain permission to access stored communications is less rigorous. For example, the SCA does not require a “super-warrant” before the government can access stored messages during a criminal investigation.⁶³ Subpoenas require neither probable cause nor judicial approval.⁶⁴ The SCA imposes lighter penalties for violations than the Wiretap Act. Consequently, communications have a higher level of protection during the process of transmission than when stored.

Comparing the Wiretap Act to the SCA yields three major observations: (1) the government can obtain stored e-mail more easily than in-transit e-mail, (2) no suppression remedy exists for unlawfully obtained stored electronic communications, and (3) ISPs have total immunity from the primary surveillance law protecting stored communications.

C. CASE LAW UNDER ECPA

This Section discusses key cases that have contributed to the legal analysis of whether an intercept under the Wiretap Act includes only electronic communications in transit or communications in electronic storage as well. Courts’ interpretation of ECPA terms such as “intercept,” “electronic communication,” and “electronic storage” have created a somewhat complicated and confusing body of law, which this Note recommends that Congress amend.⁶⁵

61. Solove, *supra* note 5, at 1284; *see* 18 U.S.C. § 2703(b).

62. 18 U.S.C. § 2703(d) (2000 & Supp. II 2002). If the government wants to access a communication that has been in storage for more than 180 days without prior notice, then a warrant is required. *Id.*

63. Solove, *supra* note 5, at 1284; *see also* CCIPS MANUAL, *supra* note 53, at 107-36.

64. Solove, *supra* note 5, at 1284 (noting that federal subpoena power has been analogized to a “blank check”).

65. *See* Bellia, *supra* note 7, at 1413 (concluding that the SCA is “complex and poorly understood”).

1. *Application of the Turk Contemporaneity Requirement to E-mail*

Although *United States v. Turk* is a pre-ECPA case, it is important to ECPA analysis because it laid the foundation of the “contemporaneity requirement” later used by courts to determine whether an interception has occurred.⁶⁶ In *Turk*, police officers seized two cassette tapes during an arrest and later played the tapes without obtaining a search warrant.⁶⁷ The Fifth Circuit held that the officers did not violate the interception provision of the pre-ECPA federal wiretap act (“Title III”).⁶⁸ The court stated that an interception occurs only when the communication is initially acquired by a recording device and heard simultaneously by the party who recorded it.⁶⁹ Thus, the court concluded that “no new and distinct interception” occurred when the officers replayed the tape recording.⁷⁰

In *Steve Jackson Games*, the Fifth Circuit confronted the line of demarcation between the Wiretap Act and the SCA.⁷¹ In so doing, the court examined the issue of whether an “intercept” under the Wiretap Act included only electronic communications in transit or whether it included *electronic storage* as well.⁷² The district court held that, under the *Turk* rationale, the Secret Service did not violate the Wiretap Act when it seized a computer owned by Steve Jackson Games and subsequently read and deleted electronic bulletin board system (“BBS”) e-mails stored on its hard drive.⁷³ The court found that the e-mail messages at issue were in electronic storage, and thus were not subject to interception within the meaning of the Wiretap Act.⁷⁴

The Fifth Circuit affirmed the decision noting that, unlike the definition of “wire communication,” the definition of “electronic communication” did not include electronic storage of such communications.⁷⁵ The *Steve Jackson Games* court followed *Turk* in concluding that an intercept under the Wiretap Act requires “the contemporaneous acquisition of the communication through the use of the [interception] device.”⁷⁶ This is

66. *United States v. Turk*, 526 F.2d 654 (5th Cir. 1976).

67. *Id.* at 656-57.

68. *Id.* at 656.

69. *See id.* at 658.

70. *Id.* at 659.

71. *Steve Jackson Games v. U.S. Secret Serv.*, 36 F.3d 457, 458 (5th Cir. 1994).

72. *Id.*

73. *Id.* at 459.

74. *Id.* at 459-60.

75. *Id.* at 461. The Fifth Circuit also noted that ECPA is “famous (if not infamous) for its lack of clarity.” *Id.* at 462.

76. *Id.* at 460 (citing *United States v. Turk*, 526 F.2d 654, 658 (5th Cir. 1976)).

known as the “contemporaneity requirement.” The court concluded that Congress did not intend for electronic communications in electronic storage to be subject to interception within the meaning of ECPA.⁷⁷ Thus, stemming from the decision in *Turk*, the term “interception” has been interpreted to require that the communication be intercepted while in transit.⁷⁸

The Fifth Circuit’s use of the “contemporaneity requirement” from *Turk* to analyze whether an interception occurred in *Steve Jackson Games* limits Wiretap Act protection to interception of communications that are in transit. In *Konop v. Hawaiian Airlines, Inc.*, the Ninth Circuit employed the “contemporaneity requirement” from *Steve Jackson Games* and similarly found that the Wiretap Act applies only to “acquisition contemporaneous with transmission.”⁷⁹ The *Konop* court reasoned that a message posted to a static, password-protected website was in electronic storage.⁸⁰ Thus, the message fell outside the purview of the Wiretap Act because it was not obtained during transmission.⁸¹ The key issue in *Councilman* was whether an e-mail in *temporary*, electronic storage may be considered an “electronic communication” for purposes of the Wiretap Act during the course of transmission.

2. *The SCA Service Provider Exception*

In *Bohach v. City of Reno*, two police officers sent messages to one another over the Reno Police Department’s paging system.⁸² Following an internal affairs investigation based on the contents of the messages, the officers filed a lawsuit claiming that the City’s retrieval of their stored messages violated ECPA.⁸³ The district court held that the plaintiffs had no claim under ECPA. It determined that the communication at issue was in electronic storage and thus not governed by the Wiretap Act’s restrictions on “interception” but rather by the SCA.⁸⁴ The court also found that

77. *See id.* at 461-62.

78. *See Fraser v. Nationwide Mut. Ins. Co.*, 352 F.3d 107, 113 (3d Cir. 2003) (“Every circuit court to have considered the matter has held that an ‘intercept’ under the ECPA must occur contemporaneously with transmission.”).

79. 302 F.3d 868, 878 (9th Cir. 2002).

80. *Id.* at 878-79.

81. *Id.*; *see also* *United States v. Ropp*, 347 F. Supp. 2d 831 (C.D. Cal. 2004) (finding that the installation of a keystroke detector on a computer did not violate the Wiretap Act because the real-time surveillance intercepted signals confined within a computer and not the internet network).

82. 932 F. Supp. 1232, 1233 (D. Nev. 1996).

83. *Id.*

84. *Id.* at 1236.

the City, as the “provider” of the “electronic communications service” at issue, could not be prosecuted under the SCA because the SCA “allows service providers to do as they wish when it comes to accessing communications in electronic storage.”⁸⁵

In *Fraser v. Nationwide Mutual Insurance Co.*,⁸⁶ plaintiff Fraser argued that when Nationwide, his employer, conducted a search of its main file server on which Fraser’s e-mail was stored, it violated the SCA.⁸⁷ The Third Circuit, however, relied on the *Bohach* analysis and exempted defendant, Nationwide, from liability due to its service provider status.⁸⁸ It concluded “[l]ike the court in *Bohach*, we read . . . [the SCA service provider exemption] literally to except from . . . [the SCA’s] protection all searches by communications service providers.”⁸⁹ The Third Circuit ceased its analysis of Fraser’s claim upon determining that Nationwide provided the service from which the e-mail was sent rather than evaluating whether or not Fraser’s expectation of e-mail privacy was reasonable within the context of his employment relationship with Nationwide.

Thus, *Bohach* and *Fraser* exemplify the degree to which a service provider receives a blanket exemption from liability once the communication at issue is considered to be in “electronic storage” under the SCA rather than “intercepted” within the meaning of the Wiretap Act. Under the SCA, service providers will not be held liable for reading their customers’ e-mail.

3. *The Increasing Importance of the SCA to Electronic Communications*

In *Theofel v. Farey-Jones*, the Ninth Circuit held that the SCA governs both read and unread e-mail messages stored by an ISP.⁹⁰ The Ninth Circuit reasoned that unread e-mail messages fit comfortably within the definition of “electronic storage” because the messages were stored “for purposes of backup protection.”⁹¹ In *Theofel*, the court found that the defen-

85. *Id.* at 1236.

86. 352 F.3d 107 (3d Cir. 2003).

87. *See id.* at 114-15.

88. *Id.* at 115.

89. *Id.*

90. The Ninth Circuit acknowledged that this interpretation is contrary to the Department of Justice’s interpretation that e-mail falls outside the scope of the SCA’s protections when the recipient reads it. *See Theofel v. Farey*, 359 F.3d 1066, 1071 (9th Cir. 2004); *see supra* note 53 and accompanying text.

91. *Theofel*, 359 F.3d at 1075 (“[A]n obvious purpose for storing a message on an ISP’s server after delivery is to provide a second copy of the message in the event that the

dant, Farey-Jones, gained access to more than 339 stored e-mails from Theofel's ISP, NetGate, and thus violated the SCA.⁹² The Ninth Circuit's approach in *Theofel* differs from the Fifth Circuit's holding in *Steve Jackson Games* that e-mail messages remaining on an ISP's server after delivery are not in "electronic storage" and thus fall outside the SCA's coverage.⁹³

Theofel is significant for two reasons. First, the Ninth Circuit affirmed the contemporaneity requirement for claims of unauthorized interception under the Wiretap Act.⁹⁴ Second, and more importantly, the court expanded the SCA's scope beyond the Department of Justice and other courts' understanding to include e-mails that are stored by an ISP after being opened by the recipient.⁹⁵ Prior to *Theofel*, e-mail fell outside of the SCA's scope once read because storage was no longer "incidental to [transmission]."⁹⁶ However, after *Theofel*, both read and unread e-mail fall under the SCA's provisions.

II. *UNITED STATES V. COUNCILMAN*—DESCRIPTION OF THE CASE

This Part discusses the First Circuit's highly anticipated en banc decision in *United States v. Councilman*, interpreting the Wiretap Act's intersection with the SCA.⁹⁷ The en banc court reversed the First Circuit's earlier 2-1 panel decision,⁹⁸ which held that the Wiretap Act does not protect an e-mail message if it was acquired from temporary storage, illuminating the difficulty courts face when interpreting ECPA's increasingly outdated provisions. The en banc court's reversal of the problematic decision is a positive step; however, the case highlights the pressing need for Congress to revisit ECPA's confusing provisions and update the law to ensure its relevance to present-day communications technology. This Note encourages Congress to amend ECPA, with a clear statement of federal protection for e-mail privacy.

user needs to download it again . . . [s]torage under these circumstances thus literally falls within the statutory definition.").

92. *Id.* at 1071-72.

93. *See Steve Jackson Games v. U.S. Secret Serv.*, 36 F.3d 457, 464 (5th Cir. 1994).

94. *Theofel*, 359 F.3d at 1075.

95. *Id.* at 1077-78.

96. *See* 18 U.S.C. § 2510(17) (2000).

97. 418 F.3d 67 (1st Cir. 2005).

98. *See Councilman II*, 373 F.3d 197, 203 (1st Cir. 2004), *reh'g en banc granted and opinion withdrawn by*, 385 F.3d 793 (1st Cir. 2004), *reversed by, Councilman III*, 418 F.3d 67 (1st Cir. 2005).

A. The First Circuit Decision (June 2004)

In *Councilman II*, a district court⁹⁹ in Massachusetts dismissed charges against Brad Councilman, former Vice President of Interloc, Inc. (“Interloc”), for copying and reading incoming messages sent to its customers’ e-mail accounts.¹⁰⁰ Interloc was an online literary service that paired its customers, rare and out-of-print book dealers, with book buyers.¹⁰¹ As part of its service, Interloc acted as an ISP and provided its customers with e-mail services.¹⁰²

According to the indictment, Councilman directed Interloc employees to “write computer code to intercept and copy all incoming communications from Amazon.com to subscriber dealers.”¹⁰³ Councilman and other Interloc employees routinely read these e-mails, seeking to gain commercial advantage over their competitor, Amazon.com.¹⁰⁴ The Amazon.com e-mails were monitored and copied in real-time as they entered the Interloc e-mail server, before being made available to subscribers.¹⁰⁵

The government charged Councilman with conspiring to engage in conduct prohibited by the Wiretap Act.¹⁰⁶ However, a divided First Circuit panel found that the plain language of ECPA showed that Congress did not intend that the Wiretap Act apply to electronic communications if they were in “electronic storage.”¹⁰⁷ According to the court, because the SCA includes the phrase “electronic storage,”¹⁰⁸ while the Wiretap Act’s definition of “electronic communications” does not,¹⁰⁹ Congress did not intend the interception provisions of the Wiretap Act to apply to electronic communications in storage, whether temporary or not.

99. See *United States v. Councilman*, 245 F. Supp. 2d 319 (D. Mass 2003) [hereinafter *Councilman I*], *aff’d*, 373 F.3d 197 (1st Cir. 2004), *reh’g en banc granted and opinion withdrawn by*, 385 F.3d 793 (1st Cir. 2004), on *reh’g en banc*, 418 F.3d 67 (1st Cir. 2005).

100. *Id.* at 198. The district court reconsidered Councilman’s motion to dismiss sua sponte following the Ninth Circuit’s decision in *Konop v. Hawaiian Airlines, Inc.*, 302 F.3d 868 (9th Cir. 2002). See *supra* Section I.C.1.

101. *Councilman II*, 373 F.3d at 198.

102. *Id.*

103. *Id.* at 199. For an overview of e-mail’s history and technology, see Electronic Mail, WIKIPEDIA: THE FREE ENCYCLOPEDIA, http://en.wikipedia.org/wiki/Electronic_mail (last visited Jan. 26, 2006).

104. *Councilman II*, 373 F.3d at 200.

105. *Id.* at 199.

106. *Id.* at 198.

107. *Id.* at 213.

108. 18 U.S.C. § 2701(a)(2) (2000).

109. *Id.* § 2510(12).

The court focused on Interloc obtaining the customer e-mails while they were in “temporary storage” in a computer system, even though such storage was momentary and the e-mails were immediately made available to the users.¹¹⁰ The court noted that the parties stipulated that the e-mails were not affected while they were transmitted through wires or cables between computer systems.¹¹¹ In light of these findings, the court determined that the e-mails were not “in transit” subject to the Wiretap Act protections against “interception,” but were instead stored communications.¹¹²

In his dissent, Judge Lipez argued that the Wiretap Act and not the SCA should control *Councilman II*. Citing legislative history¹¹³ and judicial precedent,¹¹⁴ he explained that the term temporary storage in the SCA referred to e-mails sitting in a user’s mailbox after transmission and prior to the user retrieving the e-mail from the mail server.¹¹⁵ He concluded that the Wiretap Act, not the SCA, covered e-mails still in transmission—regardless of where the e-mails resided on the internet’s complex physical infrastructure. Judge Lipez criticized the First Circuit’s limitation of the Wiretap Act’s protections to only e-mails traveling through cables.¹¹⁶ Lipez explained that, due to the internet’s decentralized architecture, e-mails stop temporarily during the delivery process when they pass through electronic switches and computers.¹¹⁷ He warned that removing Wiretap Act protection from e-mails whenever they stopped momentarily during transmission negated Congress’ purpose in passing ECPA: to protect electronic privacy.¹¹⁸

B. The First Circuit’s En Banc Decision (August 2005)

The First Circuit’s en banc decision acknowledged the “broad ramifications” of its reversal.¹¹⁹ Judge Lipez, now writing for the majority, explained that an e-mail is copied and stored repeatedly as it travels across the internet.¹²⁰ The court’s technical description of how e-mail works is

110. *Councilman II*, 373 F.3d at 203.

111. *Id.*

112. *See id.* at 204.

113. *Id.* at 211 (Lipez, J., dissenting) (“Councilman’s approach, which would apply the Stored Communications Act to e-mails during delivery, is undermined—not supported—by legislative history demonstrating that the purpose of the ECPA was to provide greater protections to electronic communications under the Wiretap Act.”).

114. *Id.* at 213-15.

115. *Id.* at 207.

116. *See id.* at 207-08.

117. *Id.* at 219.

118. *Id.*

119. *Councilman III*, 418 F.3d 67, 72 (1st Cir. 2005).

120. *Id.* at 70-72.

well-written and concise.¹²¹ The opinion explains how data is broken into small “packets” which are then forwarded across the internet from one computer to another “until they reach their destination where they are re-constituted.”¹²² Providing a refreshingly adept technical explanation, the opinion discusses e-mail protocol—Simple Mail Transfer Protocol (SMTP)—and e-mail’s integral “store and forward” delivery method.¹²³

Of most importance, the court addressed the disparity between the inclusion of the words “electronic storage” in the definition of “wire communication” (covering phone calls) and the absence of the term from the definition of “electronic communication” (covering e-mail).¹²⁴ First analyzing the statute’s plain text, the majority reasoned that although Congress inserted the term in one definition and not the other, the omission does not necessarily mean that Congress intended to exempt all electronic communications in electronic storage from the scope of the Wiretap Act.¹²⁵ The court applied the following canon of construction: “Where Congress includes particular language in one section of a statute but omits it in another section of the same Act, it is generally presumed that Congress acts intentionally and purposely in the disparate inclusion or exclusion.”¹²⁶ But the court also explained that this canon of construction “is most apt when Congress enacts a new, self-contained statute” and the two provisions are drafted with parallel language but for the use of a certain term.¹²⁷ Given ECPA’s complex legislative history, the lack of uniformity between the definitions of wire communication and electronic communication, the absence of the term “electronic storage” from the explicit exceptions contained in the definition of “electronic communications,” and the broad nature of the term “electronic communication,” the court found that this canon’s application to the statutory text is ambiguous.¹²⁸

121. *See id.* at 69-70.

122. *Id.* at 69 (citation omitted). The court expressed gratitude for the assistance of several amici curiae. *Id.* at 69 n.1; *see, e.g.*, Amicus Brief of The Center for Democracy and Technology et al., *United States v. Councilman*, 418 F.3d 67 (1st Cir. 2005) (No. 03-1383); Brief on Rehearing En Banc of *Amicus Curiae* Technical Experts in Support of Appellant, Urging Reversal, *United States v. Councilman*, 418 F.3d 67 (1st Cir. 2005) (No. 03-1383).

123. *Councilman III*, 418 F.3d at 69.

124. *Id.* at 71-72. Note that the pre-PATRIOT ACT language controls in *Councilman III*. *See supra* note 33 and accompanying text.

125. *Id.* at 76.

126. *Id.* at 73.

127. *Id.* at 74.

128. *Id.* at 72-76.

Second, the court analyzed ECPA's legislative history and reasoned that Congress included the term "electronic storage" in the definition of "wire communication" solely to bring voicemail within the Wiretap Act's scope.¹²⁹ Thus, the court found that the textual disparity was a result of congressional desire to *enhance* privacy protections for phone calls.¹³⁰ The majority of the en banc court refused to interpret the ambiguous disparity as evidence that Congress intended to remove electronic communications from the scope of the Wiretap Act for brief moments of storage during transmission.¹³¹ Based on these findings, the court rejected Councilman's arguments and ruled that "electronic communication" includes "transient" electronic storage "intrinsic to the communication process."¹³² Thus, Councilman's interception of e-mails in transient electronic storage is punishable under the Wiretap Act.

III. ANALYSIS AND RECOMMENDATIONS FOR LEGISLATIVE CHANGE

A. Analysis of the Case

The First Circuit's en banc decision to reverse should be commended. *Councilman II* created serious problems because e-mail messages always pass through temporary storage during transmission.¹³³ Under *Councilman II*, the legal protection afforded to an e-mail would switch between Wiretap Act protection and SCA protection as it traversed the internet, depending on whether the message was in transit between intermediate servers or stored temporarily—often for less than a second—on one of those servers.¹³⁴ First, this outcome would weaken the privacy protections for e-mail by limiting the scope of the Wiretap Act. Second, the holding would move the overwhelming majority of claims for unauthorized access to e-mail under the SCA rather than the Wiretap Act.

If intercepting an e-mail from temporary storage during transmission is not considered an "intercept" under the Wiretap Act, then at many intermediate points an e-mail would only receive the lesser protections of the

129. *Id.* at 78.

130. See *supra* note 33 and accompanying text for the definition of "wire communication."

131. *Councilman III*, 418 F.3d 67, 44 (1st Cir. 2005).

132. *Id.*

133. See *id.* at 79 (describing the "store and forward" delivery method for e-mail).

134. *Councilman II*, 373 F.3d 204 (1st Cir. 2004). The First Circuit even acknowledged this problem in *Councilman II*. *Id.* at 204 ("[ECPA] may be out of step with the technological realities of computer crimes.").

SCA. As Judge Lipez warned in his dissent from *Councilman II*, this interpretation of the Wiretap Act “would undo decades of practice and precedent regarding the scope of the Wiretap Act and would essentially render the Act irrelevant to the protection of wire and electronic privacy.”¹³⁵ This result is at odds with Congress’ intent in passing ECPA to provide consistent legal treatment to electronic communications across different communication technologies.¹³⁶ Hinging privacy protection on whether a packet of data is stopped momentarily almost invites a technical end-run around personal privacy. Potentially, any company that provides internet services could build its internet infrastructure such that all e-mail messages are placed in temporary storage, even for a nanosecond.

Although correct in result, the First Circuit’s en banc decision in *Councilman III* highlights, and leaves unresolved, three major problems with the existing statutory regime. First, ECPA’s definition of “intercept”—a key term for determining whether a violation under the Wiretap Act has occurred—is confusing and such ambiguity is likely to lead to conflicting interpretations in federal court. Second, ISPs are immune from the SCA’s provisions and cannot be held liable for reading their customers’ e-mail unless their actions fall under the definition of “intercept” contained in the Wiretap Act. Third, internet surveillance law provides unequal protection for the contents of an e-mail based on technical evaluations of the physical point at which it was obtained rather than the underlying privacy interest. These problems are integral to ECPA’s statutory framework, regardless of the positive outcome in *Councilman III*.

B. Legislative Options for Amending ECPA¹³⁷

Congressional reform of ECPA is overdue. Section B discusses three opportunities for Congress to improve ECPA. The legislative proposals include simple statutory amendments that can be enacted immediately. Utilizing a long-term approach, it may be helpful to reconsider the relationship between ECPA’s two-tier framework and modern expectations of e-mail privacy.

135. *Id.* at 219 (Lipez, J., dissenting).

136. See generally Brief on Rehearing En Banc for Senator Patrick J. Leahy as *Amicus Curiae* Supporting the United States and Urging Reversal, *United States v. Councilman*, 418 F.3d 67 (1st Cir. 2005) (No. 03-1383), available at http://www.epic.org/privacy/councilman/leahy_amicus.pdf.

137. The proposed modifications contained in Section III.B.1-2 were developed in conjunction with staff attorneys and Patrick Mueller, a participant in the Internet Public Interest Opportunities Program (IPIOP), at the Electronic Privacy Information Center (EPIC), a public interest research center in Washington, D.C., following the decision in *Councilman II*.

1. ECPA's Confusing Definition of "Intercept"

The Wiretap Act defines the term intercept as "the aural or other acquisition of the contents of any wire, electronic, or oral communication through the use of any electronic, mechanical, or other device."¹³⁸ Although *Councilman III* addressed the question of "electronic storage," it remains unclear what action constitutes an "intercept" for the purposes of triggering the Wiretap Act. *Councilman III* breathed life back into the dominant view that "interception" extends *from* the point at which the message is sent *to* the final destination where it is made available to the recipient.¹³⁹ Clarification of the intended line of demarcation between the Wiretap Act and the Stored Communications Act will help courts consistently determine liability for unauthorized internet surveillance.

Congress should amend the definition of intercept to provide unambiguous protection under the Wiretap Act to an e-mail that is intercepted along the pathway by which it is being sent from one person to another. Assuming the presence of political will, amending the definition of "intercept" to include in-transit electronic storage is an extremely simple statutory change. Following the First Circuit's decision in *Councilman II*, two bills were proposed to fix the definition of "intercept" in the Wiretap Act: the E-mail Privacy Act of 2004¹⁴⁰ and the E-mail Privacy Protection Act of 2004.¹⁴¹ Although the E-mail Privacy Act of 2004 attracted fourteen co-sponsors, the 108th Congress failed to amend the definition of "intercept."¹⁴² It is possible that Congress was waiting for the *Councilman III* ruling before determining how to proceed.

138. 18 U.S.C. § 2510 (2000).

139. See, e.g., Patricia L. Bellia, *Spyware and the Limits of Surveillance Law*, 20 BERKELEY TECH. L.J. 1283, 1323-24 (2005).

140. H.R. 4956, 108th Cong. (2004), available at <http://thomas.loc.gov/cgi-bin/query/z?c108:H.R.4956>. Representative Jay Inslee (D-WA) introduced the E-mail Privacy Act of 2004 which addressed two weaknesses in ECPA—the unclear definition of "intercept" in the Wiretap Act and the broad service provider exemption in the SCA—highlighted in *Councilman*. The proposed language would clarify that "interception" of an electronic communication "includes the acquisition of the contents of the communication through the use of any electronic, mechanical, or other device, at any point between the point of origin and the point when it is made available to the recipient." See *id.*

141. H.R. 4977, 108th Cong. (2004), available at <http://thomas.loc.gov/cgi-bin/query/z?c108:H.R.4977>. This second bill was introduced by Representative Jerrold Nadler (D-NY) to address the same two ECPA issues. Representative Nadler's proposal would amend the definition of "intercept" to include "any temporary, intermediate storage of that communication incidental to the electronic transmission thereof" within the meaning of intercept. See *id.*

142. See H.R. 4956, Bill Cosponsors, <http://thomas.loc.gov/cgi-bin/bdquery/z?d108:-HR04956:@@P> (last visited Mar. 14, 2006).

Currently, the pending E-mail Privacy Act of 2005, would revise the definition of “intercept” to explicitly include acquisition of the contents of an electronic communication on an ongoing basis during transmission, including a “communication simultaneously in electronic storage.”¹⁴³ The bill amends the Wiretap Act’s protections for e-mail from unauthorized “intercept” during transit, regardless of whether the message passes through temporary storage. Such an amendment would help state and federal judges apply federal law governing unauthorized interceptions consistently across jurisdictions. For the benefit of companies, law enforcement, and private actors, Congress should approve this simple yet robust legislative amendment to minimize ambiguity.

2. *The ISP Liability Loophole*

This Section discusses the ISP service provider exemption, legislative options for closing the loophole, and arguments for and against statutory reform.

a) The Problem of Internet Service Provider Immunity

ISPs are immunized from liability for what would otherwise be considered unlawful activity solely on the basis of their status as electronic communication service providers. ISPs cannot be prosecuted under the Wiretap Act if they continually surveil e-mail from users’ mailboxes.¹⁴⁴ ISPs are also exempt under the SCA for such behavior provided they do not *disclose* the contents of the communications to another party.¹⁴⁵ Although ISP access to customer e-mail may be justified by certain technical requirements of providing service, such as to perform quality assurance of e-mail content display, to check spelling, or to assess whether a hacker has accessed an e-mail account, the SCA grants Councilman blanket immunity from all civil and criminal liability.¹⁴⁶ Furthermore, the ISP exception prevents customers whose privacy was violated from filing civil causes of actions under the SCA.

The government did not charge Councilman under the SCA, presumably because of the extremely broad service provider exception. Even though the First Circuit acknowledged that the purpose of Councilman’s

143. E-mail Privacy Act of 2005, H.R. 3503, 109th Cong. (2005); S. 936, 109th Cong. (2005). The proposed bills contain identical language and are sponsored by Senator Leahy (D-VT) and Representative Cannon (R-UT) in the Senate and House, respectively.

144. *See* 18 U.S.C. § 2701(c)(1) (2000).

145. *See* § 2702 in the Stored Communications Act, which states that an electronic service provider may not disclose customer content to others. 18 U.S.C. § 2702 (2000).

146. *Id.* § 2701(c)(1).

actions was to learn about competitors and obtain a commercial advantage,¹⁴⁷ which warrants a greater penalty under the SCA,¹⁴⁸ the absolute exemption for service providers makes irrelevant the purpose for which Interloc obtained its customers' communications. Furthermore, if Interloc had copied e-mails *after* they were delivered to customers' mailboxes there would be no action under ECPA.¹⁴⁹ Thus, a trivial change in the company's surveillance system would have prevented any cause of action under federal surveillance law.

After *Councilman II*, news media commentators downplayed the importance of the ruling by reassuring e-mail users that "most major internet providers have explicit policies against reading their customers' e-mail messages."¹⁵⁰ On one hand, no major ISP is known to read its customer's e-mail messages as a matter of standard policy. However, a recent class-action lawsuit filed by the Electronic Frontier Foundation accuses AT&T of collaborating with the National Security Agency's domestic surveillance program to intercept international phone and internet communications of U.S. citizens without search warrants.¹⁵¹

Furthermore, review of the terms of service for some of the largest ISPs in the United States—MSN,¹⁵² EarthLink,¹⁵³ AT&T,¹⁵⁴ Google,¹⁵⁵

147. *Councilman II*, 418 F.3d 67, 71 (1st Cir. 2005).

148. 18 U.S.C. § 2701(b)(1) (2000).

149. As long as a provider surveils its customer's messages after delivery to a destination server, it may do so without being subject to the Wiretap's limitation. *See, e.g.*, *Konop v. Hawaiian Airlines, Inc.*, 302 F.3d 868 (9th Cir. 2002) (concluding that unauthorized access to a secure web site did not constitute an interception under the Wiretap Act).

150. *See, e.g.*, Saul Hansell, *You've Got Mail (and Court Says Others Can Read It)*, N.Y. TIMES, July 6, 2004, at C2, available at <http://www.nytimes.com/2004/07/06/technology/06net.html?pagewanted=1&ei=5070&en=2c3b981211419e5f&ex=1109307600&adxnlnl=0&oref=login&adxnlnx=1109220522-46Zj4tVIhIr55MUNFHxjJw>.

151. Plaintiff's Amended Complaint at 16-21, *Hepting v. AT&T Corp.*, No. 3:06cv672 (N.D. Cal. filed Feb. 22, 2006), available at http://www.eff.org/legal/cases/att/att_complaint_amended.pdf; *see also* John Markoff, *AT&T Is Accused In Eavesdropping*, N.Y. TIMES, Feb. 1, 2006, at A20.

152. MSN's Website Terms of Use and Notices states: "To the maximum extent permitted by applicable law, Microsoft *may monitor your e-mail*, or other electronic communications and may disclose such information . . ." MSN Website Terms of Use and Notices, <http://privacy.msn.com/tou> (last visited Mar. 13, 2006) (emphasis added).

153. EarthLink's Internet Service Agreement states: "EarthLink has no obligation to monitor the Services, but *may do so* and disclose information regarding use of the Services *for any reason* if EarthLink, in its sole discretion, believes that it is reasonable to do so . . ." EarthLink Internet Service Agreement, <http://www.EarthLink.net/about/policies/dial/> (last visited Jan. 23, 2006) (emphasis added).

and AOL¹⁵⁶—reveals that self-regulation by the ISP industry creates gaps in consumer privacy protection for e-mail.¹⁵⁷ Many ISPs appear to reserve the right to monitor their customers' e-mail. Virtually all ISPs reserve the right to change the terms of their privacy policy.¹⁵⁸ Although it is possible

154. AT&T's Online Privacy Policy states: "The company will not read or disclose to third parties private e-mail communications that are transmitted using AT&T services except as required to operate the service or as *otherwise authorized by law.*" AT&T's Online Privacy Policy, <http://www.att.com/privacy> (last visited Jan. 23, 2006) (emphasis added).

155. Google's Gmail Privacy Notice states:

Google maintains and processes your Gmail account and its contents to provide the Gmail service to you and to improve our services. . . . Google's computers process the information in your messages for various purposes. . . . Residual copies of deleted messages and accounts may take up to 60 days to be deleted from our active servers and may remain in our offline backup systems.

Gmail Privacy Notice, <http://gmail.google.com/mail/help/privacy.html> (last visited Jan. 23, 2006) (emphasis added).

156. AOL's Agreement to Rules of User Conduct states: "America Online *generally* does not pre-screen, monitor, or edit the content posted by users of communications services, chat rooms, message boards, newsgroups, software libraries, or other interactive services that may be available on or through this site." AOL Agreement to Rules of User Conduct, <http://www.aol.com/copyright/rules.html> (last visited Jan. 23, 2006) (emphasis added). In contrast, AOL's Terms of Service for paying customers of AOL's e-mail service states:

[AOL does] not read your private online communications. . . . [except] in response to legal process (for example, a court order, search warrant or subpoena); in other circumstances in which AOL believes the AOL Service is being used in the commission of a crime; when we have a good faith belief that there is an emergency that poses a threat to the safety of you or another person; or when necessary either to protect the rights or property of AOL, or for us to render the service you have requested. . . .

AOL Privacy Policy, http://about.aol.com/aolnetwork/mem_policy#2 (last visited Jan. 23, 2006) (emphasis added).

157. See Doug Isenberg, *Do ISPs' Policies Allow Them to Monitor E-mail?*, GIGALAW.COM, July 8, 2004, <http://www.gigalaw.com/2004/07/do-isps-policies-allow-them-to-monitor.html>.

158. See MSN Website Terms of Use and Notices, <http://privacy.msn.com/tou> ("Microsoft reserves the right to change the terms, conditions, and notices under which it offers the MSN Web Sites, including any charges associated with the use of the MSN Web Sites. You are responsible for regularly reviewing these terms, conditions and notices, and any additional terms posted on any MSN Web Site. Your continued use of the MSN Web Sites after the effective date of such changes constitutes your acceptance of and agreement to such changes.") (last visited Mar. 18, 2006); EarthLink Privacy Policy, <http://www.EarthLink.net/about/policies/privacy> ("EarthLink reserves the right to revise, amend, or modify this policy and our other policies and agreements at any time and in any manner.") (last visited Jan. 23, 2006); AT&T's Online Privacy Policy, <http://www>.

that ISPs will not read their customers' e-mail due to resource constraints, lack of interest, inconsistencies with their business models, or private contracting, consumers are in a weak position because it is very difficult to know whether an ISP is reading and using the contents of a customer's private communications.

A review of industry privacy policies indicates that self-regulation by the ISP industry results in a default standard of allowing ISPs to read customer e-mail. Without a statutory limitation on ISP surveillance power, customers will never know if a message to a friend, spouse, financial institution, or doctor is being read by their service provider. Furthermore, recent news reports describing the U.S. government's warrant-less domestic surveillance program raise serious concerns about ISP monitoring, use, and retention of customer e-mail content, in addition to the legality of downstream ISP disclosure to government officials absent judicial authorization.¹⁵⁹ Thus, the problem is not that a majority of ISPs are currently engaging in e-mail surveillance but rather—given the absence of a minimum standard in the SCA—the lack of transparency into what ISPs are or are not doing.

Furthermore, the practices of major ISPs fail to dispel concerns regarding smaller, less financially-stable, providers that may perform at the outer limits of industry practices. This uncertainty raises privacy concerns about protections afforded to e-mail and First Amendment concerns about the potential chilling effect on free speech.¹⁶⁰ A legal architecture that fails to ensure e-mail privacy hinders the public interest in open expression because users may modify and self-censor online communication for fear of being watched.

The SCA loophole for ISPs and their employees creates a potentially significant problem when considered in the context of corporate structures

att.com/privacy ("AT&T will keep this Policy current. The company will inform you of any changes that we make.") (last visited Jan. 23, 2006); Google Privacy Policy, <http://www.google.com/privacypolicy.html> ("Please note that this Privacy Policy may change from time to time. We will not reduce your rights under this Policy without your explicit consent. . . .") (last visited Jan. 23, 2006); AOL's Privacy Policy, <http://www.aol.com/info/privacy.adp#princ8> ("Whenever we change our policy, we will give you 30 days' notice of those changes through prominent disclosures, including notification on our front screen.") (last visited Jan. 23, 2006).

159. See, e.g., Eric Lichtblau & James Risen, *Domestic Surveillance: The Program; Spy Agency Mined Vast Data Trove, Officials Report*, N.Y. TIMES, Dec. 24, 2005, at A1.

160. See, e.g., Marc Rotenberg, *We Are All Privacy Fundamentalists*, in DANIEL J. SOLOVE & MARC ROTENBERG, *INFORMATION PRIVACY LAW* 53-54 (2003) ("Without the right of privacy, there could be no public life.").

and market forces.¹⁶¹ Increasingly, ISPs exist as subsidiaries of larger parent corporations.¹⁶² The trend towards consolidation of information technology and media companies increases the probability that ISPs will have an incentive to secretly access customer e-mails for reasons unrelated to the delivery of internet service such as customer profiling and direct marketing. A large financial holding or global media corporation could have thousands of affiliates.¹⁶³ Therefore, one ISP's access to customer e-mail could translate into access for an unknown number of affiliated business units or subsidiaries under the ISP's parent company.¹⁶⁴

In the absence of a statutory limitation on ISP access, the SCA provides no counter-balance to the market incentive for ISPs to capitalize on the economic value of personal information contained in e-mails. Customers have limited insight into how, and for what purposes, the personal information communicated in e-mails may be used by ISPs. Corporate data-mining for purposes of commercial gain unrelated to the delivery of ISP service is allowed, if not encouraged, by the SCA's broad ISP exemption. A default rule of complete access distorts the power balance between ISPs and customers. Furthermore, if such information is misused by one of the institution's subsidiaries for fraudulent purposes, individuals may be unable to identify the offender due to the lack of visibility of information-sharing policies.

b) Solutions for Closing the ECPA Loophole

Legislative action is required to ensure that ECPA's original purpose to provide federal privacy protection to electronic communications is not outpaced by technological advances that render the statute's privacy provisions obsolete. To close the ECPA service provider loophole, Congress should restrict the broad service provider exemption under the SCA to be consistent with the exemption under the Wiretap Act.

161. Recall that *Theofel* moves opened e-mail under the SCA and thus simultaneously expands the quantity of e-mail left unprotected by the ISP liability loophole. See *supra* Section I.C.3.

162. See, e.g., TimeWarner Home Page, <http://www.timewarner.com/corp>; see also Press Release, News Corporation, News Corporation to Acquire Intermix Media, Inc., Acquisition Includes World's Fastest-Growing Social Networking Portal, MySpace.com, July 18, 2005, available at http://www.newscorp.com/news/news_251.html.

163. CitiGroup, Inc., for example, has over 2,700 corporate affiliates. See *Financial Privacy and Consumer Protection: Hearing Before the S. Comm. on Banking, Housing and Urban Affairs*, 107th Cong. (2002) (statement of William H. Sorrell, Attorney General, State of Vermont).

164. The number of business units or subsidiaries could equal tens, hundreds, or possibly even thousands.

The Wiretap Act exemption recognizes that service providers may need to monitor communication in certain circumstances, but these circumstances should be limited.¹⁶⁵ Thus, it enables telecommunications service providers to intercept wire communications and perform random quality-control checks for purposes of delivering service.¹⁶⁶ In contrast, the SCA exempts from liability conduct authorized “by the person or entity providing a wire or electronic communications service.”¹⁶⁷

To protect e-mail from unauthorized searches by commercial service providers, and to maintain consistency between the Wiretap Act and the SCA, Congress should amend the SCA service provider exception by modeling the Wiretap Act exception. Under the proposed amendment, ISPs would retain the right to monitor a customer’s e-mail in the course of any activity necessary to providing service. For example, an ISP’s engineer could log into a customer’s e-mail account to analyze why e-mail messages were not being displayed correctly. However, when an ISP’s access to customer e-mail is not justified by the normal course of business, such access would be limited not only by an ISP’s voluntary privacy policy but by a legislative SCA requirement.

Recent e-mail privacy bills have offered promising improvements in this area. The proposed E-mail Privacy Act of 2004, which was not adopted, would have added the following limitation to the service provider exception: “to the extent the access is a necessary incident to the rendition of the service, the protection of the rights or property of the provider of that service, or compliance with section 2702 [providing exceptions for consent and disclosure to law enforcement].”¹⁶⁸ This language would narrow the SCA exemption to be similar to the Wiretap Act exemption and could be amended to the pending E-mail Privacy Act of 2005.¹⁶⁹

165. 18 U.S.C. § 2511(2)(a)(i) (2000).

166. *Id.*

167. *Id.* § 2701(c).

168. See E-mail Privacy Act of 2004, H.R. 4956, 108th Cong. (2004), available at <http://thomas.loc.gov/cgi-bin/query/C?c108:./temp/~c108DYA5JB..> A second bill was introduced by Representative Jerrold Nadler (D-NY) to amend the SCA service provider exception by prohibiting a provider of an electronic communications service from acquiring or using the contents of a stored communication other than for the purposes of providing the electronic communication service. Therefore, ISP snooping without a business purpose justification would be expressly prohibited. The proposed bill imposed a civil fine and a maximum prison sentence of five years. See E-mail Privacy Protection Act of 2004, H.R. 4977, 108th Cong., available at <http://thomas.loc.gov/cgi-bin/query/D?c108:1:./temp/~c108xVWX2y>.

169. E-mail Privacy Act of 2005, S. 936, 109th Cong; see *supra* note 143 and accompanying text.

c) Critiques of Proposed Statutory Modification: Free-Market Regulation

Information law scholar Fred Cate argues that private sector accommodation is preferable to legislative approaches.¹⁷⁰ Cate argues that individual responsibility, mutual agreements, and market-based accommodations are usually more effective than legal regulation in protecting privacy.¹⁷¹ Free-market advocates might criticize proposed privacy regulations¹⁷² for interfering with the private relationship between ISPs and their customers and disrupting the free-market for electronic communications service. In weighing the importance of privacy, Cate reasons that it is important to recognize that “protecting privacy imposes real costs” including higher costs of providing products and services, decreased service quality, and barriers to crime prevention and the protection of private property.¹⁷³ In the case of e-mail surveillance, free market scholars might argue that the government should encourage ISPs and customers to enter into private contractual agreements concerning customer e-mail privacy. Cate argues that national law could ensure industry accountability through legal requirements of notice and consent, without imposing the potential service “costs” on all customers.¹⁷⁴

On the other hand, privacy scholars have analyzed the limits of self-regulation in the privacy context.¹⁷⁵ Discussing the failures in the privacy market, Professor Paul Schwartz writes:

The emerging verdict of many privacy scholars is that existing markets for privacy do not function well. Due to such market failures, which are unlikely to correct themselves, propertization of personal information seems likely to lead to undesired results—even to a race to the bottom as marketplace defects lead

170. FRED H. CATE, *PRIVACY IN THE INFORMATION AGE* ix (1997).

171. *Id.* For example, Cate advises that “[i]ndividual responsibility, not regulation, is the principal and most effective form of privacy protection in most settings.” *Id.* at 131.

172. H.R. 4956, 108th Cong. (2004); S. 936, 109th Cong. (2005).

173. Cate, *supra* note 170, at 102.

174. *Id.* at 108-21.

175. Joel R. Reidenberg, *Setting Standards for Fair Information Practice in the U.S. Private Sector*, 80 IOWA L. REV. 497, 532-40 (1995); see also Julie Cohen, *Examined Lives: Informational Privacy and the Subject as Object*, 52 STAN. L. REV. 1373, 1423-24 (2000) (arguing that market-based approaches to privacy rights treat preferences for information privacy as a matter of individual taste, but the values of information privacy are more fundamental).

competitors to take steps that are increasingly harmful to privacy.¹⁷⁶

The main concern with allowing ISP industry self-regulation is that many individuals do not know how their information is processed.¹⁷⁷ Schwartz references a recent report from the Annenberg Public Policy Center finding that “the overwhelming majority of U.S. adults who use the internet at home have no clue about data flows—the invisible, cutting-edge techniques with which online organizations extract, manipulate, append, profile and share information about them.”¹⁷⁸ Schwartz argues that the unequal balance of information available to consumers and industry players, in addition to the relative vulnerability of consumers within the larger market, requires close scrutiny of and skepticism about the commodification of personal data.¹⁷⁹

In the case of e-mail privacy, economic incentives alone will not pressure ISPs to adequately protect customer privacy. Private markets do not provide consumers with a meaningful choice concerning the issue of ISP e-mail monitoring because potentially invasive activities are invisible to the decision-making consumer when he or she is selecting a service provider. In addition, consumers have little insight into or oversight of ISP activity once they commence using a company’s service. Furthermore, the major ISPs explicitly reserve the right to monitor their customers’ e-mail.¹⁸⁰ Even if a customer decides to change ISPs, the switching costs are high including the hassle of changing one’s e-mail address and contractual commitments to the ISP.

If Congress seeks to provide meaningful privacy protection to e-mail communications, it should correct the market imbalances and close the ISP loophole under the SCA. Under this statutory approach, customers may continue to enter into private agreements with ISPs to allow e-mail surveillance in exchange for potential service benefits. However, due to the imbalance in information available to ISPs and customers, a default

176. Paul M. Schwartz, *Property, Privacy, and Personal Data*, 117 HARV. L. REV. 2055, 2076 (2004).

177. *Id.* at 2078.

178. *Id.* at 2078 (citing JOSEPH TUROW, ANNEBERG PUB. POLICY CTR. OF THE UNIV. OF PA., AMERICANS AND ONLINE PRIVACY: THE SYSTEM IS BROKEN 4 (2003), available at <http://www.asc.upenn.edu/usr/jturow/internet-privacy-report/36-page-turow-version-9.pdf>); see also Neil Weinstock Netanel, *Cyberspace Self-Governance: A Skeptical View from Liberal Democratic Theory*, 88 CALIF. L. REV. 395, 476 (2000).

179. Schwartz, *supra* note 176, at 2078-79.

180. See *supra* Section III.B.2.a.

statutory rule of no surveillance is necessary to ensure a baseline of privacy protection for e-mail.

3. *Wiretap Act v. the SCA: The Problem of Unequal Treatment*

E-mail receives “second-class” treatment under the SCA compared to the more stringent protections for telephone calls under the Wiretap Act.¹⁸¹ ECPA also affords greater protection to an e-mail message *before* it reaches its destination than *after* it resides at a single destination.¹⁸² This statutory distinction implies that minor changes in the physical point of interception will determine whether an e-mail is protected under the Wiretap Act or the SCA. Under this approach, the level of privacy protection afforded to an electronic communication is determined by a technology-dependent analysis of the point at which a communication was intercepted. For most e-mail users, neither the medium of communication nor the physical point of interception mitigates the intrusiveness or threat to civil liberties when private e-mails are surveilled. It is time to rethink the limits of ECPA’s statutory regime.

The legislative proposals above offer a good start for ensuring e-mail privacy, but they are incomplete. The recommendations maintain a privacy regime for electronic communications that lowers privacy protection once a communication is made available to its recipient. Maintaining multiple statutory schemes for e-mail privacy does not solve the deeper problem of unequal privacy protection for e-mail that depends on the location of the data on the internet network. Ultimately, Congress should reevaluate the public interest in e-mail privacy and create a new regulatory scheme that provides consistent legal protection regardless of the point of surveillance.

The success of the internet as an effective medium for communication depends on public trust in the security and privacy of the network. Congress should therefore evaluate the normative reasons why e-mail is afforded privacy protection. Under ECPA, the protections of the Wiretap Act’s “super” search warrant requirement end when a message is made available to its recipient. Congress should evaluate whether to adopt a default standard with stronger privacy protection, one which requires search warrants supported by probable cause for all e-mail surveillance.¹⁸³ To protect law enforcement’s flexibility, Congress could draft statutory ex-

181. See Solove, *supra* note 5, at 1281.

182. *Konop v. Hawaiian Airlines, Inc.*, 302 F.3d 868, 878 (9th Cir. 2002).

183. For the best summary of this argument, see Solove, *supra* note 5, at 1298-1303.

ceptions for circumstances in which search warrants are inappropriate or overly burdensome.¹⁸⁴

Alternatively, Congress could amend ECPA to distinguish between read and unread e-mail for purposes of privacy protection. This approach is less arbitrary than the "storage-transit" distinction because a user is afforded the opportunity to read and delete the message. Unfortunately, this approach disadvantages users who leave messages on an ISP's server for backup or storage purposes, which will likely have the greatest effect on individuals who do not own personal computers.

A third option is to protect both read and unread e-mail messages with the procedural requirement of a search warrant for a certain window of time (60 days, 180 days, 1 year, etc.). After the window of time has passed, then the messages would fall into a lower category of protection. For significant privacy protection, Congress could require a long window of time.

Ultimately, the legislative body should create a privacy framework based upon reasonable expectations of privacy for electronic communications.¹⁸⁵ This approach would lead to a favorable and unified regime that protects the privacy of electronic communication without raising difficult technical questions for the courts concerning the location of data at the point of interception.

IV. CONCLUSION

Throughout history, privacy law has responded to public concerns about the effect of emerging technologies on personal privacy.¹⁸⁶ As the use of e-mail and other electronic communications technologies such as

184. *Id.* Congress could also extend the Wiretap Act's exclusionary rule to improperly acquired stored messages under the SCA. *See, e.g.*, DANIEL J. SOLOVE, *THE DIGITAL PERSON: TECHNOLOGY AND PRIVACY IN THE INFORMATION AGE* 220-221 (2004).

185. *See, e.g.*, *Katz v. United States*, 389 U.S. 347 (1967). In the absence of judicial recognition of an individual's reasonable expectation of privacy when relying on an ISP to send electronic communications, Congress should provide adequate statutory protections for e-mail under ECPA.

186. *See, e.g.*, ROBERT ELLIS SMITH, *BEN FRANKLIN'S WEB SITE, PRIVACY AND CURIOSITY FROM PLYMOUTH ROCK TO THE INTERNET* 6-7 (2000) ("First, in the years before 1890, came cameras, telephones, and high-speed publishing; second, around 1970, came the development of computers; and third, in the late 1990s, the coming of personal computers and the World Wide Web brought renewed interest in [privacy] What worried people was not so much the technology; what worried them was that it was in the hands of large and powerful organizations.").

VoIP,¹⁸⁷ text-messaging, and online chat increases the degree of personal information disseminated across the internet, so too does the need to analyze federal privacy protections for electronic communications. Unless Congress takes action to back with the force of law the obligations of service providers to refrain from snooping on their customers, the legal, economic, and network architecture of the electronic communications infrastructure will continue to encourage surveillance.

Councilman III teaches us that courts are struggling to apply ECPA's twenty-year-old provisions to modern-day electronic communications technology. As the amount of information collected, stored, and transferred electronically increases, coupled with the increasing use of electronic devices to communicate and monitor sensitive information, a clear statement from Congress clarifying ECPA generally and the obligation of ISPs to refrain from reading their customers e-mails particularly, is crucial to the public interest in electronic privacy.

187. Voice Over IP, also called "Internet telephony," enables telephone conversations over the internet (or a dedicated Internet Protocol (IP) network). See VoIP, WIKIPEDIA: THE FREE ENCYCLOPEDIA, <http://en.wikipedia.org/wiki/Voip> (last visited Jan. 23, 2006). Emerging technologies, such as VoIP, call into question the law's traditional distinction between voice and data communications such as e-mail.

WHITE BUFFALO VENTURES, LLC v. UNIVERSITY OF TEXAS AT AUSTIN: THE CAN-SPAM ACT & THE LIMITATIONS OF LEGISLATIVE SPAM CONTROLS

By Jameel Harb

Unsolicited commercial e-mail (“spam”)¹ has emerged as one of the most persistent annoyances of the twenty-first century, affecting individual e-mail users as well as multi-national corporations. Accordingly, both private and public entities have made efforts to combat spam. Various private filtering mechanisms employed by corporate entities, internet service providers, and individual end-users have played a significant role in the fight against spam. Numerous states have tried to curb spam by enacting various legislative schemes. The federal government has attempted to do its share by enacting federal legislation known as the Controlling the Assault of Non-Solicited Pornography and Marketing Act of 2003 (CAN-SPAM Act).² The CAN-SPAM Act is meant to provide a single legal framework for dealing with spam, expressly preempting certain types of state spam laws.

*White Buffalo Ventures, LLC v. University of Texas at Austin*³ is the first Fifth Circuit case to consider any portion of the CAN-SPAM Act, and is the first case ever to directly address the preemption provision of the legislation. Specifically, the court analyzed the preemption clause of the CAN-SPAM Act in order to determine whether the federal legislation preempted the anti-spam regulation of a state university. Furthermore, the court examined whether anti-spam measures taken by the University of Texas, which blocked the commercial speech of White Buffalo Ventures’

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1. The coining of the term “spam” to refer to unsolicited commercial e-mail derives from a Monty Python skit featuring the meat product known as SPAM. As noted on SPAM’s corporate website, “Use of the term ‘spam’ was adopted as a result of the Monty Python skit in which our SPAM meat product was featured. In this skit, a group of Vikings sang a chorus of ‘spam, spam, spam . . .’ in an increasing crescendo, drowning out other conversation. Hence, the analogy applied because [unsolicited commercial e-mail] was drowning out normal discourse on the Internet.” See SPAM, SPAM and the Internet, http://www.spam.com/ci/ci_in.htm (last visited Mar. 10, 200).

2. Controlling the Assault of Non-Solicited Pornography and Marketing (CAN-SPAM) Act of 2003, Pub. L No. 108-187, 117 Stat. 2699 (amending scattered sections of 15 U.S.C., 18 U.S.C., 28 U.S.C., and 47 U.S.C.).

3. 420 F.3d 366 (5th Cir. 2005).

e-mails, were constitutional under the First Amendment. In *White Buffalo*, the Fifth Circuit ultimately held that the CAN-SPAM Act did not preempt the particular state regulation in question, and that the action taken by the university was valid under the First Amendment. Given the enactment of the CAN-SPAM Act and the filing of lawsuits involving the legislation, an analysis of this recent noteworthy case involving the CAN-SPAM Act serves as a relevant backdrop to discuss the larger implications and inherent limitations of a legislative solution to spam.

Part I of this Note provides background on the spam problem, outlining various public and private efforts that have been taken to combat spam and surveying the federal CAN-SPAM Act. Part II briefly details the legal background of preemption analysis and the First Amendment standards of commercial speech. Part III describes in detail the *White Buffalo* case. Section IV.A evaluates the court's decision, examining both the strengths and weaknesses of its First Amendment analysis and its reasoning with respect to preemption. Finally, discussing non-legislative alternatives that may more effectively prevent the harms associated with spam, Section IV.B looks beyond *White Buffalo* and explores the deficiencies of the CAN-SPAM Act and the inherent limitations of any legislative solution to spam.

I. HISTORICAL BACKGROUND

A. The Spam Problem

It is estimated that over 13 billion spam messages are sent per day⁴—more than two for every single human being on the planet.⁵ Others estimate the prevalence of spam to be significantly higher, claiming that spam accounts for up to eighty percent of the estimated fifty-seven billion e-mail messages that are sent every day.⁶ Spam of course would not be possible without e-mail, which traces its existence back to 1969 with the creation of ARPANET, a network of computer systems maintained by the military, defense contractors, and universities.⁷ Commercial spam was born in April 1994, when two lawyers discovered it was possible to send

4. Evan I. Schwartz, *Spam Wars*, TECH. REV., July-Aug. 2003, at 32, 34.

5. This figure assumes that the current population of the world in January 2006 is approximately 6.494 billion. U.S. Census Bureau, World Population Information, <http://www.census.gov/ipc/www/world.html> (last visited Jan. 25, 2006).

6. Adam Hamel, Note, *Will the CAN-SPAM Act of 2003 Finally Put a Lid on Unsolicited E-Mail?*, 39 NEW ENG. L. REV. 961 (2005).

7. JANET ABBATE, INVENTING THE INTERNET 43-45 (1999).

an electronic advertisement for immigration law services to approximately 6,000 online newsgroups.⁸

The presence of spam increased dramatically as the usage of e-mail became widespread during the mid-1990s, when the internet's popularity and usage skyrocketed.⁹ Spam has proliferated in large part because it is inexpensive; commercial advertising via spam is far cheaper than through conventional mail.¹⁰ As most anyone who has used e-mail is well aware, spam can be quite a significant annoyance. Yet beyond wasted time and frustration for personal e-mail users, in recent years spam has been estimated to cost \$10 billion annually in worker productivity in the U.S. alone.¹¹

Given the scope of the spam problem, both private and public entities have made efforts to curb the ubiquitous nuisance. Private e-mail users and internet service providers (ISPs) use various forms of filtering technology in order to stop spam from reaching e-mail inboxes.¹² Both state and federal legislators have attempted to address the issue—by 2003 thirty-six states had enacted anti-spam laws.¹³ Most of these state spam laws incorporate an opt-out system—allowing spammers to send spam to recipients that had no previous contact with the advertising company unless the recipients affirmatively opt out—and included a subject labeling requirement, which forced complying spammers to identify spam as an advertisement by including the label “ADV” in the subject field of the e-mail.¹⁴ On the federal level, numerous bills have been debated and rejected in recent years. Indeed, during the 106th and 107th Congress, from 1999 to 2002, nineteen bills dealing with spam were introduced, and all

8. See LAURENCE A. CANTER & MARTHA SIEGEL, *HOW TO MAKE A FORTUNE ON THE INFORMATION SUPERHIGHWAY* 21-22(1994).

9. See ABBATE, *supra* note 7, at 181.

10. See Press Release, ConsumersUnion.org, *Consumer Reports Shows You How to Stop Spam from Stalking You* (July 8, 2003), http://www.consumersunion.org/pub/core_product_safety/000210.html.

11. Schwartz, *supra* note 4, at 34.

12. See Jeffrey D. Sullivan & Michael B. de Leeuw, *Spam After CAN-Spam: How Inconsistent Thinking Has Made a Hash Out of Unsolicited Commercial E-Mail Policy*, 20 SANTA CLARA COMPUTER & HIGH TECH. L.J. 887, 920-22 (2004) (discussing the various filtering mechanisms that have arisen in response to spam).

13. Roger Allan Ford, Comment, *Preemption of State Spam Laws by the Federal CAN-SPAM Act*, 72 U. CHI. L. REV. 355, 356 (2005).

14. See David E. Sorkin, *Spam Laws by State*, <http://www.spamlaws.com/state/index.html> (last visited Mar. 10, 2006).

ultimately failed.¹⁵ During the 108th session, Congress finally passed the CAN-SPAM Act, which became effective on January 1, 2004.¹⁶

B. The CAN-SPAM Act

The CAN-SPAM Act targets “email whose primary purpose is advertising or promoting a commercial product or service, including content on a Web site.”¹⁷ The law’s five major provisions are as follows: (1) a ban on false or misleading header (“From,” “To,” and routing information) information in e-mails; (2) a prohibition of deceptive subject lines; (3) a requirement that commercial e-mails give recipients an opt-out method to avoid receiving such e-mails in the future; (4) a requirement that commercial e-mail be identified as an advertisement (but not necessarily in the subject line of the e-mail); and (5) a requirement that the message include the sender’s valid physical postal address.¹⁸ Violations of any of the above provisions can result in a fine of up to \$11,000.¹⁹ Notably, the legislation does not provide for a private right of action. Only the U.S. Department of Justice, the Federal Trade Commission, state attorneys general, and ISPs have the ability to bring a cause of action under the CAN-SPAM Act.²⁰

The CAN-SPAM Act was created with the express purpose of providing a universal framework for national regulation of spam; thus the legislation is intended to preempt and override the varying state laws dealing with electronic mail. The CAN-SPAM Act’s express preemption provision reads:

This Act supersedes any statute, regulation, or rule of a State or political subdivision of a State that expressly regulates the use of electronic mail to send commercial messages, except to the extent that any such statute, regulation, or rule prohibits falsity or deception in any portion of a commercial electronic mail message or information attached thereto.²¹

Therefore, although the CAN-SPAM Act is intended to preempt significant portions of state spam laws, the legislation is not intended to preempt

15. See David E. Sorkin, Federal Spam Laws, <http://www.spamlaws.com/federal/index.html> (last visited Mar. 10, 2006).

16. CAN-SPAM Act, Pub. L. No. 108-187, 117 Stat. 2699.

17. FTC, THE CAN-SPAM ACT: REQUIREMENTS FOR COMMERCIAL EMAILERS 1 (2004), available at <http://www.ftc.gov/bcp/online/pubs/buspubs/canspam.pdf>.

18. *Id.* at 2.

19. *Id.*

20. See 15 U.S.C. § 7706 (2000); Jacquelyn Trussell, *Is the CAN-SPAM Act the Answer to the Growing Problem of Spam?*, 16 LOY. CONSUMER L. REV. 175, 183 (2004).

21. 15 U.S.C. § 7707(b)(1).

portions of state laws that relate to acts of fraud or computer crime, or other state laws that are not specific to electronic mail.²² In preempting numerous state laws that were actually more stringent than the CAN-SPAM Act itself, the legislation can be seen as creating a preemptive ceiling that has limited the more restrictive nature of state laws dealing with spam.

In addition to the preemption clause, the CAN-SPAM Act also has a specific carve out for entities that are exempt from any possible preemptive effect.²³ The relevant portion of the legislation states that “[n]othing in this Act shall be construed to have any effect on the lawfulness or unlawfulness . . . of the adoption, implementation, or enforcement by a provider of Internet access service of a policy of declining to transmit, route, relay, handle, or store certain types of electronic mail messages.”²⁴

In theory, federal spam legislation was expected to be a more effective and uniform tool in combating spam than the patchwork of numerous conflicting state laws.²⁵ Yet the CAN-SPAM Act has been viewed as less restrictive, and ultimately less effective.²⁶ In a sense, the CAN-SPAM Act can be perceived as outlining “rules of conduct” for those who send spam, rather than attempting to eliminate the existence of spam altogether.²⁷ Some argue that the relatively lax nature of the legislation seems to be the result of multiple competing interests, including lobbying efforts by businesses and marketing groups concerned with limitations on advertising.²⁸ As is stands now, neither state nor federal attempts appear to have had any meaningful effect on reducing the aggregate level of spam.²⁹

In summary, the CAN-SPAM Act was intended to provide a more universal framework for addressing spam, although it does not yet appear that

22. *See id.* § 7707(b)(2)(A)-(B).

23. *See id.* § 7707(c).

24. *Id.*

25. Ford, *supra* note 13, at 358.

26. Lily Zhang, Note, *The CAN-SPAM Act: An Insufficient Response to the Growing Spam Problem*, 20 BERKELEY TECH. L.J. 301, 320 (2005).

27. Dominique-Chantale Alepin, “Opting-Out”: *A Technical, Legal and Practical Look at the CAN-Spam Act of 2003*, 28 COLUM. J.L. & ARTS 41, 43 (2004).

28. *See* W. Parker Baxter, *Has Spam Been Canned? Consumers, Marketers, and the Making of the CAN-SPAM Act of 2003*, 8 N.Y.U. J. LEGIS. & PUB. POL’Y 163, 167-70 (2004).

29. Ford, *supra* note 13, at 356. Although it appears that the CAN-SPAM Act has had no significant effect on reducing the overall level of spam sent, it does seem that the legislation has reduced the relative amount of pornographic spam. Alepin, *supra* note 27, at 43. Pornographic spam, once 21.8% of overall spam in 2003, reduced dramatically to 4.8% in early 2004. *Id.* The degree to which this reduction is directly or indirectly related to the CAN-SPAM Act is debatable. *See id.*

the legislation has succeeded in that endeavor. In this pursuit of uniformity, the legislation was created with the express purpose to preempt state anti-spam laws, some of which are more stringent than the CAN-SPAM Act itself. Yet the CAN-SPAM Act explicitly states that internet service providers are not subject to the provisions of the legislation, and thus maintain the right to implement and enforce their own measures in dealing with spam. As will become evident, although an alternative interpretation would have ultimately led to the same result, the *White Buffalo* court's interpretation of the CAN-SPAM Act's preemption and exemption provisions undoubtedly played a role in determining the path that the court took in its preemption holding.

II. LEGAL BACKGROUND

A. Preemption Doctrine

Given the categorical preemption clause in the CAN-SPAM Act, questions arise as to whether the federal law actually supersedes or preempts a particular state law. The doctrine of preemption—when a federal law takes precedence over a conflicting state law—has its origins in the Supremacy Clause of the United States Constitution.³⁰ The Supreme Court has elucidated two traditional scenarios where preemption occurs.³¹ The first scenario is when a federal law *expressly* preempts state or local law.³² The second scenario is where preemption is not expressly stated, but rather, implied as a result of a clear congressional intent to preempt state or local law.³³ When, as with the CAN-SPAM Act, a law contains an express provision detailing its preemptive power over state laws, there is no need to infer any congressional intent as to preemption.³⁴

Yet although a federal law may contain an express preemption provision, the exact scope of what state or local laws are preempted is not necessarily clear.³⁵ Since the power to supersede state law is “an extraordinary power in a federalist system,” a court must be able to ascertain not only that the federal legislation expressly permits preemption, but also the

30. U.S. CONST. art. VI, cl. 2.

31. ERWIN CHEMERINSKY, CONSTITUTIONAL LAW: PRINCIPLES AND POLICIES 376 (2d ed. 2002).

32. *Id.*

33. *Id.*

34. *See* *Cipollone v. Liggett Group, Inc.*, 505 U.S. 504, 517 (1991).

35. *See id.*

precise scope of the particular state law that is preempted.³⁶ Given the sensitivity of this determination, the Supreme Court has adopted a principle creating a presumption against preemption of state law.³⁷ As the Fifth Circuit noted in *White Buffalo*, “Supremacy Clause analysis is classic tie goes to the state jurisprudence, and the existence of an express preemption provision does not always plainly demarcate what the federal law expressly preempts.”³⁸

The question of whether federal law preempts a particular state law is one of the questions directly raised in the *White Buffalo* case. Although Congress may have included an explicit preemption provision within the CAN-SPAM Act, the judicial tendency to maintain a presumption against federal preemption of state law in uncertain circumstances arises in the *White Buffalo* case.

B. Commercial Speech Under the First Amendment

Irrespective of preemption concerns about whether spam is regulated on the federal or state level, the issue of constitutionality is bound to arise in any scenario where speech (in the case of *White Buffalo*, commercial speech via spam) is being regulated or silenced. In the context of anti-spam legislation, First Amendment concerns are implicated because spam, although communicated through the medium of the internet and e-mail, is nonetheless commercial speech.

The determination of whether a regulation by a public entity violates First Amendment rights with respect to commercial speech requires application of the four-prong test set out by the Supreme Court in *Central Hudson Gas & Electric Corp. v. Public Service Commission*.³⁹ In *Central Hudson*, the Court held that in order to determine the legality of commercial speech regulation, it is necessary to consider: (1) whether the speech is unlawful or misleading; (2) whether the interest expressed by the government is substantial; (3) whether the state action directly promotes that interest; and (4) whether the state action is more extensive than necessary to promote that interest.⁴⁰

In applying the four-part test, the Supreme Court has held that with respect to the second prong, although a governmental entity may assert that a challenged statute serves multiple interests, only one of the interests

36. See *Gregory v. Ashcroft*, 501 U.S. 452, 460 (1991); *White Buffalo*, 420 F.3d at 370.

37. *White Buffalo*, 420 F.3d at 370.

38. *Id.* (internal quotations omitted) (emphasis omitted).

39. 447 U.S. 557 (1980).

40. *Id.* at 566.

must be substantial.⁴¹ Furthermore, as to the third prong, the Court has held that the burden to prove that a speech restriction directly and materially advances the asserted governmental interest

is not satisfied by mere speculation or conjecture; rather, a governmental body seeking to sustain a restriction on commercial speech must demonstrate that the harms it recites are real and that its restriction will in fact alleviate them to a material degree We have observed that this requirement is critical; otherwise, a State could with ease restrict commercial speech in the service of other objectives that could not themselves justify a burden on commercial expression.⁴²

Yet, under the *Central Hudson* analysis, no single factor is dispositive. The Court has stated that “all [factors] are important and, to a certain extent, interrelated: Each raises a relevant question that may not be dispositive to the First Amendment inquiry, but the answer to which may inform a judgment concerning the other three.”⁴³ Thus a court must consider and weigh all four *Central Hudson* factors when determining whether an asserted governmental interest is sufficient to justify a regulation on commercial speech.

III. THE *WHITE BUFFALO* CASE

As previously noted, *White Buffalo Ventures, LLC v. University of Texas at Austin* is the first Fifth Circuit case to consider any portion of the CAN-SPAM Act, and is the first case to deal with the preemption provision of the legislation.⁴⁴ The *White Buffalo* court analyzed the preemption clause of the CAN-SPAM Act in order to determine whether the legislation preempted the University of Texas’ anti-spam regulation.⁴⁵ The court also examined whether such anti-spam measures, which blocked the commercial speech of White Buffalo Ventures’ e-mails, were constitutionally permissible under the First Amendment.⁴⁶ In *White Buffalo* the Fifth Circuit ultimately held in favor of the university, finding that the CAN-SPAM Act did not preempt the particular state regulation in question and that the action taken by the university was valid under the First

41. See *Bolger v. Youngs Drug Prods. Corp.*, 463 U.S. 60, 71 (1983).

42. *Greater New Orleans Broad. Ass’n, Inc. v. United States*, 527 U.S. 173, 188 (1999) (internal citations and quotations omitted).

43. *Id.* at 183-84.

44. 420 F.3d at 371.

45. *Id.* at 368-69.

46. *Id.*

Amendment.⁴⁷ The following two Sections detail the factual background of the case and describe the specific holding of the court, setting the stage for both an assessment of the court's decision and a discussion regarding the limitations of any legislative solution to spam.

A. Factual Background

The University of Texas at Austin ("UT") provides free internet access and e-mail addresses to its faculty, staff, and students.⁴⁸ UT engages in a policy of blocking various types of incoming spam, regardless of its source authenticity or commercial content.⁴⁹ Under the rules promulgated by the Board of Regents of the University of Texas System ("the Regents"), UT's technology department implements procedures to block incoming, unsolicited, commercial e-mails, and to stop the initial transmission of such e-mails.⁵⁰

White Buffalo Ventures operates multiple online dating services, including "longhornsingles.com," a website which targets UT students.⁵¹ In February 2003, White Buffalo, via a Public Information Act request, sought all "non-confidential, non-exempt email addresses" in possession of UT.⁵² UT responded by revealing all such e-mail addresses.⁵³ Several months later, in April 2003, White Buffalo began sending commercial spam—which complied with the requirements of the CAN-SPAM Act—to selected members of the UT community.⁵⁴ After receiving complaints regarding unsolicited e-mails from White Buffalo, "UT investigated and determined that White Buffalo had indeed sent unsolicited emails to tens of thousands of UT email account-holders."⁵⁵ Soon thereafter, UT sent a cease and desist letter, with which White Buffalo refused to comply.⁵⁶ Accordingly, UT blocked all incoming e-mail originating from White Buffalo's IP address.⁵⁷

47. *Id.* at 369.

48. *Id.*

49. *Id.*

50. *Id.*

51. *Id.*

52. *Id.*

53. *Id.*

54. *Id.*

55. *Id.*

56. *Id.*

57. *Id.* at 369-70.

In the lower district court case, White Buffalo sought to enjoin UT from blocking its mass commercial e-mails.⁵⁸ White Buffalo claimed that UT violated the First Amendment and the Equal Protection Clause of the Fourteenth Amendment.⁵⁹ Additionally, White Buffalo claimed that UT's anti-spam policy was preempted by federal law—the CAN-SPAM Act.⁶⁰ Ironically, using a federal anti-spam law as a defense, White Buffalo argued that the CAN-SPAM Act preempted UT's anti-spam regulation; thus, its spam could not be blocked since it was in compliance with the provisions of the CAN-SPAM Act.⁶¹

Both parties moved for summary judgment, and the district court granted summary judgment in UT's favor.⁶² On appeal to the Fifth Circuit, White Buffalo challenged the district court's ruling on the grounds that the CAN-SPAM Act preempted UT's internal anti-spam policy and that the policy violated White Buffalo's First Amendment rights.⁶³

B. The Fifth Circuit Decision

The Fifth Circuit held “that the CAN-SPAM Act [did] not preempt UT's anti-spam policy.”⁶⁴ Furthermore, while reserving judgment on whether state university e-mail servers constitute a public or private forum, the court held that UT's “policy [was] permissible under [its] First Amendment commercial speech jurisprudence.”⁶⁵

1. Preemption Under the CAN-SPAM Act

The court found that the CAN-SPAM Act's preemption provision “[was] in tension with plain text found elsewhere in the Act, and that [this] tension trigger[ed] the presumption against preemption.”⁶⁶ The court based its holding on the apparent ambiguity created by the interplay between the CAN-SPAM Act's preemption clause and the carve-out for entities exempt from any possible preemptive effect.⁶⁷ The court reasoned that Congress, in drafting the CAN-SPAM Act, did not anticipate the scenario where the state entity is *itself* the provider of internet access—a conclusion

58. *White Buffalo Ventures, LLC v. University of Texas at Austin*, No. A-03-CA-296-SS, 2004 U.S. Dist. LEXIS 19152, at *5 (W.D. Tex. Mar. 22, 2004).

59. *Id.*

60. *Id.* at *5-*6.

61. *See id.*

62. *Id.* at *24.

63. *White Buffalo*, 420 F.3d at 368-69.

64. *Id.* at 369.

65. *Id.* (emphasis omitted).

66. *Id.* at 372.

67. *See id.*

that the court reached as a result of the supposedly competing and contradictory provisions in the statute, which, according to the court, both expressly preempted and expressly excepted the factual scenario presented in the case.⁶⁸

Correspondingly, the court reiterated that “[s]uch tension, created by the text of the statute, [left it] unwilling to overrule the strong presumption against preemption.”⁶⁹ Therefore, the court found that the Regents’ rules (UT’s anti-spam policy) are “valid under the Supremacy Clause” of the Constitution, and are not preempted by the CAN-SPAM Act.⁷⁰

2. *Commercial Speech Under the First Amendment*

As previously noted, the four-part test defined by *Central Hudson* is used to determine whether or not a regulation by a public entity violates First Amendment commercial speech rights.⁷¹ The *White Buffalo* court easily determined that the first prong—whether the speech is unlawful or misleading—was not an issue, as both parties agreed that White Buffalo’s commercial spam was legal and contained factually accurate information.⁷² Under the second prong—whether the interest expressed by the government is substantial—UT stated two primary interests for executing its spam policy: “(1) safeguarding the time and interests of those with UT email accounts (*‘user efficiency’*) and (2) protecting the efficiency of its networks and servers (*‘server efficiency’*).”⁷³ In assessing the substantiality of these two interests, the court criticized the latter server efficiency argument as a “chronically over-used and under-substantiated” interest

68. *See id.* at 373-74. Given this apparent conflict, in a somewhat amusing yet undoubtedly instructive fashion, the court used a Venn diagram to illustrate the intersection that the court believed Congress did not envision—where a state actor is also the provider of internet service. *Id.*

69. *Id.* at 374.

70. *Id.* The court spent significant time dissecting the lower district court’s decision. The Fifth Circuit court criticized various aspects of the district court’s holding with respect to preemption, including the fact that the district court stated that “UT is certainly a provider of Internet access service to its students.” *Id.* at 373. The court took issue with the district court’s failure to reference the statutory definition of an internet service provider within the CAN-SPAM Act, which borrowed the definition from the Internet Tax Freedom Act. *See id.* Ultimately, while academically balancing the arguments on either side, the court nonetheless held that UT “falls within the ambit” of the CAN-SPAM Act’s definition of an internet service provider. *See id.*

71. *Cent. Hudson Gas & Elec. Corp. v. Pub. Serv. Comm’n*, 447 U.S. 557, 566 (1980); *see supra* Section II.B.

72. *White Buffalo*, 420 F.3d at 374.

73. *Id.*

asserted by parties.⁷⁴ In contrast, the court accepted UT's user efficiency argument, acknowledging "as substantial the government's gate-keeping interest in protecting users of its email network from the hassle associated with unwanted spam."⁷⁵

In assessing the third prong—whether the state (UT's) action directly promotes that interest—the court promptly found that "there can be no serious dispute that UT's anti-spam policy . . . directly advance[d] both interests."⁷⁶ Finally, under the fourth and traditionally most difficult inquiry—whether the state action is more extensive than necessary to promote the stated interest—the court accepted UT's anti-spam policy as no more extensive than necessary in order to meet UT's user efficiency interest.⁷⁷ As to server efficiency, the court rejected the proposition that UT's actions were no more extensive than necessary to secure its second substantial interest—the efficiency of its servers.⁷⁸ Given that record testimony illustrates White Buffalo's ability to send a restricted volume of e-mail at off-peak times, the court found that there was a "poor fit between UT's restrictions and the substantial interest in server efficiency."⁷⁹

However, because UT justified at least one of its substantial interests under the user efficiency rationale, the court held that UT's anti-spam policy survived First Amendment scrutiny and was constitutionally permissible under *Central Hudson*, irrespective of UT's failure to support its server efficiency argument.⁸⁰

74. *Id.* at 375.

75. *Id.* at 374-75.

76. *Id.* at 375.

77. *Id.* at 376.

78. *Id.*

79. *Id.* at 377 (emphasis omitted).

80. *Id.* at 378. As the court pointed out, in order to pass the muster of *Central Hudson*, a "governmental entity may assert that a statute serves multiple interests, and only one of those need be substantial." *Id.* In light of its holding with respect to a public forum under *Central Hudson*, and because the court reasoned that the First Amendment question would have been easily resolved if UT's servers were considered a private forum, the court reserved judgment as to whether a public university e-mail network constitutes a public or private forum. *See id.* In a brief footnote, the court pointed out that so long as the regulation is view-point neutral, regulation of a private forum is acceptable under First Amendment jurisprudence. *See id.* at 374 n.15. Thus the court reasoned: "[i]f we determine that this particular regulation would satisfy either situation, we need not resolve the dicey but admittedly important question of the public versus private forum status of public university email servers." *Id.*

IV. DISCUSSION

A. Assessing the *White Buffalo* Decision

The *White Buffalo* court reached the proper result: UT Austin should have the right to regulate spam sent to its students via UT Austin's servers. Yet, although the court's reasoning was cogent and well elucidated with respect to the First Amendment analysis, the court's preemption analysis was circuitous.

In analyzing preemption, the court relied unnecessarily on an apparent contradiction within the provisions of the legislation, and went a round-about way in achieving what should have been clear on the face of the CAN-SPAM Act itself—there is an exemption for ISPs, and UT Austin was functioning as an ISP. The fact that the CAN-SPAM Act explicitly preempts state law, but at the same time also explicitly exempts ISPs, needlessly occupied much of the court's attention. The CAN-SPAM Act need not have specifically identified whether policies implemented by state-administered ISPs (as was the case with UT Austin) are preempted or not. In the end, although the court's reasoning may have been indirect and unnecessarily exhaustive, the result is the same. ISPs have the authority and autonomy to regulate the spam that is sent over their servers.

In contrast, the court's reasoning with respect to commercial free speech was cogently and adeptly applied. The court's use of the *Central Hudson* test evinced a nuanced understanding of the relevant concerns with respect to e-mail technology. Specifically, the court's distinction between user and server efficiency displayed a sophisticated understanding of the legitimate technological concerns surrounding spam. As the court noted, the server efficiency argument is one that may be intuitively appealing, but it is not always factually accurate. The court recognized as much when it noted that “[s]uffer the servers is among the most chronically over-used and under-substantiated interests asserted by parties . . . involved in Internet litigation.”⁸¹ Rather than merely accepting at face value the argument that UT's servers would be harmed by the transmission of *White Buffalo*'s spam, the court displayed an understanding of the technological realities of server efficiency, and demanded that there be some proof illustrating that the blocked spam posed a legitimate threat to server efficiency.⁸²

Similarly, the court was accurate in its recognition that *user* efficiency, in contrast to server efficiency, was in fact a valid and legitimate concern.

81. *Id.* at 375 (internal quotations omitted).

82. *See id.* at 377.

As most owners of e-mail accounts would agree, protecting users of an e-mail network from encountering the hassle of unwanted spam should be an acceptable and legitimate function of any responsible internet service provider.

Despite the court's cogent treatment of legitimate regulatory interests, its failure to decide whether a state university e-mail server is public or private fora clearly leaves open future questions with respect to a state university's ability to regulate speech. Courts tend to be conservative about answering unnecessary constitutional questions, and the court's refrain in this decision is therefore understandable.

One significant question the court not only left open, but actually created by its own words, is the extent to which spam filtering and blocking must be content and viewpoint neutral in order to be valid under the First Amendment. More specifically, in a brief and seemingly innocuous parenthetical, the court left the door wide open to the potential for future conflict within Fifth Circuit case law.⁸³ The opinion states that "UT may block otherwise lawful commercial spam (as long as the blocks are content- and viewpoint-neutral)."⁸⁴ Given that the court made such a declaration, it should have elucidated the concept and defined the scope of such a principle.

The court could have been clearer as to its meaning; was it only referring to the *blocking* of an IP address, or was it also referring to *filtering* mechanisms that necessarily must focus on content? If the court was referring to filtering mechanisms, the practical implications of such a rule would be quite significant, essentially preventing any filtering scheme from screening out spam based on content. This oversight could leave open the potential for future First Amendment challenges in scenarios where e-mail regulation occurs by methods of content regulation (such as filtering pornographic spam or pharmaceutical marketing spam on the basis of particular words). It would seem that any reasonable filtering scheme by an ISP would include a system that filters and blocks spam on the basis of content. Put simply, filtering out the word "Viagra" would certainly allow a spam filter to function more effectively. Clearly, such a position—that spam blocking and filtering must be content and viewpoint neutral—could be problematic as a policy matter, resulting in greater dif-

83. See *U.T. v. Longhornsingles.com* Part 2 – state email filtering, Technology and Marketing Law Blog (Sep. 14, 2005), http://blog.ericgoldman.org/archives/2005/09/ut_v_longhornsingles.htm (pointing out the problematic aspects of the court's parenthetical regarding content and viewpoint neutrality).

84. *White Buffalo*, 420 F.3d at 376.

faculty in curbing spam. This oversight by the court will likely have to be addressed and clarified in a later case.

B. Beyond the CAN-SPAM Act and *White Buffalo*

On a broader level, *White Buffalo* serves as a reminder of the weaknesses of the CAN-SPAM Act itself and the need for more effective tools in combating spam. The fact that the CAN-SPAM Act is being used by *spammers* as a litigation tool speaks to the inadequacy of the legislation in effectively combating spam.⁸⁵ Furthermore, it can be argued that the legislation was motivated by lobbyists re-couching the spam issue as one about dishonest and deceptive spam, rather than about the negative effects of huge amounts of mass commercial e-mail.⁸⁶ It has also been said that the CAN-SPAM Act is more symbolic than it is substantive, serving as a token to which Congress can point to in order to claim they are dealing with spam.⁸⁷

In light of the numerous deficiencies of the CAN-SPAM Act, many commentators take the position that stricter legislation is needed to more effectively combat the problem of spam.⁸⁸ For example, opt-in procedures, such as those that existed in California state law prior to the passage of the CAN-SPAM Act, could be a more effective way of preventing the transmission of spam.⁸⁹ Opt-in procedures would require senders of spam to have received permission from potential recipients before the legal delivery of spam could take place. This policy would clearly have a devastating effect on the ability to advertise to new customers via spam. An opt-in system would also be more in line with the global community's approach towards dealing with spam.⁹⁰ More effective legislation could also require that spam contain a label in the subject line of the message identifying the mail as spam, a feature which is found in many of the now-preempted state laws.⁹¹ The subject line label requirement was a feature of at least one of the proposed anti-spam bills in Congress, which ultimately failed to be incorporated into the initial enactment of the CAN-SPAM Act.⁹² Fi-

85. See Zhang, *supra* note 26, at 324.

86. See Ray Everett-Church, *It's Not Called "Can" Spam for Nothing*, CNET NEWS.COM, Dec. 16, 2003, <http://news.com.com/2010-1028-5125192.html>.

87. Erica Hallace Kikuchi, Note, *Spam in a Box: Amending CAN-SPAM & Aiming Toward a Global Solution*, 10 B.U. J. SCI. & TECH. L. 263, 284 (2004).

88. See, e.g., *id.*

89. See *id.* at 285.

90. See *id.* at 284.

91. See Jordan M. Blanke, *Canned Spam: New State and Federal Legislation Attempts to Put a Lid On It*, 7 COMP. L. REV. & TECH. J. 305, 308 (2004).

92. *Id.* at 316.

nally, incorporating a private right of action into federal legislation could also potentially create a more robust anti-spam legislation.⁹³

It should be noted that the First Amendment remains as an upward limit on all spam legislation. The more restrictive the spam legislation, the greater the concern is with respect to a violation of First Amendment principles. Legislation that would be most effective at eliminating spam altogether is legislation that makes all forms of unsolicited commercial e-mail per se illegal. Yet such a law would have a chilling effect on First Amendment rights and would undoubtedly be subject to countless constitutional challenges. Given this, the efficacy of anti-spam laws must always be balanced against the restrictions that are being placed on the freedom of speech.

A relevant question emerging from the debate surrounding the CAN-SPAM Act is whether legislation serves as the most effective means of combating spam. The most efficacious solution may lie outside the domain of state or federal legislatures. The technological progress that has served to facilitate the rapid growth of spam may also provide the answer as to how to address the pervasive nature of spam. Market-driven technological innovations may provide a more efficient and useful means of curbing spam. Stopping spam at its source—as legislation attempts to do—makes sense intuitively, but such a method is futile if senders of spam simply ignore the law. For example, even if revised spam legislation required an opt-in procedure, such strict requirements would be in vain if spammers simply played by the same rules, or lack thereof, that they do now.

Stopping spam at the point of reception, rather than inception, may be more effective. That is, a well-designed spam filter may be far more effective at diminishing the nuisance of spam than a legislator ever could be. It is clear that a significant cost associated with spam is the inefficiency that is created by e-mail inboxes filled with a greater amount of spam than legitimate e-mail.⁹⁴ Properly designed spam filters may resolve these issues in a manner that the law cannot reach. Filters at the consumer level would not be subject to the First Amendment concerns noted above—an individual e-mail user could filter and effectively block all spam messages to their heart's content. This is not to say that legislation has no role in this process, but merely that superior filtering technology may, as the CAN-

93. *See id.*

94. *See Hamel, supra* note 6, at 968 (noting that the loss of productivity from sorting through unfiltered spam has an effect on a company's bottom line).

SPAM Act itself recognizes,⁹⁵ complement legislation and serve as an even more effective solution to the problems that are associated with spam.

Admittedly, the costs incurred from *sent* spam would still exist; even filtered spam consumes a portion of an ISPs bandwidth and uses recipients' connection time and computer space.⁹⁶ Yet this raises questions about the true nature of the spam problem: Is the cost of spam actually a function of front-end costs such as server efficiency and ISP connection time? Or is the harm more directly associated with the inefficiency and nuisance created by consumer and business users sifting through unfiltered e-mail inboxes? The latter seems to be a more apt characterization of the nature of the problem.⁹⁷ Recall the *White Buffalo* court's recognition of this point with respect to UT; the court agreed with UT's *user* efficiency argument but dismissed the *server* efficiency argument as unsubstantiated.⁹⁸ Furthermore, although many would argue that a significant problem of spam filtering is that it tends to be over- or under-inclusive, the creation of innovative and increasingly superior filtering technology should continue to address and minimize this problem.⁹⁹

It appears that recent improvements in technology may already be filling the legislative gaps—a 2005 Pew Report on spam illustrated that recipients are “minding [spam] less” and that “the findings from almost one year ago might have represented a spike or a high point, rather than a growing negative trend of the impact of spam on the internet experience.”¹⁰⁰ In light of the fact that aggregate levels of spam have only increased since the passage of CAN-SPAM, the fact that spam recipients are finding spam more manageable may signal that technological innovations are alleviating the spam nuisance where legislation has not.

95. The CAN-SPAM Act itself notes the insufficiency of legislation as the sole means to combat spam. As the findings of the CAN-SPAM Act state, “The problems associated with the rapid growth and abuse of unsolicited commercial electronic mail cannot be solved by Federal legislation alone. The development and adoption of technological approaches . . . will be necessary as well.” 15 U.S.C. § 7701(a)(12) (2000).

96. See Zhang, *supra* note 26, at 305-06.

97. See *supra* note 94.

98. See *supra* notes 74-75.

99. See, e.g., Paul Graham, Better Bayesian Filtering (Jan. 2003), at <http://www.paulgraham.com/better.html> (discussing the increased performance of Bayesian filtering mechanisms).

100. Deborah Fellows, Pew Internet & American Life Data Memo: CAN-SPAM a year later (Apr. 2005), available at http://www.pewinternet.org/pdfs/PIP_Spam_Ap05.pdf.

Other innovative means of addressing spam also exist. Yahoo! created an authentication system whereby a system sending an e-mail message could embed a secure, private key in a message header.¹⁰¹ The receiving system would thus be able to verify the public key registered to the sending domain, and messages sent from unverified and unauthentic sources would correspondingly be blocked.¹⁰² Microsoft has proposed the Penny Black Project, where spam senders would pay a fee to recipients (of spam), thereby reducing the aggregate amount of spam by increasing its overall cost.¹⁰³ Although the administrative difficulties of such a plan may be significant, the point is that other market-driven means of curbing spam exist as alternatives and complements to a singular legislative solution.

Finally, internet users must assess the costs on each side of this equation. What exactly is the tradeoff between technological solutions (such as under-inclusive or over-inclusive filters) and stronger legislation? Technological solutions may not provide an immediate or perfect answer, yet problems such as over-inclusive filters may be significantly less harmful than relying on strict and over-inclusive legislation. Notwithstanding the inherent enforcement difficulties that continually plague anti-spam legislation, highly restrictive legislation—even if perfectly effective—can have clear ramifications for the freedom of speech. While the imperfections of developing technology could lead to a few legitimate e-mails being lost or the occasional spam message reaching an inbox, highly restrictive legislation may nonetheless lack efficacy and will always have the pernicious potential to stifle free speech.

V. CONCLUSION

The decision in *White Buffalo*, although superfluous with respect to its holding on preemption, was ultimately the correct one. That is, internet service providers should have the freedom to adequately regulate the commercial spam that is sent over its servers. Furthermore, illustrating a heightened awareness of the relevant technological concerns, the Fifth Circuit adeptly addressed the issues surrounding commercial free speech. Yet the case also highlights more fundamental questions about how best to deal with the ubiquitous spam phenomenon. A legislative framework has a legitimate role as a partial solution in this dilemma. Although a legislative scheme that attempts to stop spam at the source seems to have an intuitive appeal, it is essential to address whether such a narrowly focused approach

101. Alepin, *supra* note 27, at 67-68.

102. *Id.* at 68.

103. See Hamel, *supra* note 6, at 1002.

provides a realistic remedy. The inherent limitations that accompany a legislative solution are paramount, particularly with respect to the upward limit that the First Amendment plays on any legislative scheme intending to stifle speech, commercial or otherwise. The genuine solution to spam may be found by looking beyond the content of legislation, pursuing alternatives just as creatively as the resourceful and innovative spammers who continue to cause the problem.

ADDITIONAL DEVELOPMENTS—CYBERLAW

SONY-BMG COPY PROTECTION ROOTKIT

In October 2005, security researchers discovered that Sony-BMG was distributing a controversial form of copy protection on millions of its music CDs, prompting strong reactions from the technical and public interest communities as well as state law enforcement officials, ultimately leading to a series of investigations and lawsuits.

Sony-BMG, a record company and music distributor, is one of the largest firms in the industry. Last year it was discovered that several million of its music CDs were protected by XCP, a copy protection technology that restricts the ability of users to copy and access music on their computers. In order to prevent users from removing this software, XCP employed a rootkit—a cloaking technology that hides files from users and their operating systems. Because rootkits enable third parties to surreptitiously install software on users' computers, Sony-BMG's undisclosed installation of such technology on their customers' machines sparked a great deal of concern from consumer rights groups and security professionals who claimed that Sony-BMG was engaging in "black hat hacking" and deceptive trade practices.

Sony-BMG's response to the concerns was unsteady at best. While it released a series of programs to allow users to uninstall XCP's rootkit, these fixes created additional security risks. Criticism peaked when Thomas Hesse, president of Sony-BMG's Global Digital Business, stated on National Public Radio: "Most people, I think, don't even know what a rootkit is, so why should they care about it?"

In November, the Electronic Frontier Foundation filed a class action lawsuit on behalf of customers affected by Sony-BMG's copy protection. The lawsuit settled out of court, with Sony-BMG agreeing to make clear to users what type of copy protection a CD uses, and to give affected consumers a new, copy-protection-free CD, DRM-free music downloads, and a small compensatory payment. In addition, the Texas Attorney General filed charges against Sony-BMG for violating the state's anti-spyware law. Litigation and additional investigations in this matter are ongoing.

**UPDATE ON
SHRINKWRAP/CLICKWRAP/BROWSEWRAP CONTRACTS**

JAMES V. MCDONALD'S CORP.

417 F.3d 672 (7th Cir. 2005)

HUBBERT V. DELL CORP.

835 N.E.2d 113 (Ill. App. Ct. 2005)

MOTISE V. AMERICA ONLINE, INC.

346 F. Supp. 2d 563 (S.D.N.Y. 2004)

REGISTER.COM, INC. V. VERIO, INC.

356 F.3d 393 (2d Cir. 2004)

CAIRO, INC. V. CROSSMEDIA SERVICES, INC.

2005 U.S. Dist. LEXIS 8450 (N.D. Cal. Apr. 1, 2005)

Several recent cases examined the legal significance of unconventional forms of contract formation. In each case, a court held the parties were contractually bound. The effect of these rulings is to expand the law governing the acceptance of contract terms in the shrinkwrap, clickwrap, browsewrap, and related contexts.

In *James v. McDonald's Corp.*, the Seventh Circuit addressed the validity of contract terms that are neither read by, nor immediately communicated to a contracting party, but are published and available to both parties. McDonald's promoted a game in which purchasers of food products also received the chance to win prizes. The plaintiff obtained a game card when she purchased an order of French fries. After a dispute regarding her entitlement to a prize, she filed suit, alleging that McDonald's misrepresented the true chance of winning. McDonald's filed a motion to compel James to arbitrate her claims under the contest rules posted at participating McDonald's restaurants.

The district court granted McDonald's motion to compel arbitration, and the Seventh Circuit affirmed. The court held that the arbitration clause found in the "Official Rules" was part of the contract and therefore binding. In reaching this decision, the court relied on the fact that the contest rules were posted and referred to on the packaging James received with

her game card. James contended that she should not be required to arbitrate her claims because she never entered into an agreement to arbitrate her dispute. The court disagreed, reasoning that even though the plaintiff did not read the rules in their entirety, she agreed to be bound by them by participating in the game.

In *Hubbert v. Dell Corp.*, the plaintiffs bought computers from Dell over the internet. Each of the online forms the buyers completed contained a hyperlink to the “Terms and Conditions of Sale.” These terms included an arbitration clause. Dell filed a motion to compel arbitration. The trial court denied the motion, finding that the arbitration clause never became part of the contract. Dell appealed.

The Illinois Court of Appeals determined that the trial court erred in holding that the arbitration clause was not effective. The court reasoned that the blue hyperlinks constituted sufficient notice to the plaintiffs and, therefore, the terms were binding. The court noted that the hyperlink appeared on several webpages the plaintiffs necessarily viewed while ordering their products, as well as on the defendant’s marketing pages. The court likened the five-step online process to a multi-page, written paper contract. As with a traditional paper contract, the Terms and Conditions were part of the contract, and the plaintiffs were bound by the arbitration clause within them.

In *Motise v. America Online, Inc.*, a New York federal court ruled on the application of an Internet Service Provider’s (ISP) contract terms to an individual who was not party to the original contract, but used the ISP’s service. Plaintiff used his stepfather’s America Online (AOL) account to access the internet. Plaintiff filed suit, alleging that AOL released private information about him on a public listserv. AOL responded by seeking to either dismiss the action or, alternatively, transfer the case to the Eastern District of Virginia as provided by the forum selection clause in the AOL member agreement. The plaintiff argued that he did not receive notice of AOL’s Terms of Service and so was not bound by them. AOL countered that (1) the plaintiff received constructive notice through availability of the terms and notice on the initial webpage and (2) the plaintiff was a sublicensee of his stepfather.

The court rejected AOL’s constructive notice arguments and instead reasoned that because the plaintiff was able to utilize AOL’s services through his stepfather’s account, he accepted the terms of service as a sublicensee. The forum selection clause was therefore enforceable. The plaintiff’s stepfather was required to accept the terms of service and was therefore bound at the time he created the account. When accessing the internet through his stepfather’s account, the plaintiff was subject to the same con-

ditions and limits on privileges as the original licensee, his stepfather. Thus, the court reasoned that contract enforcement must extend to users of an ISP even in cases where those users did not receive actual or constructive notice of the terms of service.

Two recent cases extended contract enforcement to instances where acceptance was automated, and additional terms appeared via hyperlink only after the party had assented to the transaction. These cases mark a further departure from the standard doctrine where an offeree accepts with the benefit of full knowledge of the terms and conditions of the contract. As with *ProCD, Inc. v. Zeidenberg*, 86 F.3d 1447 (7th Cir. 1996), the landmark shrinkwrap case, the courts in *Register.com, Inc. v. Verio, Inc.* and *Cairo, Inc. v. Crossmedia Services* held that under some circumstances ex post awareness of contract terms was sufficient to bind a party. The courts extended contract enforcement to those cases where parties repeatedly and systematically utilized the websites at issue, and thus were made aware of the additional terms of use.

In *Register.com, Inc. v. Verio, Inc.* the Second Circuit heard an appeal from a preliminary injunction granted by the district court. Register.com was appointed a registrar of domain-names by the Internet Corporation for Assigned Names and Numbers (ICANN). Under its agreement with ICANN, Register.com was to make contact information for domain-name owners called "WHOIS information" available to the public. Verio was engaged in the business of selling a variety of website design and operation services. Verio used an automated program to collect WHOIS information from Register.com's WHOIS database on a daily basis. Subsequent to each receipt of information from Register.com's database, Verio also received terms prohibiting the use of the information for mass commercial e-mail, telemarketing, and direct mail. With the contact information for domain-name owners in hand, Verio solicited potential customers via e-mail, telephone, and direct mail. Though this practice violated the terms accompanying the WHOIS information, Verio claimed that because the terms were supplied only after delivery of WHOIS information it was not bound by the restrictions.

The Second Circuit affirmed the grant of a preliminary injunction. The court reasoned that Verio's argument might have been persuasive if its use of the WHOIS information had not been so frequent and systematic. Since Verio used the service on a daily basis, it received repeated notice of the restrictions against mass unsolicited e-mail. Verio admitted to knowing of the restrictions, yet continued regardless.

The facts and reasoning in *Cairo, Inc. v. Crossmedia Services* mirrored those in *Register.com*. Cairo filed a federal suit in California seeking a de-

claratory judgment that it did not breach any contract with the defendant, Crossmedia Services (CMS). Cairo's website allowed a user to search its database of retail sales information. To provide such information, Cairo used a software robot to automatically collect sales information from the various retailers' webpages. CMS, one such retailer, authorized users to view and download a single copy of content on its website solely for lawful, noncommercial and personal use. Its terms of use also contained a forum selection clause. These restrictions were made available from CMS's home page via a hyperlink labeled "Terms of Use." Cairo's computer search programs could not "read" the Terms of Use, and they did not report the presence of such terms back to Cairo. Cairo asserted that since it used a robot and never explicitly agreed to CMS's "Terms of Use," it was not contractually bound by the forum selection provision.

The district court granted the defendant's motion to dismiss Cairo's suit. The court in *Cairo* concluded that because Cairo's use of CMS websites, although automated, was performed thousands of times per month, knowledge of CMS's terms of use could be imputed to Cairo. Thus, even accepting Cairo's assertion that it did not explicitly agree to the Terms of Use and forum selection clause, its use of CMS's websites created actual or imputed knowledge of CMS's terms of use and bound Cairo to those terms.

ELECTRONIC PRIVACY UPDATE

UNITED STATES V. ROPP

347 F. Supp. 2d 831 (C.D. Cal. 2004)

FREEDMAN V. AMERICA ONLINE, INC.

2005 WL 1899381 (D. Conn. Aug. 9, 2005)

Several court cases concerned the Electronic Communications Privacy Act (ECPA) and Fourth Amendment concerns related to electronic privacy.

In *United States v. Ropp*, the defendant attached a keystroke logger to a computer that recorded each keystroke the victim computer user typed. Defendant was indicted for intercepting electronic communications in violation of the Wiretap Act, as amended by the ECPA, 18 U.S.C. § 2511(1)(a). The District Court granted defendant's motion to dismiss, holding that although the keystroke logger captured electronic signals, the statutory definition of "electronic communications" covered only signals transmitted by a system that "affects interstate or foreign commerce." 18 U.S.C. § 2510(12). The court noted that the computer was connected to a network and signals sent over the network could qualify as electronic communications, but that signals internal to the computer did not similarly qualify, even when they were part of the preparation of messages for the network such as e-mail messages.

In *Freedman v. America Online, Inc.*, the plaintiff, Freedman, sent an anonymous e-mail message that the recipient claimed was threatening. Defendant police officers sent an unsigned warrant to defendant internet service provider America Online (AOL) which then turned over information that identified the plaintiff. Freedman sued, claiming that AOL's disclosure of personal information without a valid warrant violated his rights under the Fourth and First Amendments.

The court granted summary judgment against plaintiff on his Fourth Amendment claim. Although AOL's privacy policy stated it would not disclose the plaintiff's screen name, it included exceptions that permitted it to reveal information to the government voluntarily. The court therefore found the plaintiff did not have a reasonable expectation of privacy in his subscriber information. The court denied summary judgment on the First Amendment claim, however, because there was some evidence that a reasonable police officer would not have considered the message a threat.

FTC v. SEISMIC ENTERTAINMENT PRODUCTIONS, INC.

2004 U.S. Dist. LEXIS 22788 (D.N.H. Oct. 21, 2004)

The FTC sued several companies that developed and distributed advertising spyware for unfair trade practices under the FTC Act, 15 U.S.C. § 45(a).

Seismic Entertainment is a distributor of software that the FTC alleged “reconfigured consumers’ computers by installing a software code, without the consumers’ knowledge or authorization, that gives the defendants access to those computers for purposes of advertising.” Through the use of mass e-mails, Seismic directed users to a webpage where, if allowed by the users’ security settings, a piece of software was installed onto their machines without their knowledge. This software would then monitor web traffic, increase pop-up and pop-under ads, and often slow browser performance. Many of these pop-up ads touted the benefits of defendant’s own “anti-spyware” programs.

In response, the Federal Trade Commission brought suit under 15 U.S.C. § 45(a) and sought temporary injunctive relief requiring defendants “to remove software script that exploits the web browser security vulnerabilities . . . or any other web browser security vulnerabilities that allow the defendants to install, download, or deposit any software code, program, or content onto a computer without the computer user’s knowledge or authorization.” The court, in light of the FTC’s likelihood of success in securing a permanent injunction and “the public’s interest in avoiding the problems” created by defendants’ software, granted the FTC’s request for a temporary restraining order.

ISP SUBPOENA UPDATE

IN RE SUBPOENA TO UNIVERSITY OF NORTH CAROLINA AT CHAPEL HILL

367 F. Supp. 2d 945 (M.D.N.C. 2005)

IN RE CHARTER COMMUNICATIONS, INC. SUBPOENA ENFORCEMENT MATTER

393 F.3d 771 (8th Cir. 2005)

SONY MUSIC ENTERTAINMENT INC. v. DOES 1-40

326 F. Supp. 2d 556 (S.D.N.Y. 2004)

ELEKTRA ENTERTAINMENT GROUP, INC. v. DOES 1-9

2004 U.S. Dist. LEXIS 23560 (S.D.N.Y. 2004)

Several district courts and the Eighth Circuit ruled on the enforceability of subpoenas demanding that Internet Service Providers (ISPs) reveal the identity of anonymous internet users and alleged copyright infringers.

In a peer-to-peer (P2P) networking system, files are transferred between computer users without the need for a central server to store shared files. When a user logs onto a P2P network, he is able to search the shared files of all other users and download directly from other users' computers. Because a user is typically only identified on a P2P network by IP address or screen name, there is no simple way to determine the user's true identity. In various actions, plaintiff copyright holders alleged that P2P network users infringed their copyrights. Alleging that they could only obtain the individual and true identities of users they want to sue from records maintained by the users' ISPs, plaintiffs issued subpoenas to the users' respective ISPs demanding user identities. The ISPs—and, in some cases, the individual users acting anonymously—moved to quash.

In *Elektra* and *Sony Music*, the Doe defendants argued that the subpoenas violated their First Amendment rights to anonymous speech on the internet. The District Court for the Southern District of New York demanded compliance with the subpoenas, holding that the First Amendment did not bar compelled disclosure of defendants' identities. The court reasoned that while the individual users' activities on the P2P networks qualified as speech, plaintiffs' prima facie claim of copyright infringement and

the inability of obtaining the information by other means outweighed defendants' interests under the First Amendment.

In a second line of cases, the subpoenas were challenged on procedural grounds, and in all three cases the defendants' motions to quash were granted. In *Charter Communications* and *University of North Carolina*, the motions to quash were granted because the courts found that the ISPs, as providers of internet connections that did not store any allegedly infringing material, and thus could not remove that material, were not properly subpoenaed under the Digital Millennium Copyright Act.

STATE REGULATION OF VIOLENT VIDEO GAMES

CALIFORNIA VIOLENT VIDEO GAME LEGISLATION

A.B. 1179 (2005)

ENTERTAINMENT SOFTWARE ASS'N V. BLAGOJEVICH

404 F. Supp. 2d 1051 (N.D. Ill. 2005)

VIDEO SOFTWARE DEALERS ASS'N V. SCHWARZENEGGER

401 F. Supp. 2d 1034 (N.D. Cal. 2005)

Recent district court decisions in both California and Illinois have indicated the likely futility of state legislation attempting to regulate the sale of violent video games to minors.

In *Entertainment Software Ass'n v. Blagojevich*, the District Court for the Northern District of Illinois found unconstitutional Illinois statutes that attempted to restrict minors' access to violent and sexually explicit video games. The statutes required that such games be labeled with a two-inch square label reading "18," and prohibited their sale or rental to minors under age 18. Applying strict scrutiny review, the court found that the laws were unconstitutional because the state lacked substantial evidence that violent games were sufficiently harmful to minors, and because the statutes were vague.

In 2005, the California legislature enacted Assembly Bill 1179 (A.B. 1179), codified at Cal. Civ. Code §§ 1746-1746.5, which, like the Illinois statutes, regulated the sale and rental of violent video games to minors, and imposed labeling requirements on distributors of violent video games. The bill was intended to reduce perceived negative emotional and psychological effects caused by exposure to violent video games, including tendencies toward aggression. To qualify as a "violent video game" under A.B. 1179, the game must appeal to a deviant or morbid interest of minors in the eyes of a reasonable person, be patently offensive to the standards of the community, and lack "serious literary, artistic, political, or scientific value" for minors. Video game industry groups sued to invalidate the law on First Amendment grounds. In *Video Software Dealers Association v. Schwarzenegger*, the District Court for the Northern District of California granted a preliminary injunction against its enforcement, reasoning that potential detrimental effects on First Amendment rights and costs of im-

plementing A.B. 1179 outweighed a short delay in the enforcement of the law.

UNITED STATES V. MITRA*405 F.3d 492 (7th Cir. 2005)*

The Seventh Circuit held that a criminal conviction for the intentional interference with computer-related systems used in interstate commerce under the Computer Fraud and Abuse Act was a proper exercise of Congress's commerce power, regardless of whether the harm inflicted was interstate in nature.

Late in 2003, Rajib Mitra, a business student at the University of Wisconsin and computer hacker with two previous criminal convictions, allegedly repeatedly hacked into the Madison, Wisconsin police-fire-ambulance emergency communications system. These efforts culminated in a citywide failure of emergency communications on Halloween of 2003. Mitra used radio and computer hardware to analyze and monitor the communications system, and blocked the system's use by interfering with the control channel frequency used to initiate a conversation.

In November 2003, the city of Madison used radio direction finders to locate the source of the interference signals, and police arrested Mitra shortly thereafter. Mitra was convicted of two counts of intentional interference with computer-related systems used in interstate commerce under the Computer Fraud and Abuse Act, 18 U.S.C. § 1030(a)(5), and sentenced to ninety-six months' imprisonment. Mitra appealed his conviction, arguing that the application of the statute to his actions was an over-expansion of Congress's intent for the statute, that the statute exceeds Congress's power to regulate interstate commerce, and that the application of the statute to his activities was so unexpected as to constitute lack of notice and a violation of the due process clause of the Fifth Amendment.

Mitra contended that the statute was not a proper exercise of Congress's power to regulate interstate commerce because Congress could not have intended the statute to apply to all the computer systems that today interact with interstate commerce when it enacted the statute. The Seventh Circuit rejected this argument, finding that the statute was general and applicable to technologies and uses that emerged after it passed. The court also found that, though neither Mitra's activities nor the communications with which he interfered crossed state lines, the statute was well within Congress's commerce power because the statute protects communication that operates in commerce on an interstate spectrum regulated by the Federal Communications Commission.

BORDERS ONLINE, LLC V. STATE BOARD OF EQUALIZATION

129 Cal. App. 4th 1179 (Ct. App. 2005)

The California Court of Appeals held that an online retailer that allowed a local retailer to accept returns on its behalf was required to collect and remit use taxes on local sales to the California Board of Equalization, and that this relationship was sufficient to establish the nexus required for the state to impose taxes on the online retailer.

Borders Online (“Online”) is a subsidiary of Borders Group, Inc., a Delaware corporation. Borders Group also owns Borders, Inc. (“Borders”), which operates brick-and-mortar Borders Books and Music stores. From April 1, 1998 to September 30, 1999, Online sold over \$1.5 million in merchandise to California customers, but neither collected taxes from its California customers nor paid sales or use taxes to the California Board of Equalization. During this period, Online posted a return policy providing customers with the option of exchanging or returning merchandise purchased from Online at any Borders store, many of which are located in California.

In 1999, the Board issued a letter to Online stating that, under the California Revenue and Taxation Code Section 6203, it was required to collect and remit use taxes on all sales to California purchasers because Borders acted as Online’s agent by accepting return merchandise. Online paid the use taxes, and then submitted a claim for refund, which the Board rejected. Online then filed suit seeking the refund, arguing that (1) it was not a California retailer and therefore was not required to pay use taxes, and (2) the Commerce Clause prohibited California from imposing taxes on the company. The trial court granted summary judgment for the Board, and Online appealed.

The California Court of Appeals affirmed. The court held that because Borders accepted returns on behalf of Online and granted its own store credit and merchandise for Online exchanges, Borders qualified as Online’s “representative” or “agent” “operating” in California under Section 6203(c)(2). The court also adopted the Board’s interpretation of “selling” under the statute, defining it as including “all activities that are an integral part of making sales.” The court concluded that, because providing “convenient and trustworthy return procedures” is an important part of an out-of-state retailer’s ability to encourage and make sales, Borders’s actions on behalf of Online sufficed as “selling” and required Online to collect and pay use taxes.

The court held that Borders's actions as a representative of Online satisfied the Commerce Clause nexus requirement set out in *Tyler Pipe Industries v. Washington Department of Revenue*, 483 U.S. 232, 250 (1987). Specifically, the court found that the return policy and cross-selling techniques in which Online and Borders cooperated demonstrated that Online had a representative with a physical presence in the state, and that the representative's activities were significantly associated with Online's ability to establish a market in the state. The court further held that, although evidence that the local representative's activities have a de minimis impact on local sales could factor in the nexus test, the burden of showing this impact rests on Online because "one who claims an exemption from taxation has the burden of proving it."

CYBERCRIME SURVEY

In 2005, the Senate Foreign Relations Committee recommended ratification of the Council of Europe Convention on Cybercrime. The Convention requires that signatories criminalize certain activities, such as hacking and child pornography, while stiffening criminal liability for other intellectual property-related violations. It also expands the powers of law enforcement to compel internet service providers to monitor user content. The bill was opposed by the privacy community, endorsed by software companies, and received broad support from Senate Foreign Relations Committee. The recommended ratification of the Convention is arguably symbolic, however, as U.S. law already includes many of the treaty's provisions. The one provision that would have the most impact, and has drawn the most criticism, requires that signatories to the treaty offer "mutual assistance" in the prosecution of cybercrimes; essentially, it requires that domestic law enforcement agencies offer assistance in the prosecution of cybercrimes committed in other signatory countries. The Convention is now waiting for approval from the entire Senate.

The Department of Homeland Security (DHS) has also started taking the threat of cybercrime more seriously. A new position was recently created within DHS, the Assistant Secretary of Cyber Security and Telecommunications, to oversee DHS's effort to address ongoing cyber threats. This appointment follows in the shadow of a 2003 report titled "National Strategy to Secure Cyberspace," which detailed the possible threats faced by United States, and how the private and public sectors might combat those threats. The new Assistant Secretary will be working closely with the United States Computer Emergency Readiness Team (US-CERT), a partnership between DHS and private businesses which was created in 2003 and "charged with protecting [the] nation's Internet infrastructure by coordinating defense against and response to cyber attacks."

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CONSTITUTIONAL LAW

GRANHOLM V. HEALD:
SHIFTING THE BOUNDARIES OF CALIFORNIA
RECIPROCAL WINE SHIPPING LAWS

By Michael A. Pasahow

The temperance movement of the late nineteenth and early twentieth centuries culminated with the passage of the Eighteenth Amendment,¹ banning the transportation and sale of alcohol in the United States. The American public was never fully behind national Prohibition though, and the Eighteenth Amendment was soon repealed by the Twenty-first Amendment.² The interplay between the Twenty-first Amendment and the Commerce Clause,³ the constitutional ban on state interference with interstate commerce, has created complex, state-specific regulatory systems and has led to economic border skirmishes in the liquor markets as producers, wholesalers, and states grapple in political and judicial forums for competitive advantages. With the rise of internet commerce and the associated ability of consumers to directly connect with hitherto unavailable or unknown alcohol producers, states have faced the question of whether to loosen their lucrative and politically tense liquor distribution regulations to allow direct sales for the benefit of small producers and consumers.

New York and Michigan attempted to “split the baby” by authorizing properly-licensed, in-state wineries to sell directly to consumers while shielding the nascent wineries from interstate competition by continuing to prohibit direct alcohol shipments from out-of-state producers. The recent Supreme Court case *Granholm v. Heald*⁴ held that these limited exceptions to direct shipping bans violate the Commerce Clause and are not authorized under the Twenty-first Amendment. States therefore either must open their direct shipping schemes to out-of-state wineries shipping directly to customers through internet sales or shut down direct sales entirely, preventing in-state consumers and wineries from reaping the benefits of the e-commerce revolution.

This Note explores the aftermath of the *Granholm* decision and its implications for California’s wine shipping regulations. Part I outlines the history of the Twenty-first Amendment and the recent rise of e-commerce

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1. U.S. CONST. amend. XVIII.

2. U.S. CONST. amend. XXI.

3. U.S. CONST. art. I, § 8, cl. 3.

4. 125 S. Ct. 1885 (2005).

and direct shipping laws. Part II describes the *Granholm* decision. Part III analyzes the likely effect of the Court's decision on California's new direct sales laws. This Note concludes that the *Granholm* decision will likely invalidate California's modified direct shipping statute and shift the state's involvement in direct alcohol shipments to registration and tax collection rather than barrier policing and economic protectionism.

I. BACKGROUND

The historical background of the temperance movement, the patchwork of pre-Prohibition legislation, and the Twenty-first Amendment were critical to the Court's analysis in *Granholm*. This Part chronicles the development of congressional doctrines of noninterference in state liquor control efforts and the Court-imposed limits on these efforts. Additionally, this Part briefly outlines the growth of the internet wine market and the use of direct shipping statutes to aid small wineries.

A. Pre-Prohibition Statutory Development

Even before nationwide Prohibition became politically feasible, the emerging temperance movement caused several states to limit or ban the production, sale, and shipment of alcohol within their borders.⁵ The first state statutes were introduced in the 1850s, but they were largely unsuccessful and quickly repealed.⁶ The rise of the Progressive movement rekindled a moral interest in Prohibition, however, and several states enacted bans on the production or sale of alcohol within their borders—so-called “dry” statutes—towards the end of the 19th century. While the Supreme Court held these bans to be a legitimate exercise of state police powers,⁷ the Court took issue with attempts to limit the flow of alcohol by regulating, but not banning, its distribution and sale. These state laws had the potential to run afoul of the Commerce Clause by impermissibly dipping into the regulation of interstate commerce.⁸ Even in the absence of federal law regulating liquor distribution or sale, the already-developed doctrine of the Dormant Commerce Clause held some areas outside of states' regulatory

5. For a sympathetic history of the Prohibition movement, see generally NORMAN H. CLARK, *DELIVER US FROM EVIL: AN INTERPRETATION OF AMERICAN PROHIBITION* (1976).

6. Susan Lorde Martin, *Wine Wars—Direct Shipment of Wine: The Twenty-first Amendment, The Commerce Clause, and Consumers' Rights*, 38 AM. BUS. L.J. 1, 11 (2000).

7. See *Mugler v. Kansas*, 123 U.S. 623 (1887).

8. U.S. CONST. art. I, § 8, cl. 3.

purview.⁹ In testing whether the early state regulations fell afoul of the Dormant Commerce Clause, the Court first held that early regulation schemes could not discriminate between domestic and out-of-state alcohol—all liquor was to be regulated equally before the laws of the states.¹⁰ Second, the Court took a hard look at facially neutral bans, scrutinizing them for hidden discriminatory purposes or effects that would implicate the Commerce Clause, which it found in *any* ban on “imported” liquor, whether standing alone or as part of a blanket prohibition on alcohol sales.¹¹ While the bans on importation were struck down under a now-discarded “original package” doctrine of interstate commerce,¹² the congressional response to the rulings continues to shape Twenty-first Amendment jurisprudence.

The original package doctrine left the states unable to effectively prevent alcohol consumption within their borders, as the Court had held that any restrictions on shipping out-of-state liquor into a “dry” state had to be enacted by Congress rather than the states.¹³ Its reasoning—that out-of-state liquor remaining in its original package was absolutely shielded from state regulation by the Commerce Clause until it was sold within the state—led Congress to pass the Wilson Act in 1890, explicitly giving states the ability to regulate imported liquor “to the same extent and in the same manner as though such . . . liquors had been produced in such State”¹⁴

While the Wilson Act clearly freed states to pass complete bans on alcohol sales within their borders or to create uniform regulatory schemes, some states attempted to use the provisions of the Wilson Act to craft regulatory schemes that benefited in-state industries to the detriment of out-of-state alcohol producers.¹⁵ In *Scott v. Donald*,¹⁶ the Court struck down these attempts as continuing to violate the Commerce Clause by improperly discriminating between in-state and out-of-state liquor. Instead, the Court held, the Wilson Act required “uniformity of treatment” for all liquor, whether domestic or imported.¹⁷

9. See, e.g., *Welton v. Missouri*, 91 U.S. 275 (1876).

10. See, e.g., *Walling v. Michigan*, 116 U.S. 446 (1886).

11. See, e.g., *Leisy v. Hardin*, 135 U.S. 100 (1890).

12. See E.S. Cohen, Note, *Constitutional Law—Interstate Commerce—Original Package Doctrine*, 21 VA. L. REV. 433 (1935).

13. See *Vance v. W. A. Vandercook Co.*, 170 U.S. 438, 444-45 (1898).

14. 27 U.S.C. § 121 (2000).

15. See, e.g., 1894 S.C. Acts p. 721 (requiring in-state purchase of brewing and distilling supplies and setting an in-state price ceiling).

16. 165 U.S. 58 (1897).

17. *Id.* at 100.

Furthermore, despite Congress' dispensation in the form of the Wilson Act, the states were still barred by the operation of the Commerce Clause from regulating or banning shipments of alcohol sent directly to consumers rather than to in-state retailers, as such shipments were held to remain a part of strictly interstate commerce.¹⁸ This loophole had the potential to defeat effective state-based Prohibition, and once again Congress stepped in to carve out a broader sphere of influence for state liquor regulation. In 1913, Congress enacted the Webb-Kenyon Act,¹⁹ specifically providing that any shipment or transportation of liquor into or within a dry state would be prohibited under federal law.

As the *Granholm* Court noted, the constitutionality of the Webb-Kenyon Act was somewhat dubious.²⁰ However, in *Clark Distilling Co. v. Western Maryland R.R. Co.*²¹ the Court held that the Webb-Kenyon Act was constitutional, construing the Act's purpose solely to close the direct shipping loophole and holding that the Act conveyed no discriminatory powers to state regulatory schemes. Thus, states could enact laws entirely forbidding the transportation and sale of alcohol within their borders without the Commerce Clause "afford[ing] a means . . . to set such laws at naught."²²

B. Post-Prohibition Jurisprudence

The passage of the Eighteenth Amendment in 1919 temporarily suspended the growing body of law that the Court and Congress had fashioned to allow states to experiment with varying degrees of alcohol regulation and prohibition. However, with the ratification of the Twenty-first Amendment, alcohol regulation took on new life and new complexities. As the second section of the Twenty-first Amendment explicitly makes unconstitutional any "transportation or importation into any state . . . of intoxicating liquors, in violation of the laws thereof,"²³ there has been considerable confusion and debate regarding how far states can go in passing laws to regulate the flow of alcohol and the considerable tax revenue derived from its sale. In construing the reach of the Twenty-first Amendment, the Court has shifted in its construction of the relative weights of the

18. See *Vance*, 170 U.S. at 452-53.

19. 27 U.S.C. § 122 (2000).

20. *Granholm*, 125 S. Ct. at 1900.

21. 242 U.S. 311 (1917).

22. *Id.* at 324.

23. U.S. CONST., amend. XXI, § 2; see also Lawrence H. Tribe, *How to Violate the Constitution Without Really Trying: Lessons From the Repeal of Prohibition to the Balanced Budget Amendment*, 12 CONST. COMMENTARY 217 (1995) (noting the incongruity of alcohol transportation becoming an offense of constitutional magnitude).

Twenty-first Amendment and the Commerce Clause. Soon after the Twenty-first Amendment was passed, the Court held in *State Board of Equalization of California v. Young's Market Co.*²⁴ that the Twenty-first Amendment authorized otherwise impermissible facial discrimination between in-state and out-of-state liquor producers. However, in the face of mounting trade barriers and scholarly disapproval for the thin support for the *Young's Market Co.* holding, the Court soon reversed course. Squarely considering the above history of the Twenty-first Amendment, the Court held that the various economic protections of the Constitution required states to treat all liquor alike, regardless of the ambiguities of the text of the Twenty-first Amendment.²⁵

In an unusually strong opinion, the Court squarely rejected the argument that “the Twenty-first Amendment has . . . operated to ‘repeal’ the Commerce Clause for [liquor].”²⁶ More recently, it has also held that the Commerce Clause’s nondiscrimination requirements apply to any regulatory scheme a state may set up under the Twenty-first Amendment.²⁷ Thus, the Court elaborated, “[w]hen a state [alcohol regulation] statute directly regulates or discriminates against interstate commerce, or when its effect is to favor in-state economic interests over out-of-state interests, we have generally struck down the statute without further inquiry.”²⁸ While this interpretation of the Twenty-first Amendment would seem to give state liquor regulation something of an all-or-nothing character, as the states warned in *Granholtm*, states remain free to choose among “neutral” regulatory alternatives.²⁹

C. The Rise of Direct Sales in Opposition to Traditional Markets

In the aftermath of Prohibition, states attempted to maintain a large degree of control over alcohol production, distribution, and sales in order

24. 299 U.S. 59 (1936); see also *Ziffrin, Inc. v. Reeves*, 308 U.S. 132 (1939); *Joseph S. Finch & Co. v. McKittrick*, 305 U.S. 395 (1939).

25. See, e.g., *Craig v. Boren*, 429 U.S. 190 (1976) (holding that states could not violate the Equal Protection Clause under the guise of Twenty-first Amendment regulation); *Dep't of Revenue v. James B. Beam Distilling Co.*, 377 U.S. 341 (1964) (holding that states could not violate the Import-Export Clause through regulatory schemes); see also *Granholtm*, 125 S. Ct. at 1903 (summarizing the academic and legal debate over the scope of the Twenty-first Amendment).

26. *Hostetter v. Idlewind Bon Voyage Liquor Corp.*, 377 U.S. 324, 331-32 (1964).

27. *Bacchus Imports, Ltd. v. Dias*, 468 U.S. 263 (1984).

28. *Brown-Forman Distillers Corp. v. N.Y. State Liquor Auth.*, 476 U.S. 573, 579 (1986).

29. See *Granholtm*, 125 S. Ct. at 1904-05 (rejecting argument that the Court's construction of the Twenty-first Amendment will leave states without effective regulatory ability).

to continue to promote the public health and welfare.³⁰ While states such as Pennsylvania directly sell alcohol at the retail level through state-run stores, many other states moved to a three-tier distribution system.³¹ In this system, in-state wholesalers are the sole point of alcohol importation and are authorized to sell to licensed, in-state retailers. These retailers, in turn, are the sole distribution point of alcohol to consumers for off-premises consumption. This regulatory system allows the states to control the number of alcohol retailers and to effectively capture significant excise tax revenues from alcohol sales.

While the three-tier distribution system allows states to regulate alcohol distribution and sales effectively, it is not without problems. Small producers—generally wineries—are unable to produce alcohol with the economies of scale necessary to make interstate or intrastate distribution through licensed distributors economically feasible, as the mark-up required in such a system effectively prices them out of the wholesale market.³² Furthermore, the licensed wholesalers constitute a shrinking but politically powerful group that has successfully lobbied for strict enforcement of the three-tiered distribution system and stymied laws that would allow direct sales to consumers.³³ While these campaigns have focused on the perceived dangers of unrestricted alcohol sales, commentators note that the wholesalers and distributor trade associations are likely to be concerned primarily about the economic effects of opening their state-mandated oligopolies to full competition.³⁴

However, the power of the internet to connect savvy buyers and boutique sellers allows small wineries to bring their products directly to consumers by taking orders over the internet rather than seeking out distributors that specialize in boutique wines. This phenomenon of eliminating the middleman through internet sales is not limited to alcohol distribution; it is a defining characteristic of the decade-long rise of e-commerce. By reducing the costs of starting and maintaining a small business, the internet allows any producer with a website to sell directly to customers at little

30. See Vijay Shanker, Note, *Alcohol Direct Shipment Laws, the Commerce Clause, and the Twenty-first Amendment*, 85 VA. L. REV. 353, 355-56 (1999).

31. See generally *North Dakota v. United States*, 495 U.S. 423 (1990) (upholding this three-tier scheme against a Commerce Clause challenge); Martin, *supra* note 6, at 27-28.

32. For a review of the economic considerations in direct sales legislation, see Shanker, *supra* note 30, at 361-70.

33. *Id.* at 361-66; see also Alix M. Freedman & John R. Emshwiller, *Vintage System: Big Liquor Wholesaler Finds Change Stalking Its Very Private World*, WALL ST. J., Oct. 4, 1999, at A1.

34. See, e.g., Martin, *supra* note 6, at 6.

fixed cost and almost no variable cost. Traditional middlemen, such as travel agents, are cut out of the stream of commerce by the ability of producers and consumers to directly connect with very low transaction costs. Today, e-commerce accounts for 2.2% of total retail sales in America, with \$21.1 billion dollars spent online in the second quarter of 2005.³⁵

Even before the dawn of e-commerce, California amended its direct shipping laws to implement a “reciprocity” scheme that allows out-of-state wineries to ship directly to California customers if the winery’s home state allows direct shipping from California wineries in return.³⁶ The number of states taking advantage of this bargain is changing constantly, especially after *Granholm*, with twelve states currently allowing reciprocity shipments.³⁷ These laws bypass the entire three-tier structure and allow small producers to take advantage of the internet to substantially widen their markets.³⁸ These measures have been hailed as the future of winemaking and as evidence that internet commerce can substantially aid small businesses selling a nonfungible product.³⁹

While total sales through winery direct shipments remain low, a 2003 Federal Trade Commission (FTC) study in Northern Virginia found that internet sales create substantial consumer choice: 17% of wine labels in a sample set were available online but not in local retail outlets.⁴⁰ Additionally, the FTC found that both mass-market and premium wines were substantially cheaper when purchased over the internet rather than through brick and mortar retail outlets.⁴¹ While these findings suggest that e-commerce promises commercial success for small wineries and greater consumer choice and value, direct shipping restrictions passed in many states, sometimes in the aftermath of heavy lobbying by the wholesalers’

35. Press Release, U.S. Census Bureau, Quarterly Retail E-Commerce Sales, 2d Quarter 2005 (Aug. 29, 2005), available at <http://www.census.gov/mrts/www/data/html/05Q2.html>.

36. CAL. BUS. & PROF. CODE § 23661.2 (2000), amended by 2005 Cal. Legis. Serv. 1737 (West).

37. Free The Grapes—Know Your State Laws, http://www.freethegrapes.com/wine_lovers.html#laws (last visited Jan. 25, 2006). The twelve states are: Oregon, Washington, Hawaii, Idaho, Colorado, New Mexico, Minnesota, Iowa, Missouri, Illinois, Wisconsin, and West Virginia. *Id.*

38. See, e.g., OR. REV. STAT. § 471.229 (2003).

39. See generally FED. TRADE COMM’N, POSSIBLE ANTICOMPETITIVE BARRIERS TO E-COMMERCE: WINE (2003), available at <http://www.ftc.gov/os/2003/07/winereport2.pdf> [hereinafter FTC Report].

40. *Id.* at 18. The FTC chose Northern Virginia because the state prohibited direct shipments and the area’s prices and selection could be directly compared to internet suppliers. *Id.*

41. *Id.* at 19.

associations, have severely restricted the ability of small wineries to take full advantage of the internet.⁴²

These restrictions fall into three categories. First, some states continue to flatly prohibit direct sales by wineries and retailers, and a collection of these states have made shipping a bottle of wine a felony.⁴³ A second group of states allows direct delivery only under onerous conditions or severely limits advertising for out-of-state wineries without an in-state wholesaler representative.⁴⁴ Finally, a third group of states, unwilling to allow full reciprocity shipments but eager to promote burgeoning in-state wine industries, has enacted more limited direct sales laws that allow in-state wineries to bypass the three-tier system but block out-of-state producers from shipping directly to in-state consumers, thus preventing competition with in-state wineries and further reduction of wholesaler profits.⁴⁵ *Granholm* arose out of legal challenges to limited direct shipping statutes in New York and Michigan.

II. THE *GRANHOLM* DECISION

A. Facts and Procedural History

New York and Michigan both regulate alcohol production and distribution through variations on the three-tiered licensing scheme that the Court upheld in *North Dakota v. United States*.⁴⁶ Many in-state wineries in both New York and Michigan are small businesses that lack the ability to price their goods aggressively or to manufacture enough alcohol to make their goods palatable to wholesalers, effectively shutting them out of national competition.⁴⁷ To ameliorate this situation and retain substantial control over alcohol consumption via direct shipping, the two states altered their alcohol control statutes to allow limited exemptions to the three-tier system. Michigan allowed licensed, in-state wineries to sell alcohol directly to consumers but continued to require all out-of-state producers to sell their wares to in-state wholesalers through a three-tier distri-

42. See L. Paige Woodard, *Shipping Directly to Consumers . . . Wine Not?*, 32 W. ST. U. L. REV. 63, 67-68 (2004).

43. See, e.g., FLA. STAT. § 561.545 (2005).

44. See, e.g., MINN. STAT. § 340A.417 (2000) (prohibiting direct shipments from being ordered via the internet); MO. REV. STAT. § 311.462 (2000) (restricting out-of-state shippers' ability to advertise).

45. See Freedman & Emshwiller, *supra* note 33, at A1.

46. 495 U.S. 423, 438-39 (1990).

47. See *Granholm v. Heald*, 125 S. Ct. 1885, 1892 (2005).

bution system.⁴⁸ New York enacted a similar scheme, but it allowed an exemption for out-of-state wineries to sell directly to customers outside the three-tier system once they established an in-state presence through a “branch factory, office, or showroom” within New York state.⁴⁹

Several state residents and out-of-state wineries challenged the constitutionality of these regulatory schemes, while the states and wholesalers’ trade associations defended the schemes as valid exercises of state power under the Twenty-first Amendment.⁵⁰ A district court found New York’s alcohol regulations in violation of the Commerce Clause, but the Second Circuit reversed, finding that the Twenty-first Amendment granted New York the power to regulate alcohol distribution that it would not possess in other commercial fields.⁵¹ The similar Michigan scheme was upheld on summary judgment by a district court, but the Sixth Circuit reversed, finding that the state had not carried its burden under *Bacchus Imports, Ltd. v. Dias*⁵² to demonstrate that its legitimate policy objectives in crafting its alcohol regulations could not be met by nondiscriminatory alternatives.⁵³ The Court consolidated these cases and granted certiorari on a limited question: “Does a State’s regulatory scheme that permits in-state wineries directly to ship alcohol to consumers but restricts the ability of out-of-state wineries to do so violate the dormant Commerce Clause in light of [section two] of the Twenty-first Amendment?”⁵⁴

B. The Supreme Court’s Analysis

The Supreme Court had “no difficulty” concluding that the statutes at issue in both New York and Michigan facially violated the Commerce Clause by discriminating against out-of-state alcohol producers, as the laws called for “differential treatment of in-state and out-of-state economic interests that benefits the former and burdens the latter.”⁵⁵ The bulk of the Court’s opinion analyzed whether the Twenty-first Amendment saves the New York and Michigan regulatory schemes from unconstitutionality. In construing the reach of a state’s power under section two of

48. *Id.* at 1893-94.

49. N. Y. Alco. Bev. Cont. § 3(37) (2005).

50. *Granholtm*, 125 S. Ct. at 1893.

51. *Swedenburg v. Kelly*, 358 F.3d 223 (2d Cir. 2004), *rev’g* 232 F. Supp. 2d 135 (S.D.N.Y. 2002), *rev’d sub nom.* *Granholtm v. Heald*, 125 S. Ct. 1885 (2005).

52. 468 U.S. 263, 263 (1984).

53. *Heald v. Engler*, 342 F.3d 517 (6th Cir. 2003), *rev’g* 2001 U.S. Dist. LEXIS 24826 (E.D. Mich. 2001), *aff’d sub nom.* *Granholtm v. Heald*, 125 S. Ct. 1885 (2005).

54. *Granholtm v. Heald*, 541 U.S. 1062 (2004).

55. *Granholtm*, 125 S. Ct. at 1895 (quoting *Oregon Waste Sys., Inc. v. Dep’t of Env’tl. Quality of Ore.*, 511 U.S. 93, 99 (1994)).

the Twenty-first Amendment, the Court looked to the history of pre- and post-Prohibition rulings on the reach of state alcohol regulation.

Pre-Prohibition precedent generally held that, while states were allowed to control the flow of alcohol within their borders as they would any other good or service, they could not use these powers to pass laws that burdened out-of-state producers for the benefit of in-state producers or consumers.⁵⁶ In analyzing the reach of the Twenty-first Amendment itself, the *Granholm* Court construed the majority of post-Prohibition cases as holding that the Twenty-first Amendment was intended to return to the states the degree of control over alcohol sales and production that they held before Prohibition under the Wilson and Webb-Kenyon Acts.⁵⁷ Thus, echoing the majority of earlier cases, the Court held that regulatory structures and schemes that discriminate between in-state and out-of-state alcohol producers are not saved by the Twenty-first Amendment and are unconstitutional.⁵⁸ The New York regulatory exemption for wineries that establish an in-state presence was found to continue to discriminate between in-state and out-of-state producers; the Court noted that no winery had successfully run the complex state regulatory gauntlet to take advantage of the exemption.⁵⁹

Finally, the Court considered whether the New York and Michigan statutes “advance[] a legitimate local purpose that cannot be adequately served by reasonable nondiscriminatory alternatives,”⁶⁰ as such a purpose would save the statutes despite a finding that they were otherwise in violation of the Commerce Clause. The states argued that their exclusion of out-of-state producers was motivated by valid concerns of minors procuring alcohol via the internet and the difficulties of tax collection.⁶¹ The Court, however, rejected these concerns as “mere speculation” and found that they were pretexts for discriminatory regulation in violation of the Commerce Clause.⁶²

The dissenting justices in *Granholm* took issue with the majority’s reading of the Twenty-first Amendment and post-Prohibition jurispru-

56. *Id.* at 1898.

57. *Id.* at 1902; *see* *Craig v. Boren*, 429 U.S. 190 (1976).

58. *See, e.g., Bacchus Imports*, 468 U.S. at 276; *Brown-Forman Distillers Corp. v. N.Y. State Liquor Auth.*, 476 U.S. 573 (1986); *Healy v. Beer Inst.*, 491 U.S. 324 (1989). *But see* *State Bd. of Equalization of Cal. v. Young’s Mkt. Co.*, 299 U.S. 59, 62 (1936).

59. *Granholm*, 125 S. Ct. at 1896.

60. *Id.* at 1905 (quoting *New Energy Co. of Ind. v. Limbach*, 486 U.S. 269, 278 (1988)).

61. *Id.* at 1905-07.

62. *Id.* at 1907.

dence.⁶³ Justice Thomas's dissent in particular interpreted the pre- and post-Prohibition cases that had come before the Court as following the *Young's Market Co.* line of cases that gave the states far greater leeway to regulate alcohol.⁶⁴ Thus, he would have allowed New York and Michigan to discriminate between in-state and out-of-state wineries in their direct shipping laws. Furthermore, Justice Thomas argued at length that the Webb-Kenyon Act and the cases giving rise to the Act entirely immunized state alcohol regulations from Commerce Clause review, eliminating the necessity of interpreting the Twenty-first Amendment to determine whether or not the direct shipping statutes were constitutional.⁶⁵ Finally, Justice Thomas' reading of the "plain meaning" of the Twenty-first Amendment would have authorized the New York and Michigan statutes regardless of the validity of his construction of the Webb-Kenyon Act.⁶⁶

III. CALIFORNIA'S REACTION TO *GRANHOLM*: AMENDING ITS DIRECT SHIPPING LAWS

California has amended its pathbreaking reciprocity laws in the aftermath of the *Granholm* decision. While the state successfully used reciprocal shipping laws in the 1990s to open other states to the California winery market via direct shipments, the *Granholm* decision cast serious doubt on the constitutionality of reciprocity statutes. As the Court noted:

The rule prohibiting state discrimination against interstate commerce follows also from the principle that States should not be compelled to negotiate with each other regarding favored or disfavored status for their own citizens. States do not need, and may not attempt, to negotiate with other States regarding their mutual economic interests.⁶⁷

This flat disapproval of statutorily-forced interstate economic bargaining made California's reciprocity statute a potential litigation target. However, California has attempted to avoid such litigation by changing its direct shipping law, as described below. The legality of this revised direct shipping scheme is by no means assured, but if California's new reciprocity statute stands up to inevitable legal challenges, it will assist the continued rise of e-commerce in the alcohol industry and will also place growing political pressure on nonreciprocity states to modify their alcohol distribution

63. *Id.* at 1907-08 (Stevens, J., dissenting); *id.* at 1909-10 (Thomas, J., dissenting).

64. *See Young's Market Co.*, 299 U.S. at 62.

65. *Granholm*, 125 S. Ct. at 1910-19 (Thomas, J., dissenting).

66. *Id.* at 1919-20 (Thomas, J., dissenting).

67. *Granholm*, 125 S. Ct. at 1895.

laws. On the other hand, if it is struck down, California's tacit legislative objectives of opening the interstate wine market to direct retail sales will still be largely accomplished through market pressures.

A. The Pre-*Granholm* Legislative Scheme

California's innovative reciprocity statute came into force in 1995.⁶⁸ After the 1994 amendment to California's direct shipping laws, California only permitted shipments from states that allowed California wineries "an equal reciprocal shipping privilege."⁶⁹ These shipments were neither taxed nor required to originate from a winemaker; instead, "any individual or licensee" could ship from a reciprocity state into California. This broad statutory language allowed out-of-state retailers, such as internet retailers, to ship into California, in addition to giving the California Alcoholic Beverage Control the authority to approve for reciprocity status statutes in other states that granted California wineries or retailers shipping privileges but taxed shipments. Section 3 of the enacted bill states:

It is the intent of the Legislature in enacting Section 1 of this act to encourage the adoption of reciprocal wine shipping privileges legislation in other states for purposes of improving fairness and equity for the small, family vintners and winegrowers of California. Currently, only 12 states have adopted reciprocal wine shipping privileges legislation.

The Legislature encourages the Department of Alcoholic Beverage Control to notify other states of California laws relating to reciprocal wine shipping privileges through established channels of communication.⁷⁰

There is little doubt that the California reciprocity statute was intended as a bargaining tactic, as denying access to the large California wine market was a powerful card to play against small, out-of-state wineries eager to crack into large domestic wine markets through direct shipping.

The reciprocity model for state direct shipping legislation had spread to at least twelve states by the time of the *Granholm* decision, suggesting a certain measure of success.⁷¹ The Court cast considerable doubt on the continued legitimacy of the reciprocity scheme, however, by stating that "states do not need, and may not attempt, to negotiate with other States

68. CAL. BUS. & PROF. CODE § 23661.2 (2000), amended by 2005 Cal. Legis. Serv. 1737 (West).

69. *Id.*

70. 1994 Cal. Stat. 2247, 2249.

71. See *Free The Grapes*, *supra* note 37.

regarding their mutual economic interests.”⁷² Additionally, after *Granhholm*, any state looking to develop an in-state wine industry through direct sales would have to open its borders to interstate wine shipments.

B. The 2005 Amendment

Anticipating the outcome of *Granhholm*, the California Legislature moved to modify its direct shipping laws. Supported by winery trade groups such as the Wine Institute, the Legislature shifted California’s direct shipping scheme to a more sophisticated two-tiered scheme.⁷³ Starting January 1, 2006, direct shipping to California addresses is permitted from winemakers in any state and the requirements for recipients of direct shipments are dropped, but any winery shipping to California addresses must first obtain a direct shipping permit from the state Department of Alcoholic Beverage Control.⁷⁴ In addition, California has begun collecting excise tax revenue from out-of-state shipments in the same manner that in-state sales are taxed.⁷⁵

The second tier of the revised shipping scheme is a modified reciprocity system that allows tax-free shipments of wine, as before, from “individuals and retail licensees” in states that afford the same privilege to California shippers.⁷⁶ This new statute continues to bypass the in-state retail markets and effectively opens the state up to tax-free retail sales from properly licensed retailers in other states that open their borders to California retail shipments. In theory, this could include retailers who do business entirely over the internet and have only the minimum in-state presence required to obtain a retail license in a reciprocity state. Even without tax-free internet sales lurking in the background, the revised California reciprocity statute creates an interesting set of political questions for other states, as the incentives of in-state alcohol retailers line up against wholesalers in pressuring home-state legislatures to adopt provisions that would allow for direct retail sales to California under this modified scheme.

C. The California Statute’s Viability

The first and most important question for the new direct shipping statute is whether or not it is constitutional under *Granhholm*, as wholesalers are likely to be quick to challenge the statute’s constitutionality in order to

72. *Granhholm*, 125 S. Ct. at 1895.

73. 2005 Cal. Legis. Serv. 1737 (West) (codified at CAL. BUS. & PROF. CODE §§ 23661.2-3 (2006)).

74. CAL BUS. & PROF. CODE § 23661.3(a)(4) (2006).

75. *Id.* § 23661.3(b)(5).

76. *Id.* § 23661.2.

prevent a further erosion of their market share in states considering retail shipping laws. While there is a certain irony in wholesalers challenging a restrictive direct shipping law after their vigorous defense of the direct shipping laws in question in *Granholm*, and in their use of the *Granholm* decision itself in this effort, the Court's decision does place the revised California statute's constitutionality in serious doubt. Even though California will allow alcohol shipments from producers in any state and thus is in technical compliance with the narrowest holding in *Granholm*, it is doubtful that the differential treatment meted out to reciprocity and nonreciprocity states' retailers will withstand a legal challenge.

The strongest argument that California's scheme is a valid exercise of state power under the Twenty-first Amendment seems to be California's uniform treatment of all direct wine shipments for tax purposes.⁷⁷ Neither in-state nor out-of-state producers gain any benefit over the other, as both groups are licensed and taxed identically. This rule complies with the narrowest holding in *Granholm* and the revisions in the direct shipping laws are presented as a legislative reaction to the issues presented in the case.⁷⁸ Nevertheless, the continued distinction between reciprocity and nonreciprocity states at the interstate retail sales level certainly has the strong scent of an attempt to bargain with other states in order to open their markets to California businesses. If nothing else, the reciprocity statute clearly distinguishes between goods moving in interstate commerce based on their state of origin. Given the Court's extremely dim view of this practice in *Granholm*, the *Granholm* decision's logic will likely invalidate California's decision to favor some states over others in its retail direct shipping laws.

D. The Effects of the California Statute

If California's retail reciprocity statute is upheld, it will continue to act as a pry bar for opening the retail markets of other states to internet wine sales. If, on the other hand, the reciprocity provisions of the retail direct shipping statute are found unconstitutional, the California legislature must choose between shutting down all retail direct shipping, in-state and out-of-state, or moving to an "open" retail shipping scheme similar to the one currently imposed on wineries. Such a retail shipping statute would most

77. *Id.* This is in marked contrast to North Dakota's new direct shipping statute. In the aftermath of *Granholm*, North Dakota has moved from allowing, but taxing direct wine shipments from any state to a two-tiered system that allows tax-free shipments from states that afford North Dakota wineries the same privilege but taxes nonreciprocity states' wine shipments. See N.D. CENT. CODE § 5-01-16 (2005).

78. See S. Rules Comm., S.B. 118, S. 2005 Sess. (Cal. 2005), available at http://www.leginfo.ca.gov/pub/bill/sen/sb_0101-0150/sb_118_cfa_20050817_191442_sen_floor.html.

likely require retailers to obtain licenses and remit excise taxes to the state. The alternative—banning direct retail shipments entirely—would be strongly opposed by both winery trade groups and the growing collection of California retailers that do business over the internet in part or in whole, and it seems unlikely that the California state legislature will be interested in ending direct sales.⁷⁹

For California, therefore, the *Granholm* decision has mixed consequences. Economically, the decision is continuing to force hitherto-closed state markets to open their doors to California wineries if these states continue to allow direct shipping through the internet. Opening the California wine market to direct shipments from wineries in nonreciprocity states may marginally lower in-state sales for small California wineries as they face competition from wineries from New York and other nonreciprocity states, but this decline would likely be more than offset by the rise in direct sales from states that are now opening their borders to California winery direct shipments. Legally, though, California now finds itself on the other side of the coin as it maintains laws that would seem to enact the very sorts of trade barriers that its reciprocity scheme and the *Granholm* decision itself were originally intended to undo.

While California's reciprocity laws were perhaps necessary in the opening stages of winery and retail direct shipping, the advent of the internet and *Granholm's* requirement that states treat all wine equally in deciding whether it can be shipped from its producer has rendered reciprocity both unconstitutional and largely unnecessary. Were *Granholm* to be construed in a future case to mandate an end to reciprocity retail shipping laws, a shift towards open retail shipping seems to be the most likely conclusion for California's direct shipping laws. While the state would lose its reciprocity-based economic leverage over other states' closed markets, it would benefit from the excise tax collected on shipments to California residents from now-exempt retail shippers in reciprocity states. Even without the reciprocity lever, California's continued involvement in the internet wine market will boost the market's size and visibility and push states currently banning direct retail shipments to rethink their restrictions as consumers and voters get information about the greater value and range of choices available online. The continued growth of an interstate, internet-based retail wine industry to compete with the three-tier sys-

79. See, e.g., Wine.com, <http://www.wine.com> (last visited Jan. 26, 2006) (online-only retailer doing business from San Francisco, CA); K&L Wine Merchants, <http://www.klwines.com> (last visited Jan. 26, 2006) (California brick-and-mortar retailer with extensive online ordering and shipping options).

tem will further decrease the political and economic clout of the wholesalers and will continue to put pressure on states to streamline their traditional distribution channels, leading to greater efficiency and customer savings in the longer term.

IV. CONCLUSION

Granholm v. Heald has eliminated many of the legal justifications for discriminatory state alcohol regulations. States contemplating direct shipping laws for wineries must now decide between opening their markets to wineries across the country or shutting down direct shipping entirely. This all-or-nothing choice is made even less politically palatable by the continued rise of an internet-based retail wine market that offers consumers better prices and selection than brick-and-mortar retailers generally can offer. California's legislative attempts to aid the rise of this online market are economically wise and politically astute, but *Granholm's* clear disapproval for differential treatment of alcohol in interstate commerce makes it quite likely that the current California retail direct shipping scheme will be found to be in violation of the Commerce Clause. If the statute is struck down, California will most likely move to an open retail shipping scheme and regulate shippers to the degree required for tax purposes.

ADDITIONAL DEVELOPMENTS— CONSTITUTIONAL LAW

NITKE V. GONZALES

2005 U.S. Dist. LEXIS 15364 (S.D.N.Y. July 25, 2005)

A New York federal court ruled on the constitutionality of the Communications Decency Act (CDA).

Barbara Nitke, a photographer and faculty member at the School of Visual Arts in New York City, joined by the National Coalition for Sexual Freedom, and the National Coalition for Sexual Freedom Foundation, challenged the constitutionality of the CDA. Much of Nitke's artwork, some of which was posted on her website, focused on sexually explicit, sadomasochistic behavior. The CDA prohibits the use of telecommunications devices to transmit "any comment, image, or other communication which is obscene or indecent, knowing that the recipient of the communication is under 18 years of age." Although the indecency provisions of the CDA were struck down in *Reno v. ACLU*, 521 U.S. 844 (1997), Nitke contended that the community standards test for obscenity could not be fairly administered when the speech at issue was published on the internet since the speaker faced prosecution in the most conservative communities.

The district court held that plaintiffs had failed to establish the CDA was overbroad. The plaintiffs had standing because they had produced evidence indicating they had been deterred in exercising their free-speech rights. However, they failed to produce sufficient evidence regarding the total amount of speech that is affected by the CDA, or the amount of speech that was protected in at least one community but not in others, or the extent of variation in community standards. Such evidence, according to the court, was needed to demonstrate that the overbreadth of the CDA's obscenity provisions were substantial and thus violated the First Amendment. The court therefore upheld the constitutionality of the CDA's obscenity provisions.

In February of 2006, the Supreme Court summarily affirmed the District Court's decision.

ONLINE POLICY GROUP V. DIEBOLD, INC.*337 F. Supp. 2d 1195 (N.D. Cal. 2004)*

A District Court in the Northern District of California interpreted § 512(f) of the Digital Millennium Copyright Act (DMCA)—which provides damages and attorneys' fees for parties injured by knowing misrepresentations in a DMCA takedown notice.

Diebold manufactures electronic voting machines, the reliability of which commentators have questioned. Individual Swarthmore students posted archived copies of internal Diebold e-mails in which employees acknowledged problems with the voting machines on the internet. Diebold sent cease-and-desist notices to the relevant ISP's under the DMCA safe harbor provisions, claiming that the students were infringing Diebold's copyrights. The students and one ISP sued Diebold, requesting a declaratory judgment of noninfringement, and monetary relief under § 512(f), and under a state law tortious interference with contractual relations claim. The court decided the case on cross-motions for summary judgment.

The court dismissed the claim for declaratory relief as moot when Diebold withdrew its cease-and-desist letters and agreed not to send more. As to § 512(f), Diebold argued the language "knowingly materially misrepresent[ation]" should be interpreted in line with Federal Rules Civil Procedure Rule 11 and thus only apply if the takedown notices were "frivolous." Plaintiffs argued for a preliminary injunction standard requiring that a copyright owner have an objective "likelihood of success" in an infringement claim before sending a notice. The court rejected both arguments, holding that the statutory text was clear and declining to apply standards from other contexts. Citing Black's Law Dictionary, the court defined "knowingly" under § 512(f) to mean that the sender of the notice knew or should have known of the misrepresentation, or would have had no substantial doubt about the misrepresentation if it had acted in good faith. The court further held that a misrepresentation is "material" if it affects the ISP's response to the notice.

With regard to plaintiffs' use of the e-mail archive, the court judged it fair use because there was a strong public interest in discussion about the voting machines; there was no evidence that publication affected plaintiff's commercial interests in the archive; the plaintiffs did not publish the archive for profit; and, to the extent that Diebold claimed some of the e-mails contained copyrighted software, it failed to identify specifically which of the over 13,000 messages did. According to the court, it was suf-

ficiently clear that no reasonable copyright holder could have believed that the parts of the e-mail archive discussing problems with Diebold's equipment were protectable. The plaintiffs were therefore entitled to relief, including attorneys' fees, under DMCA § 512(f). With regard to plaintiffs' state law claim for intentional interference with contractual relations, the court held it was preempted by the DMCA and explained that if a copyright holder's use of the safe harbor provisions left it still exposed to state tort liability, the federal scheme would be frustrated; therefore, the existence of § 512(f) indicates that Congress took into account possible misuse of the DMCA.

FREE SPEECH COALITION V. GONZALES

406 F. Supp. 2d 1196 (D. Colo. 2005)

18 U.S.C. § 2257 requires producers of sexually explicit content to maintain age verification records of any person depicted in such content. A federal district court granted a preliminary injunction against enforcement of § 2257 against “secondary producers” of explicit content.

Applying to content produced after November 1, 1990, § 2257 requires producers to return documents proving that “every performer portrayed in a visual depiction of actual sexually explicit conduct” is over the age of eighteen. The statute makes it a crime for producers and publishers of such content to fail to create or maintain such records, to knowingly make a false entry, to knowingly fail to make an appropriate entry, or to knowingly fail to comply with the statute or its regulations. Additionally, the statute makes it a crime for people to knowingly sell or transfer such content without the required documentation. The punishment for first time violators is imprisonment for not more than five years and/or a fine, with sentences for repeat offenses extending to ten years. The Department of Justice issued regulations under this section in 2005, at 28 C.F.R. Part 75, expanding the record-keeping obligations of adult businesses and applying them to “secondary producers,” such as distributors who had no contact with performers themselves.

The Free Speech Coalition challenged the constitutionality of the regulations in *Free Speech Coalition v. Gonzales*. The court held that with respect to primary producers, the regulations were tailored narrowly to protect the government’s interest in preventing child pornography, and that the plaintiffs had not shown that the record-keeping requirements were likely to impose an undue burden on them. Nonetheless, the court granted a preliminary injunction barring enforcement against secondary producers, holding that the regulations exceeded the scope of the statutory language.

DOE V. ASHCROFT

334 F. Supp. 2d 471 (S.D.N.Y. 2004)

The District Court for the Southern District of New York held that 18 U.S.C. § 2709, as amended by the USA PATRIOT Act of 2001, which provides for the service of national security letters, is unconstitutional under the First, Fourth, and Fifth Amendments.

“John Doe” is an internet service provider (ISP) served with a national security letter (NSL) by the FBI, directing Doe to turn over certain information to the government relevant to “an authorized investigation to protect against international terrorism.” The letter further stated that Doe was prohibited from disclosing to anyone that a NSL had been issued or that records had been obtained.

NSLs are authorized by 18 U.S.C. § 2709. The statute allows the FBI to compel communications service providers to provide customer records when those records are relevant to a terrorism investigation, as certified by the Attorney General or certain other high-ranking Justice Department officials. After consultation with an attorney, Doe withheld the documents requested under the NSL and subsequently brought suit. Doe claimed that the broad subpoena power of § 2709 violated the First, Fourth, and Fifth Amendments of the Constitution, and that the nondisclosure requirement violated the First Amendment.

Ruling for the plaintiffs on a summary judgment motion, the court held that, as applied to the ISP, § 2709 violates the Fourth Amendment’s prohibition on unreasonable search and seizures because § 2709 effectively lacks provision for ex post review by a neutral tribunal. In addition, the court noted that the application of § 2709 to an ISP may violate that ISP’s subscribers’ rights to anonymous speech under the First Amendment. Finally, the court concluded that the nondisclosure requirement acts as a prior restraint on speech and a content-based speech restriction in violation of the First Amendment.

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TELECOMMUNICATIONS

DEVELOPMENTS IN REGULATING HIGH-SPEED INTERNET ACCESS: CABLE MODEMS, DSL, & CITYWIDE WI-FI

By Anna J. Zichterman

The telecommunications industry is undergoing rapid change, fueled by technological innovation and consumer demand for better and faster communication tools. Computer technology, mobile telephony, the internet, and satellite communications now crowd a market once dominated by radio, fixed-line telephony, and cable television. As a natural monopoly, the telecommunications industry would automatically price many consumers out of the market without some government intervention. Thus, the Federal Communications Commission (FCC) is charged with implementing the legislation enacted by Congress to regulate this industry. The U.S. government has historically recognized that all consumers are entitled to access at least a basic tier of telecommunications services. In the past several years, the FCC has faced the question of interpreting whether high-speed internet access should be considered a part of this minimum guarantee. The FCC has thus far failed to categorize high-speed internet access as a “universal service”; if it were so classified, high-speed internet access would then be subsidized in rural and underprivileged areas by the universal service fee that all telecommunications service providers pay. In the absence of such policy decisions, the lack of access to affordable high-speed internet access may widen the digital divide between the “haves” and the “have-nots.”

The recent policy debate over internet access services extends out of a carefully constructed regulatory framework, with the Communications Act of 1934¹ serving as the legislative foundation for this industry. Traditionally, internet access service providers—first with dial-up access and then digital-subscriber line (DSL) services dominating the market—were telephone companies, conveniently already under the regulatory scope of the FCC. With the rise of cable modem services for internet access, though, the FCC sought to clarify certain terms defined in the Communications Act.

The FCC’s Declaratory Ruling in 2002, informed by comments from industry representatives, consumer advocates, and state and local govern-

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1. Ch. 652, 48 Stat. 1064 (1934) (codified as amended at 47 U.S.C. §§ 151-609 (2000)).

ment officials, found that government regulation of cable modem services was not required and in fact may inhibit further investments in research and development in the area of high-speed internet access.² Opponents challenged this policy in the courts, and a cable industry trade association appealed the now infamous case to the U.S. Supreme Court, which ultimately upheld the FCC's Declaratory Ruling. Since the Supreme Court decision in *National Cable & Telecommunications Ass'n v. Brand X Internet Services*,³ the FCC has taken further steps to deregulate the high-speed internet access market. Although the Supreme Court upheld the FCC's hands-off approach, municipalities and consumer advocates are responding with efforts to provide high-speed internet access as a public utility in urban areas. The municipalities' efforts to achieve broader access where the FCC refuses to regulate evidence the disagreement between the FCC and local governments over the need for regulation.

This Note summarizes the recent changes in the FCC's regulation of high-speed internet access and contends that the *Brand X* decision highlights the gaps and oversights in current regulations. Part I of this Note sets forth a historical overview of traditional regulation in the telecommunications services and the emergence of computer and internet technology that challenged the traditional categorization of services. Part II examines the debates that arose about the proper classification of high-speed internet access services, and looks at how the courts and the FCC have interpreted the ambiguities in the existing legislation, including the FCC policies that emerged in the aftermath of the Supreme Court's *Brand X* decision. Finally, Part III explores the efforts by municipalities to provide alternative networks for affordable high-speed internet access, which efforts appear to be a direct response to the FCC's hands-off policy toward this important new area of communications technology. This Note concludes that the FCC's failure to include high-speed internet access under the umbrella of universal service, while municipalities seek to subsidize the provision of such access, demonstrates a serious disconnect in policy that needs to be remedied.

2. *In re Inquiry Concerning High-Speed Access to the Internet Over Cable and Other Facilities*, 17 F.C.C.R. 4798, 4802-03 (2002) [hereinafter FCC Declaratory Ruling].

3. 125 S. Ct. 2688, 2699 (2005) [hereinafter *Brand X*].

I. HISTORICAL REGULATION OF TELECOMMUNICATIONS

Traditionally, the government has viewed telephone and cable television industries in the United States as natural monopolies and regulated them as such.⁴ A natural monopoly occurs when fixed costs or barriers to entry in a given industry dictate maximum efficiency through dominance of a single supplier. Classic examples include public utilities such as water, electricity, and natural gas, where fixed costs are high and a company's investment must be protected in order to have adequate incentive to build a certain network or backbone technology. In some cases, a company may come about its monopoly power without government intervention due to early market leadership or overwhelming cost advantages (e.g., by controlling a natural resource). In other cases, the government may determine at the outset that a market would be most efficiently served if one company controlled the industry.

With both telephone and cable television, the FCC took the latter stance, deciding it should "pick the most efficient competitor at the outset, give him a monopoly, and extract from him in exchange a commitment to provide reasonable service at reasonable rates."⁵ This stance was justified because the fixed costs of building a nationwide network infrastructure are so high that it would be inefficient for multiple companies in each industry to build duplicative networks. Once a network is built, the marginal cost of connecting one more house to the network is negligible.⁶ Moreover, no company would invest the necessary capital without some certainty that it would be able to recoup its investment, namely, that regulatory authorities would not threaten its monopoly status.⁷ In some cases, the government may even subsidize the investment in the network infrastructure, but would be willing to pay for only one company to build the backbone network.

4. See generally STUART M. BENJAMIN ET AL., TELECOMMUNICATIONS LAW AND POLICY (2001); R.H. Coase, *The Lighthouse in Economics*, 17 J.L. & ECON. 357-76 (1974).

5. *Id.* at 375 (quoting *Omega Satellite Products Co. v. City of Indianapolis*, 694 F.2d 119, 126 (7th Cir. 1982)).

6. See *id.* at 376-77.

7. See *id.*

A. Communications Act of 1934

The Communications Act of 1934 serves as the foundation for regulation of the telephone and cable industries.⁸ Title I of that legislation establishes the general jurisdiction of the FCC over the telecommunications industry.⁹ Title II of that legislation regulates common carriers.¹⁰ Title VI regulates cable services.¹¹ The concept of common carriers was central to the law surrounding the *Brand X* decision. Other key terminology of the Communications Act includes “information services,” “telecommunications services,” and “cable services.”¹² As described below, the meanings of these terms have been shaped significantly by the FCC’s “Second Computer Inquiry” in 1980, by key court decisions that sought to resolve grey areas left unexplained by Congress and the FCC, and by the Telecommunications Act of 1996.

Title II of the Communications Act of 1934 “envisions the FCC regulating the entry, rates, and services of common carriers of telephonic communications; auditing their books; and assuring that they provide non-discriminatory access to all.”¹³ In fact, the definition of the term “common carrier” is quite vague. The Act defines the term as “any person engaged as a common carrier for hire, in interstate or foreign communication by wire or radio or in interstate or foreign radio transmission of energy.”¹⁴ As a result, the courts have looked at the function of the carrier, holding that a common carrier is one that “makes a public offering to provide [communications facilities] whereby all members of the public who choose such facilities may communicate or transmit intelligence of their own design and choosing.”¹⁵

Title II of the Communications Act of 1934 subjects all providers of telecommunications services deemed “common carriers” to certain requirements. For example, common carriers must offer physical connections with other carriers.¹⁶ Their charges, practices, classifications, regula-

8. Ch. 652, 48 Stat. 1064 (1934) (codified as amended at 47 U.S.C. §§ 151-609 (2000)).

9. *See id.* (codified as amended at 47 U.S.C. §§ 151-61 (2000)).

10. *See id.* (codified as amended at 47 U.S.C. §§ 201-76 (2000)).

11. *See* Cable Communications Policy Act of 1984, Pub. L. No. 98-549, 98 Stat. 2780 (codified as amended at 47 U.S.C. §§ 521-73 (2000)).

12. *See infra* text accompanying notes 21-24.

13. BENJAMIN ET AL., *supra* note 4, at 7.

14. 47 U.S.C. § 153(10) (2000).

15. *FCC v. Midwest Video Corp.*, 440 U.S. 689 (1979); *see also* Jim Chen, *The Authority to Regulate Broadband Internet Access over Cable*, 16 BERKELEY TECH. L.J. 677, 716 (2001).

16. 47 U.S.C. § 201(a) (2000).

tions, facilities, and services must not give undue or unreasonable preference or advantage to any individual or entity,¹⁷ and a schedule of their charges must be filed with the FCC and open for public inspection.¹⁸ Telecommunications carriers engaged in interstate telecommunications must contribute to the universal service fund in accordance with FCC requirements.¹⁹ Finally, they must make available to any qualifying carrier such public switched network infrastructure, technology, information, and telecommunications facilities and functions to qualified carriers for telecommunications or information services.²⁰

In order to determine which entities are common carriers, the FCC and the courts must determine which entities are telecommunications carriers in the first place. The amendments introduced by the Telecommunications Act of 1996 define and differentiate between several categories of regulated services, including telecommunications services, information services, and cable services. The term “telecommunications service” is defined as “the offering of telecommunications for a fee directly to the public, or to such classes of users as to be effectively available directly to the public, regardless of the facilities used.”²¹ The term “telecommunications” is defined as “the transmission, between or among points specified by the user, of information of the user’s choosing, without change in the form or content of the information as sent and received.”²² Information services are services provided that offer the “capability for generating, acquiring, storing, transforming, processing retrieving, utilizing, or making available information via telecommunications, and includes electronic publishing, but does not include any use of such capability for the management, control, or operation of a telecommunications system or the management of a telecommunications service.”²³ Finally, the term “cable service” is defined as (A) one-way transmission to subscribers of (i) video programming; or (ii) other programming service; and (B) subscriber interaction (if any) required for the selection of programming.²⁴

The emergence of computer and internet technology in recent decades complicated this regulatory landscape significantly. In 1980, the FCC is-

17. *Id.* § 202(a).

18. *Id.* § 203(a).

19. *Id.* § 254(d).

20. *Id.* § 259(a).

21. *Id.* § 153(46).

22. *Id.* § 153(43).

23. *Id.* § 153(20).

24. *Id.* § 522(6).

sued a policy ruling now known as the “Second Computer Inquiry.”²⁵ This inquiry distinguished between what it referred to as “basic” and “enhanced” services.²⁶ Consumer perception served as the central distinguishing feature between the two categories.²⁷ If a service was only a “basic” service, then it would be subject to common-carrier requirements under Title II of the Communications Act.²⁸ The FCC policy sought to prevent companies that exercised substantial market power in the provision of telecommunications from leveraging their dominance into the provision of enhanced services.

In the 1990s, the breakup of the Bell telephone monopoly by the Department of Justice Antitrust Section²⁹ and the passage of the Telecommunications Act of 1996³⁰ by Congress reshaped the industry. The Telecommunications Act of 1996 amended the Communications Act of 1934 and placed restrictions on the Bell operating companies related to their provision of “information services.”³¹ Legislators at that time used the term “information services” interchangeably with the term “enhanced services.”³² The Telecommunications Act of 1996 essentially renamed the “enhanced service” category as “information services.”

B. Classifying Internet Access Technology under the Communications Act

The most clear-cut explanation of the FCC’s classification of the various technologies that comprise the infrastructure of the internet can be found in the FCC’s report on the Inquiry Concerning the Deployment of Advanced Telecommunications.³³ The FCC breaks network infrastructure into four segments—namely, the “backbone,” “middle mile,” “last mile,”

25. *In re* Amendment of Section 64.702 of the Commission’s Rules and Regulations, 77 F.C.C.2d 384 (1980) [hereinafter *Second Computer Inquiry*].

26. *See id.* ¶¶ 86-113.

27. *See Brand X*, 125 S. Ct. 2688, 2696-97 (2005) (“The [*Second Computer Inquiry*] rules defined both basic and enhanced services by reference to how the consumer perceives the service being offered.”).

28. *See Second Computer Inquiry*, 77 F.C.C.2d at 428 ¶ 113.

29. *See generally* BENJAMIN ET AL., *supra* note 4, at 641-79.

30. Pub. L. No. 104-104, 110 Stat. 56 (codified as amended in scattered sections of 47 U.S.C.).

31. Chen, *supra* note 15, at 707.

32. *See* Chen, *supra* note 15, at 707.

33. *In re* Inquiry Concerning the Deployment of Advanced Telecommunications Capability to All Americans in a Reasonable And Timely Fashion, and Possible Steps To Accelerate Such Deployment Pursuant to Section 706 of the Telecommunications Act of 1996, 15 F.C.C.R. 20,913 (2000) [hereinafter *Second Report*].

and “last 100 feet.”³⁴ The “backbone” consists primarily of fiber optic lines either buried in the ground or laid under the sea, but can also be provided via satellite and radio spectrum.³⁵ The “middle mile” consists of those facilities built by telephone and cable companies for ordinary telecommunications and cable services.³⁶ The “last mile” connects the backbone and middle mile to the residential customer via cable modem, DSL, terrestrial wireless, or satellite service.³⁷ Finally, the “last 100 feet” comprises the in-house wiring or wireless links between the customer’s computer and the “last mile.”³⁸

According to the FCC, as of 2001, the majority of U.S. households with residential internet access used dial-up services provided over local telephone lines.³⁹ At that time, high-speed “broadband” service was just beginning to gain market share. Broadband services can be offered over coaxial cables, telephone wires, terrestrial wireless radio spectrum, and satellite radio spectrum.⁴⁰ Because telephone and cable companies have not always found themselves in the best position to provide services directly to the customer themselves, a variety of business models emerged. For example, cable companies generally have provided such services in one of three ways. Sometimes cable companies have developed their own internet service provider (ISP) functions—such as web hosting and domain-name registration services—in-house and do not contract with any other companies in this process.⁴¹ Other times cable companies have entered into exclusive relationships with ISPs, offering a co-branded service (e.g., Comcast worked with the ISP Excite@Home to provide its Comcast@Home service).⁴² In such situations, the cable companies often purchase a stake in the entity providing the co-branded service. Finally, cable companies may lease space in their “last mile” infrastructure to a third-party ISP to service customers directly, without any financial affiliation between the cable company and the ISP.⁴³

Because DSL services are offered over telephone lines, telephone companies providing high-speed internet access were at this time subject to mandatory common-carrier regulation, including the requirement that

34. *Id.* at 20,922.

35. *Id.*

36. *Id.*

37. *Id.* at 20,923.

38. *Id.*

39. *See* FCC Declaratory Ruling, 17 F.C.C.R. 4798, 4802-03 (2002).

40. *See id.* at 4803.

41. *See id.* at 4814.

42. *Id.* at 4813-14.

43. *See id.* at 4815.

they share the “last mile” connection with unaffiliated ISPs.⁴⁴ It has not been so clear, though, how cable modem services should be categorized. If cable modem service providers were deemed to be offering telecommunications services, they would necessarily be subject to Title II requirements for common carriers, including the requirement to carry competitor’s signals.⁴⁵ In contrast, if they were deemed to be offering information services without a telecommunications services component they would not be subject to such requirements. The proper classification of cable modem services was the subject of a number of court cases and eventually the FCC inquiry that led to the *Brand X* decision.

II. THE CHANGING LANDSCAPE OF HIGH-SPEED INTERNET ACCESS POLICY

In 1999, then-Chairman of the FCC, William E. Kennard, came out strongly against regulation of broadband internet access, suggesting that regulation of the technology would be premature and would likely stunt any progress in its research and development.⁴⁶ As discussed below, courts addressing the question of how to classify high-speed internet access under the Communications Act reached different results, creating confusion in the industry. In response, the FCC published a Notice of Inquiry in 2000 seeking comments on the technological details, business models, and regulatory implications for cable modem services.⁴⁷ The FCC’s Declaratory Ruling that followed in 2002 sparked a number of court cases, culmi-

44. It is worth noting that common carrier requirements are not synonymous with the term “open access,” which is often discussed in connection with internet access services. As a general rule, “open access” means nothing more than a requirement that a carrier interconnect with its competitors on nondiscriminatory terms. Although interconnection and nondiscrimination are part of common carrier requirements, they are not sufficient to trigger common carrier status and the filing requirements that go along with that. Open access may be mandated by the FCC or other regulatory bodies, but it is often triggered by antitrust concerns, not public utility regulation. Also, if open access were required, “Cable companies would be able to set reasonable terms and conditions in private negotiations, as long as the same terms and conditions they grant to their affiliates are available to non-affiliated internet service providers.” Mark Cooper, *Open Access to the Broadband Internet: Technical and Economic Discrimination in Closed, Proprietary Networks*, 71 U. COLO. L. REV. 1011, 1023 (2000).

45. See Steven Aronowitz, Note, *Brand X Internet Services v. FCC: The Case of the Missing Policy Argument*, 20 BERKELEY TECH. L.J. 887, 890-91 (2005).

46. See *id.* at 892-93 (quoting William E. Kennard, Chairman, FCC, *The Road Not Taken: Building a Broadband Future for America*, Remarks Before the National Cable Television Association, Chicago, Illinois (June 15, 1999)).

47. *Inquiry Concerning High-Speed Access to the Internet over Cable and Other Facilities*, 15 F.C.C.R. 19, 287 (2000).

nating in the *Brand X* decision. Emboldened by the Supreme Court's decision upholding the FCC's Declaratory Ruling last year, the FCC adopted an even more broad-based policy affecting not only cable modem services but DSL as well. This Part explains each of these developments in detail.

A. Cases Highlighting the Ambiguity of Classifying Cable Modem Services

While the FCC adopted a wait-and-see approach towards regulating broadband internet access, several lawsuits emerged out of the ambiguity left unresolved by the FCC's service classifications. Courts set out to interpret how the Communications Act applied to these new technologies. In 1999, a district court in the case of *AT&T Corp. v. City of Portland*⁴⁸ described broadband internet access over cable as a "cable service" under Title VI of the Act.⁴⁹ As a cable service not subject to Title II regulation, the court upheld the city's municipal authority to impose open access rules as implicit in the nature of local cable franchising. The Ninth Circuit reversed that decision, holding that cable broadband should be treated as a telecommunications service, not as a cable service.⁵⁰ Further, the Ninth Circuit found that the Communications Act of 1934 prohibited a local cable franchising authority from "condition[ing] a transfer of a cable franchise upon the cable operator's grant of unrestricted access to its cable broadband transmission facilities for [ISPs] other than the operator's proprietary service."⁵¹

Decisions from other circuits also emerged, demonstrating courts' confusion over the Communications Act definitions and the need for FCC intervention. In 2000, the district court of the Eastern District of Virginia described broadband internet access over cable as a "cable service" but struck down locally imposed open access rules as a forbidden form of common carrier regulation.⁵² This decision has been criticized for wrongly equating "the adoption of an open access rule with the imposition of common carrier status."⁵³ In another case, the Eleventh Circuit concluded that the provision of internet access over cable was neither a cable service nor a telecommunications service.⁵⁴ On a grant of certiorari, the Supreme Court declined to rule on this question, which was only tangential to the

48. 43 F. Supp. 2d 1146 (D. Or. 1999), *rev'd*, 216 F.3d 871 (9th Cir. 2000).

49. *See id.* at 1153.

50. *AT&T Corp. v. City of Portland*, 216 F.3d 871 (9th Cir. 2000).

51. *Id.* at 873.

52. *MediaOne Group v. County of Henrico*, 97 F. Supp. 2d 712 (E.D. Va. 2000).

53. *See Chen, supra* note 15, at 700.

54. *Gulf Power Co. v. FCC*, 208 F.3d 1263 (11th Cir. 2000), *rev'd*, *Nat'l Cable & Telecomms. Ass'n v. Gulf Power Co.*, 534 U.S. 327 (2002).

issue being decided in that case; instead it cited the ongoing inquiry into the matter recently begun by the FCC.⁵⁵

B. FCC Notice of Inquiry and the *Brand X* Decision

Faced with growing pressure to clarify the regulatory framework governing cable modem services for consumer internet access, in 2000 the FCC published a Notice of Inquiry seeking comments.⁵⁶ In response, the FCC received more than 250 comments and also met with industry representatives, consumer advocates, and state and local government officials to discuss the technological details, current business models, and regulatory implications.⁵⁷ As a result of these efforts, the FCC issued a declaratory ruling on March 15, 2002, clarifying “what, if any, regulatory treatment should be applied to cable modem service.”⁵⁸ The FCC concluded that “cable modem service, as it is currently offered, is properly classified as an interstate information service, not as a cable service, and that there is no separate offering of telecommunications service.”⁵⁹

In response to the FCC’s Declaratory Ruling, a number of companies, consumer organizations, and other interested associations filed a total of seven petitions in the Third, Ninth, and District of Columbia Circuit Courts seeking judicial review of the FCC’s decision.⁶⁰ One of these companies, a small Santa Monica, California-based company called Brand X Internet Services, challenged the cable companies’ control over the last mile infrastructure.⁶¹ A multidistrict litigation panel transferred the related petitions to the Ninth Circuit for consolidation and review with the Brand X petition.⁶² The Ninth Circuit affirmed in part and vacated in part the FCC’s Declaratory Ruling, concluding that “cable modem service includes a telecommunications service component.”⁶³ In so holding, it relied heavily on its analysis and holding in *AT&T Corp. v. City of Portland*.⁶⁴ Interestingly, the FCC had already rejected the precedential value of this verdict in its Declaratory Ruling, stating that “the Portland court considered a much narrower issue” and noting: “The Ninth Circuit’s decision was based

55. See *Nat’l Cable & Telecomms. Ass’n v. Gulf Power Co.*, 534 U.S. 327 (2002).

56. See FCC Declaratory Ruling, 17 F.C.C.R. 4798, 4801 (2002).

57. *Id.*

58. *Id.* at 4800.

59. *Id.* at 4802.

60. See *Brand X Internet Servs. v. FCC*, 345 F.3d 1120, 1127 (9th Cir. 2003).

61. See *id.*

62. *Id.*

63. *Id.* at 1140. The Ninth Circuit denied a rehearing and suggestion for rehearing en banc on August 31, 2004.

64. *AT&T Corp. v. City of Portland*, 216 F.3d 871 (9th Cir. 2000).

on a record that was less than comprehensive. The parties proceeded on the assumption that the cable modem service at issue was a cable service and therefore did not brief the regulatory classification issue.”⁶⁵

The Supreme Court reversed the Ninth Circuit’s ruling.⁶⁶ Specifically, the Court decided the case as a matter of administrative law, holding that the Communications Act directly addresses the question of classification of cable modem services, and that the FCC’s interpretation of the ambiguities in the Act constitutes “a reasonable policy choice” to which the Court must defer.⁶⁷ The Court agreed with the FCC that the precedential value of the *AT&T Corp. v. City of Portland* decision did not survive the FCC’s Declaratory Ruling. The Court also accepted as reasonable the FCC’s position that the nature of cable modem services should be interpreted from the consumer’s point of view, summarizing the FCC’s conclusion that “cable modem service is not a telecommunications offering because the consumer uses the high-speed wire always in connection with the information-processing capabilities provided by Internet access, and because the transmission is a necessary component of Internet access”⁶⁸

The *Brand X* ruling, in upholding the FCC’s classification of cable modem services as an “information service,” thus upheld the exemption of cable modem service providers from regulation as a common carrier under Title II. The Court opted not to reach the policy concerns raised by the respondent related to anticompetitive practices of cable operators and overzealous bundling of services, stating only that “we do not believe that these results follow from the construction the [FCC] adopted,”⁶⁹ essentially placing the ball back in the FCC’s court for further policymaking. Three justices dissented.⁷⁰

65. FCC Declaratory Ruling, 17 F.C.C.R. 4798, 4831 (2002).

66. See *Brand X*, 125 S. Ct. 2688, 2699 (2005).

67. See *id.* at 2702-10. In the majority opinion, authored by Justice Thomas, the Court held that the Ninth Circuit had erred in failing to analyze the case under the framework established by *Chevron U.S.A. Inc. v. Natural Res. Def. Council, Inc.*, 467 U.S. 837 (1984). The Court did not engage in any substantial debate of the optimal policy for technological development, but rather focused on the administrative law questions and deference owed to the FCC. First, the Court found that the Communications Act of 1934 is indeed ambiguous as to the definitions of “telecommunications service” and “information service,” which is the first step under the *Chevron* framework to allow the FCC the discretion to fill the gaps of ambiguity. See *Brand X*, 125 S. Ct. at 2706-08. The *Chevron* framework then requires the Court to decide whether the administrative agency’s policy choice was reasonable. See *id.* The Court found that it was reasonable. See *id.* at 2703-04.

68. See *id.*

69. *Id.* at 2708.

70. Justice Scalia authored the dissenting opinion. See *id.* at 2713-21 (Scalia, J., dissenting). In Part I of the dissent, Scalia suggests that the FCC’s reading of the Com-

C. FCC's August 5th Decision Deregulating DSL Services

As mentioned above, telephone companies offering DSL services had, prior to the *Brand X* decision, been subject to Title II common carrier regulation.⁷¹ They were required to offer the "broadband" transmission component on a common-carrier basis, separate from any internet service that they offered. Briefs in the *Brand X* case honed in on this issue, highlighting the inconsistent regulation of DSL and cable modem services.⁷² Shortly after the *Brand X* decision, the FCC convened its Open Commission Meeting on August 5, 2005, and adopted a policy that both DSL and cable modem services are information services and not subject to common carrier regulation.⁷³ In other words, the FCC embraced its regulatory decision recently reinforced by the Court and then extended its reasoning under the 2002 FCC Declaratory Ruling to reach all modes of high-speed

munications Act of 1934 was "implausible" and that the FCC "ha[d] thus exceeded the authority given it by Congress." The opening paragraph of his dissent articulates the paradox that Scalia finds in the majority opinion, namely: "Does this mean that cable companies 'offer' high-speed access to the Internet? Surprisingly not, if the Commission and the Court are to be believed." *Id.* at 2713. In challenging the plausibility of the FCC's interpretation that cable companies are offering something more than simply telecommunications services, Justice Scalia offers several non-technical analogies to illustrate his point. He suggests that a pizzeria that delivers pizzas, even though it is in the business of baking pizzas, necessarily "offers" delivery service and it would be reasonable to conclude as much. *See id.* at 2714. Thus he analogizes that if cable companies provide both high-speed internet access as well as other applications and functions, then it is reasonable to perceive that from a consumer's point of view the cable company is offering high-speed internet access. *See id.* at 2715. Justices Souter and Ginsburg joined in this part of the dissent. In Part II of the dissent, in which no other Justices joined, Scalia focused on his minority view of the interpretation of *United States v. Mead Corp.*, 533 U.S. 218 (2001), where he suggested that "drastically limit[ing] the categories of agency action that would qualify for deference under *Chevron* . . ." *See Brand X*, 125 S. Ct. at 2718 (Scalia, J., dissenting).

71. *See supra* Section I.B.

72. *See Brand X*, 125 S. Ct. at 2710 ("MCI points out that when local telephone companies began to offer Internet access through DSL technology in addition to telephone service, the Commission applied its [*Second Computer Inquiry*] facilities-based classification to them and required them to make the telephone lines used to transmit DSL service available to competing ISPs on nondiscriminatory, common-carrier terms . . .") (citations omitted).

73. *See In re Appropriate Framework for Broadband Access to the Internet over Wireline Facilities*, 20 F.C.C.R. 14853, 14871-72 (2005) [hereinafter August 5th Order], available at http://hraunfoss.fcc.gov/edocs_public/attachmatch/FCC-05-150A1.pdf; Press Release, FCC Eliminates Mandated Sharing Requirement on Incumbents' Wireline Broadband Internet Access Services (Aug. 5, 2005) [hereinafter August 5th Press Release], available at http://hraunfoss.fcc.gov/edocs_public/attachmatch/DOC-260433A1.pdf.

internet access service provisions. Overall, the FCC has shifted away from viewing each mode of high-speed internet access services separately, in favor of fostering a competitive environment among DSL, cable modem, wireless, and satellite services.

Though consistent with the FCC's recent stance on pro-market forces, this step was bolder than most expected. The FCC's newly announced policy eliminates the facilities sharing requirements for DSL service providers.⁷⁴ During a one-year transition period beginning August 5th, 2005, the FCC requires that affected providers continue providing internet access to unaffiliated ISPs on a grandfathered basis.⁷⁵ It also requires that they continue to contribute to the universal service fund at their current levels for a 270-day period or until the FCC adopts new contribution rules.⁷⁶

The FCC stated that this policy would place DSL providers "on an equal regulatory footing with cable modem service, currently the market leader"⁷⁷ and touted the policy as one that "will enable potential investors in broadband network platforms to make market-based, rather than regulation-driven, investment and deployment decisions."⁷⁸ The premise underlying the FCC's justification of this policy is that the high-speed internet access industry should be viewed as a whole, with cable modem service providers competing against DSL providers, wireless internet services, and satellite services alike. Thus, the FCC seeks to foster development and competition among these types of services, rather than focusing on competition within each type of service.

However, the policy ignores the reality that innovators, technology companies, and consumers face unfair discrimination on the internet by network providers. It also threatens the FCC's ability to meet its universal service responsibilities. One Commissioner underscored the importance of the provision in the August 5th Order related to DSL universal service requirements and the FCC's commitment to "take whatever action is necessary to preserve existing funding levels."⁷⁹

74. See August 5th Order, *supra* note 73, at 26-27. In an option that will affect primarily rural local exchange carriers, the FCC stated that DSL providers may opt to offer transmission to affiliated or unaffiliated ISPs on a common-carrier basis, a non-common carrier basis, or some combination of both. August 5th Order, *supra* note 73, at 47.

75. August 5th Order, *supra* note 73, at 53.

76. August 5th Order, *supra* note 73, at 63.

77. August 5th Press Release, *supra* note 73.

78. August 5th Press Release, *supra* note 73.

79. August 5th Order, *supra* note 73 (statement of Copps, Comm'r, concurring), available at http://hraunfoss.fcc.gov/edocs_public/attachmatch/FCC-05-150A4.pdf.

The FCC's August 5th Order should not come as a complete surprise to the industry. The FCC signaled its inclination to classify DSL broadband services as "information services" and thus relieve telephone companies of their facilities sharing requirements as early as 2002 in a Notice of Proposed Rulemaking.⁸⁰ That notice summarized: "We tentatively conclude that wireline broadband Internet access services—whether provided over a third party's facilities or self-provisioned facilities—are information services subject to regulation under Title I of the Act, and we ask for comment on this tentative conclusion."⁸¹ Moreover, the position of FCC Chairman Kevin Martin was well known. In the month before the August 5th announcement, one news article noted, "Mr. Martin's theory is that phone and cable companies will be more inclined to expand broadband connections to consumers if they don't have to help foot the bill for their rivals."⁸² The new policy strips such ISPs of the leverage to negotiate with large telephone and cable companies. The fate of such ISPs, who are often better equipped to offer innovative services and newer technologies to consumers, now lies in their ability to negotiate access to the "last mile" with telephone and cable companies privately.

III. AFFORDABILITY AND AVAILABILITY OF HIGH-SPEED INTERNET ACCESS

While the FCC's August 5th Order may have been the inevitable next step after the *Brand X* decision, the premise and effect of its decision deserves greater scrutiny. At the heart of the FCC's policy justifications for its current position is the idea that now cable modem services are competing against DSL services and other means of high-speed internet access. The reality of this vision, however, is that most residential households will now face only two choices: cable modem services through their television cable provider or DSL services through their telephone provider. The likely result will be less pressure on the large telephone and cable companies to improve their customer service or provide the best technology in a cost-efficient manner. Those providers will be left to determine as a commercial matter whether to contract with independent third-party ISPs, driven to compete for customers in terms of technology offered, price, and quality of service. It is not unreasonable for the FCC to allow telephone

80. *In re* Appropriate Framework for Broadband Access to the Internet over Wireline Facilities, 17 F.C.C.R. 3019 (2002).

81. *See id.* ¶ 16.

82. *See, e.g.,* Amy Schatz, *Fighting a Broadband Battle; New FCC Chairman Martin Argues Looser Rules will Boost High-Speed Internet Services*, WALL ST. J., July 19, 2005, at A4.

and cable companies to protect their investments in laying new fiber optic lines throughout their networks to offer these services. After all, these are the classic economic justifications for endorsing natural monopolies. However, the need to assure competition and universal service justifies a more hands-on approach by the FCC. For many residential customers, the subscription price is simply too high, and for other customers the service options are too limited.

A. Internet Subscription Data for U.S. Households

Recent census data highlights the problems related to affordability and availability of high-speed internet access. According to the latest census data available, as of 2003, 61.8% of the households in the United States owned a computer, while 54.7% of all households had some form of internet access.⁸³ For those households with a computer but without internet access, 30.6% cited “Don’t need it, not interested” as the primary reason for not having internet access, while 31.1% cited “Costs are too high.”⁸⁴ Not surprisingly, younger households were more likely to cite high costs as the key obstacle, whereas older households were more likely to cite a lack of interest in the internet.⁸⁵

The percentage of internet users in rural and urban areas is similar (57.2% and 59.2%, respectively).⁸⁶ In rural areas there were 11.4 million households with dial-up internet access, and 27.2 million households with dial-up internet access in urban areas.⁸⁷ Among those dial-up users, 4.7% of urban households cited “not available” as the main reason for using dial-up instead of high-speed internet access, versus 22.1% of rural households.⁸⁸ In terms of cost, 42.1% of urban households using dial-up connections cited “too expensive” as the main reason that they have not sub-

83. See JENNIFER CHEESEMAN DAY ET AL., U.S. CENSUS BUREAU, COMPUTER AND INTERNET USE IN THE UNITED STATES: 2003 (Oct. 2005), available at www.census.gov/prod/2005pubs/p23-208.pdf. The FCC cited a nearly identical figure in its August 5th Order, stating that “only 54.6 percent of U.S. households subscribe to either broadband or narrowband Internet access service.” See August 5th Order, *supra* note 73.

84. See DAY ET AL., *supra* note 83, at 3.

85. See *id.* at 4 (“[D]isinterest in the Internet is related to the age of the householder. Of the 20 million householders who stated they were not interested in the Internet, over 60% (12.7 million) were aged 55 and older. Householders aged 15 to 44 without Internet access most frequently cited “costs are too high” as the reason.”).

86. See U.S. DEP’T OF COMMERCE, A NATION ONLINE: ENTERING THE BROADBAND AGE at Appendix 2 (Sept. 2004), available at www.ntia.doc.gov/reports/anol/Nation-OnlineBroadband04.pdf.

87. See *id.* at 14 fig. 11.

88. *Id.*

scribed for high-speed internet access, versus 31.1% of rural households.⁸⁹ Intuitively, urban areas are more likely than rural areas to have more options for high-speed internet access. This issue has not been the focus of news or analysis, and was largely glossed over by the FCC in its August policy announcements, but it deserves greater attention. Such attention might come in the form of renewed discussions of how high-speed internet access fits into the universal service efforts of the FCC. Local government initiatives may provide rural residents affordable internet access using a public utility model.

B. The Universal Service Debate

One of the FCC's responsibilities is to administer a universal service program across the United States to benefit consumers. The Telecommunications Act of 1996 established a Federal-State Joint Board charged with designing universal service policies.⁹⁰ The principles underlying the universal service effort included that telecommunications and information services should be provided in all regions of the United States, quality services should be available at "just, reasonable, and affordable rates," and "low-income consumers and those in rural, insular, and high cost areas, should have access to telecommunications and information services . . . that are reasonably comparable to those services provided in urban areas and that are available at rates that are reasonably comparable to rates charged for similar services in urban areas."⁹¹ Based on these principles, the joint board defined "universal service" to include: "voice grade access to the public switched network, with the ability to place and receive calls; touch-tone or dual tone multi-frequency signaling . . . or its functional equivalent; single-party service; access to emergency services; access to operator services; access to interexchange services; and access to directory assistance."⁹² These were the established classifications of various telecommunications services at the time when the high-speed internet access debates arose.

Any treatment of high-speed internet access is missing from the discussion of universal service.⁹³ The lack of a clear mandate exacerbated the debate prior to *Brand X*. In 1998 the FCC issued its Universal Service Report to advise Congress regarding the implementation of several provisions of the Telecommunications Act of 1996, specifically reserving the

89. *Id.*

90. *See* 47 U.S.C. § 254 (2000).

91. *See id.* § 254(b)(1), (3).

92. *See* BENJAMIN ET AL., *supra* note 4, at 769.

93. *See id.*

question of the statutory classification of cable modem services.⁹⁴ Since then, the FCC has not made any further efforts to include high-speed internet access under the umbrella of universal service. The Bush administration has generally supported increased availability of high-speed internet access as a goal, but has not taken an express position in the ongoing debate.⁹⁵

C. Efforts by Municipalities to Introduce Further Competition Through Affordable Wi-Fi Networks

In the meantime, another model has emerged that could challenge the monopolistic characteristics of the current market and inject a new competitor in this sector. A number of municipalities, often in public-private partnerships, propose leap-frogging telephone and cable companies' offerings, opting to install wireless fidelity (Wi-Fi) networks for high-speed internet access that will be accessible for free or at low, subsidized costs to residential consumers. Philadelphia was one of the first municipalities to announce such a plan, with Mayor John F. Street highlighting the possibility of providing internet access to the city's residents at more affordable subscription rates than are available from telephone and cable companies.⁹⁶ The city aims to charge a monthly subscription fee of less than \$20, but with much lower subscription fees for lower-income subscribers.⁹⁷ In October 2005, Philadelphia announced that it had accepted Earthlink's bid to build the system in partnership with the city.⁹⁸

Other cities have now followed suit. San Francisco announced a similar plan and solicited private company bids.⁹⁹ Among the dozens of bidders was Google, which proposed to provide wireless high-speed internet

94. *In re* Federal-State Joint Board on Universal Service, 13 F.C.C.R. 11,501 (1998).

95. See, e.g., Kathleen B. Cooper & Michael D. Gallagher, *Foreword to U.S. DEP'T OF COMMERCE, A NATION ONLINE: ENTERING THE BROADBAND AGE* (Sept. 2004), available at www.ntia.doc.gov/reports/anol/NationOnlineBroadband04.pdf ("President Bush has set out a bold vision for broadband in America, establishing a national goal for 'universal, affordable access for broadband technology by the year 2007.'").

96. See, e.g., Rey Ramsey, *Why Wireless Matters*, PHILA. DAILY NEWS, Oct. 24, 2005, available at <http://ework.phila.gov/philagov/news/prelease.asp?id=203>.

97. See Sarmad Ali, *Philadelphia Sets H-P, Earthlink as Wi-Fi Finalists*, WALL ST. J., Aug. 19, 2005, at B3.

98. See TeleClick, *EarthLink Wins Philadelphia Wi-Fi Bid*, TELECOMMS. INDUS. NEWS, <http://www.teleclick.ca/2005/10/earthlink-wins-philadelphia-wi-fi-bid> (last visited Feb. 23, 2006).

99. See Jesse Drucker et al., *Google's Wireless Plan Underscores Threat to Telecom; Free Internet Access Proposal in San Francisco Lets Users Bypass Phone, Cable Links*, WALL ST. J., Oct. 3, 2005, at A1.

access in the city for free to all residents, relying on potential ad revenue to fund the project.¹⁰⁰ The Chicago City Council hosted public hearings throughout the year regarding the possible construction of a citywide wireless network,¹⁰¹ and a handful of smaller municipalities across the country are reportedly considering similar possibilities.¹⁰²

These proposals demonstrate the belief at least at the local level that high-speed internet access is worth subsidizing with public funds. The internet arena is not simply a vehicle for leisure, entertainment, and game-playing. Rather, it serves an important role in terms of children's and adults' education, job training, community involvement, political representation, and access to information. Leaving underprivileged urban neighborhoods deprived of affordable access to high-speed internet services will exacerbate the gap between the "haves" and the "have-nots." If the FCC will not subsidize high-speed internet access by classifying it as a part of the universal service package, then municipalities may step in on a case-by-case basis to provide such services, each with a slightly different model. Installation of Wi-Fi towers is extremely affordable, and basic access need not be as expensive as that offered by current providers.

Nonetheless, the municipalities' opponents are numerous, as telephone and cable companies view these efforts as a direct assault on their business models.¹⁰³ For example, Verizon successfully lobbied the Pennsylvania state legislature "to prevent cities from using public funds to offer paid telecommunications services without first asking local phone companies for permission."¹⁰⁴ Verizon and other companies are making similar efforts throughout the country with local and state legislatures. For example, the agenda for a conference hosted in San Francisco on September 28, 2005, called MuniWireless 2005, whose sessions included not only a talk on "Successfully Deploying City- and County-wide Wi-Fi" but also "How to Defeat Anti-Municipal Bills," described the struggle as follows:

100. *See id.*

101. *See* Chicago Public Hearing on Wi-Fi: Nov 2, MuniWireless Blog (Oct. 28, 2005), <http://muniwireless.com/events/886>.

102. *See, e.g.,* Jesse Drucker, *Technology Watch: Freebies May Depress Internet-Service Costs*, WALL ST. J., Oct. 23, 2005, at A4 ("Numerous cities have announced plans to do similar citywide wireless networks, including . . . Minneapolis, Sacramento and scores of smaller towns.").

103. *See generally* Is Cheap Broadband Un-American?, Posting of Timothy Karr to Digital Divide Network (Aug. 11, 2005), <http://www.digitaldivide.net/articles/view.php?ArticleID=486>.

104. *See* Drucker et al., *supra* note 99.

There are numerous enemies of the future. One of them is the anti-muni broadband bill, an increasingly-attempted method for squelching municipal wireless initiatives. And the battle is now being fought in Congress as well. This session walks attendees through the typical phases such regulatory efforts follow, and provides case studies showing how these attempts have successfully been defeated.¹⁰⁵

The opposition to these proposals by telephone and cable companies may evidence the pressure such companies would feel from the implementation of municipal plans. After all, this would essentially put municipalities in direct competition with traditional service providers for customers, and the Wi-Fi tower signals would likely reach beyond just low-income neighborhoods.

There are also some important downsides to the municipal proposals.¹⁰⁶ First, cable and telephone companies may limit any further investment in and shift their focus away from urban residential markets as a result of being undercut in terms of pricing by municipalities. Such cutbacks from the cable and telephone companies could be risky because they would limit consumer choices, particularly if municipal systems prove unreliable or substandard. Also, there would be administrative and maintenance costs to the local government on an ongoing basis beyond the low installation costs. Moreover, given the fast pace of developments in the technology sector, municipalities may struggle to keep up with the advanced technology, depending on the structure of their public-private partnerships. On balance, though, the advantages of municipal proposals outweigh the challenges and potential extra costs that local governments may face in implementing those proposals.

IV. CONCLUSION

High-speed internet access is a new technological area and it is thus understandable that the legislature, courts, and FCC are struggling to clas-

105. See Muni Wireless, Agenda, <http://muniwireless.microcast.biz/agenda.html> (last visited Oct. 28, 2005).

106. A number of organizations have published in-depth reports on the municipal plans. A good starting point is the Public Broadcasting System's February 2005 summary of the pros and cons of proposals, which links to a number of advocates and opponents. See PBS, *The Digital Divide: Debating High-Speed Internet Access* (Feb. 25, 2005), <http://www.pbs.org/now/politics/digidividedebate.html>; see also NEW MILLENNIUM RESEARCH COUNCIL, 'NOT IN THE PUBLIC INTEREST—THE MYTH OF MUNICIPAL WI-FI NETWORKS' (Feb. 2005), available at <http://www.newmillenniumresearch.org/archive/wifireport2305.pdf>.

sify the related services in an appropriate manner. The *Brand X* decision settled the definitional question, with cable modem services now falling squarely within the “information services” category. The August 5th Order further loosened the FCC’s regulatory grip on the industry by removing facilities-sharing restrictions from DSL business models. There are multiple players in the high-speed internet market competing for business.

However, there is a significant disconnect between the FCC and the localities as evidenced by the failure of the FCC to include high-speed internet access under the umbrella of universal service while municipalities at the same time seek to subsidize the provision of such access. Whereas the FCC deems the cable companies and DSL providers to be sufficiently competitive, municipalities rush to introduce new competition into the market through public-private partnerships. Moreover, these municipal policies address underprivileged urban areas, but attention also should be directed toward underserved rural areas, where low-cost Wi-Fi towers may not be as economical in sparsely populated areas. Meanwhile, telephone and cable companies vehemently oppose these proposals and are actively seeking to block such partnerships in each municipality. Despite the Supreme Court’s ruling on *Brand X*, the FCC faces new hurdles in the area of high-speed internet access. The municipal policy proposals suggest that the FCC, in its pro-industry stance, may be glossing over some serious concerns related to high-speed internet access, and should consider more seriously the implications in terms of innovative technological development, benefits to consumers, and efficient access in rural and other disadvantaged residential areas.

AMERICAN LIBRARY ASS'N V. FCC: **CHARTING THE FUTURE OF CONTENT** **PROTECTION FOR DIGITAL TELEVISION**

By Thomas S. Fletcher

In response to concerns from content producers that digital television would cause movies to fall victim to massive online piracy, the Federal Communications Commission (FCC) ordered all manufacturers of devices capable of receiving digital television (“DTV”) signals to include a technological protection measure called the “broadcast flag” in late 2003.¹ The American Library Association (ALA) challenged the rule before the D.C. Circuit.² In April 2005, the court vacated the rule for falling outside of the FCC’s rule-making jurisdiction.³ The court’s decision jeopardized the transition to digital television because it created widespread uncertainty about the future of copyright protection with respect to digital broadcasts. At present, the FCC cannot issue any regulations requiring copyright protection measures in devices receiving digital signals, manufacturers do not know whether to include copyright protection measures in their devices, and broadcasters worry that content producers will stop licensing digital content to them unless copyright protection improves. Meanwhile, consumers cannot decide whether to buy new digital televisions this year, or to keep waiting to upgrade their televisions until a standard is set.

Part I of this Note provides the background for understanding the current impasse. It examines the development of digital television, the need for and different types of copyright protection measures, and the parties affected by policy in this area. It ends by examining the D.C. Circuit’s reasoning in striking down the FCC’s order requiring all devices capable of receiving a digital television signal to recognize the broadcast flag. Part II applies a general model for standard-setting to determine whether any of the current copyright protection standards available on the market can succeed without government involvement. Part III examines pending legislation to re-implement the broadcast flag and the problems the legislation needs to overcome to reach an optimal balance of both consumer and copyright protection. Part IV concludes the Note.

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1. *In re Digital Broadcast Content Protection*, 18 F.C.C.R. 23550 (2003).

2. *Am. Library Ass’n v. FCC*, 406 F.3d 689 (D.C. Cir. 2005).

3. *Id.* at 703-05.

I. BACKGROUND

A. A Brief History of Digital Television

The broadcast spectrum is a limited resource. Signals sharing a frequency band within a local area interfere with each other, garbling audio and scrambling video signals.⁴ Congress created the FCC to regulate the use of scarce frequency bands across the radio spectrum in order to promote the public good.⁵ With this congressional mandate, the FCC has parceled out the radio spectrum and allocated these limited frequency bands to the many different users that depend on broadcasting information.⁶

Digital television broadcasts can transmit more information with higher signal quality than the traditional analog broadcasts invented in the 1940s.⁷ Digital signals also allow television stations to broadcast high definition television (HDTV).⁸ Additionally, digital signals interfere less than their analog predecessors, enabling viewers who used to receive only static to pick up more stations with crisper images and better sound. These advances in signal capacity and quality will allow the FCC to consolidate the 400 MHz of broadcast spectrum reserved for analog television signals and reallocate some of the frequencies for use by public safety officials.⁹

4. *In re Advanced Television Systems and Their Impact on Existing Television Broadcast Service*, 2 F.C.C.R. 5125, 5132 ¶¶ 60-61 (1987).

5. For the purpose of regulating interstate and foreign commerce in communication by wire and radio so as to make available, so far as possible, to all the people of the United States, without discrimination on the basis of race, color, religion, national origin, or sex, a rapid, efficient, Nation-wide, and world-wide wire and radio communication service with adequate facilities at reasonable charges . . . there is created a commission to be known as the "Federal Communications Commission."
47 U.S.C. § 151 (2000).

6. The FCC's allocation of the entire radio spectrum can be found at 47 C.F.R. § 2.106 (2002), available at http://a257.g.akamaitech.net/7/257/2422/14mar20010800/e-docket.access.gpo.gov/cfr_2002/octqtr/47cfr2.106.htm. A color-coded chart showing the allocation of frequency bands to different uses and industries can be downloaded at http://www.cybergeography.org/atlas/us_spectrum_map.pdf (last visited Mar. 8, 2006).

7. Whereas an analog broadcast signal can only transmit one video and two or three audio signals over a 6 MHz portion of the broadcast spectrum, a DTV station can simultaneously transmit as many as four such programs with CD-quality sound over the same 6 MHz. *Consumer Elecs. Ass'n v. FCC*, 347 F.3d 291, 293 (D.C. Cir. 2003).

8. HDTV allows viewers to receive "a wide-screen, ultra-high resolution picture with movie theater-quality surround sound—along with data such as program listings, sports scores, and stock prices." *Id.*

9. *In re Review of the Commission's Rules and Policies Affecting the Conversion to Digital Television*, 16 F.C.C.R. 5946, 5951-52 ¶ 13 (2001).

The FCC began investigating the possibilities of digital television signals in 1987.¹⁰ After a decade of study and comment, the FCC released a standard for DTV broadcasting and set up a timeline for shifting from analog broadcasting to DTV to occur by 2006.¹¹ Congress facilitated the FCC's decision by mandating that no analog television broadcast license receive an extension past December 31, 2006.¹²

The first hiccup in DTV's implementation occurred in 2001 when the FCC discovered that consumers were not purchasing DTV-capable televisions.¹³ The FCC initially opted to let the market push the adoption of digital television equipment, but soon realized it was facing a market failure.¹⁴ Consumers did not want to spend extra money to purchase DTV equipment until broadcasters actually transmitted DTV programming.¹⁵ Broadcasters, however, did not want to switch over to a DTV signal until a substantial portion of their audience would be able to receive it.¹⁶ Meanwhile, manufacturers had no interest in supplying more expensive DTV-ready televisions if no one wanted to buy them.

The FCC quickly promulgated a regulation creating a timeline for requiring televisions sold in the United States to be able to receive DTV broadcasts.¹⁷ The regulation was immediately challenged in court, but upheld as a reasonable exercise of the FCC's authority.¹⁸ Under the regula-

10. See generally *In re Advanced Television Systems and Their Impact on the Existing Television Broadcast Service*, 2 F.C.C.R. 5125 (1987).

11. *In re Advanced Television Systems and Their Impact Upon the Existing Television Broadcast Service*, 12 F.C.C.R. 12809, 12850 ¶ 99 (1997).

12. 47 U.S.C. § 309(j)(14)(A) (2000). Congress also attempted to provide for a number of exceptions to a mandatory switch. § 309(j)(14)(B). However, as the deadline loomed and few consumers were ready for the switch, the Senate Commerce Committee passed legislation to extend the deadline to April 7, 2009. Press Release, S. Comm. on Commerce, Sci., & Transp., Senate Commerce Committee Approves the Digital Transition and Public Safety Act of 2005 (Oct. 20, 2005), <http://commerce.senate.gov/newsroom/printable.cfm?id=247497>.

13. *Consumer Elecs. Ass'n*, 347 F.3d at 294-95.

14. *Id.* at 295.

15. *Id.*

16. *Id.* at 294-95 (noting that broadcasters received permission from the FCC to continue broadcasting an analog signal if more than 15% of the local population could not receive a digital signal).

17. *In re Review of the Commission's Rules and Policies Affecting the Conversion to Digital Television*, 17 F.C.C.R. 15978, 15996 ¶ 40 (2002).

18. The FCC relied on the All Channel Receiver Act (ACRA) to justify the DTV tuner regulation, which the D.C. Circuit upheld. *Consumer Elecs. Ass'n*, 347 F.3d at 303. During the early 1960s, the FCC first dedicated the UHF portion of the spectrum to television broadcasts. In so doing, it faced a market failure similar to that experienced now with the DTV transition. Consumers did not want to buy more expensive UHF-capable

tion, large screen televisions must all be DTV-ready by July 1, 2005; all remaining televisions must be DTV-ready by July 1, 2007.¹⁹ The transition to a digital future was back on track.

B. The Threat of Infringement Interrupts the Distribution of Digital Content

Shortly after promulgating the regulation requiring digital tuners, the FCC stumbled across another roadblock to switching to DTV: television studios' reluctance to make digital programming available due to the threat of widespread online copyright infringement.²⁰ Unlike analog programming stored on videotapes, digital television programming is vulnerable to infringement on a massive scale because an unlimited number of perfect copies can be made from one digital copy of a program. An endless stream of copies can then be rapidly distributed across the internet.²¹ Already, "it has been estimated that as much as two-thirds of Internet bandwidth in this country is consumed by peer-to-peer traffic, with much of that volume attributable to movie theft."²² Television studios, aware of the problems facing the music industry as a result of peer-to-peer net-

televisions until there were enough UHF channels. Broadcasters had no interest in transmitting in UHF until there were enough viewers to justify the costs. No television manufacturer wanted to make their goods more expensive by including a UHF tuner that no consumer was willing to pay extra for. Congress addressed the problem in 1962 by passing the ACRA, which required that all televisions "be capable of adequately receiving all frequencies allocated by the Commission to television broadcasting." *Id.* at 295.

19. See 47 C.F.R. § 15.117(i) (2005).

20. See *In re Digital Broadcast Copy Protection*, 17 F.C.C.R. at 16027 ¶ 1. See also comments filed with the FCC in response to the notice of proposed rulemaking with regard to the broadcast flag, Comments of the NBC Television Affiliates Association, *In re Digital Broadcast Copy Protection* at 3, MB No. 02-230 (Fed. Commc'ns Comm. Dec. 6, 2002) [hereinafter NBC Affiliates Comments] ("Without copy protection, the producers—including NBC Affiliates—may stop producing valuable digital content."), available at http://gullfoss2.fcc.gov/prod/ecfs/retrieve.cgi?native_or_pdf=pdf&id_document=6513394973; Comments of Viacom, *In re Digital Broadcast Copy Protection* at 1, MB No. 02-230 (Fed. Commc'ns Comm. Dec. 6, 2002) [hereinafter Viacom Comments] ("[I]f a broadcast flag is not implemented and enforced by Summer 2003, Viacom's CBS Television Network will not provide any programming in high definition for the 2003-2004 television season."), available at http://gullfoss2.fcc.gov/prod/ecfs/retrieve.cgi?native_or_pdf=pdf&id_document=6513394608.

21. See *In re Digital Broadcast Copy Protection*, 17 F.C.C.R. 16027 ¶ 1 (2002).

22. *Content Protection in the Digital Age: the Broadcast Flag, High-Definition Radio, and the Analog Hole: Hearing Before the Subcomm. on Courts, the Internet, and Intellectual Prop. of the H. Comm. on the Judiciary*, 109th Cong. (2005) (statement of Dan Glickman, Chairman and CEO, Motion Picture Ass'n of America) [hereinafter *Glickman Statement*], available at <http://judiciary.house.gov/OversightTestimony.aspx?ID=505>.

works, refused to make programming available until they could be certain that it would be safe in a digital environment.²³

C. The Broadcast Flag and its Alternatives

The FCC responded to content providers' concerns about infringement by exploring various alternatives for protecting digital broadcasts.²⁴ In the end, the FCC proposed that television broadcasts include a "broadcast flag," a signal sent with the broadcast that tells the receiver whether the broadcast may be copied or redistributed.²⁵ Understanding how the FCC convinced the content providers to progress with the DTV transition requires understanding the functioning and costs of the various copyright protection technologies available when the FCC chose the broadcast flag.

1. The Broadcast Flag

The broadcast flag is a digital signal attached to the beginning of a transmission that contains information about how the attached broadcast may be used.²⁶ The flag has a value which can be set to allow the viewer to make unlimited copies, a finite number of copies, or none at all.²⁷ Devices equipped with demodulators that recognize the flag implement the command by encrypting the broadcast to protect it from unauthorized copying.²⁸

For the broadcast flag to function, the device receiving the DTV signal must recognize and implement the flag.²⁹ Because the transmission is unencrypted, legacy DTV-ready televisions that do not recognize the broadcast flag can receive programming, but without the copy protection imposed by the flag. While these legacy televisions are good for consumers who would not immediately have to buy new sets, legacy devices represent a serious gap in the broadcast flag's protection regime.

If the government mandated that all new devices capable of receiving DTV implemented the broadcast flag, the risk of infringement posed by older generations of DTV-capable devices would decline as they became obsolete. However, the broadcast flag cannot reduce the threat posed by

23. See *supra* note 21.

24. *In re* Digital Broadcast Content Protection, 18 F.C.C.R. 23550, 23560-62 ¶¶ 22-26 (2003).

25. *Id.* at 23556-60 ¶¶ 12-21.

26. See Susan P. Crawford, *The Biology of the Broadcast Flag*, 25 HASTINGS COMM. & ENT. L.J. 603, 611-12 (2003) (describing the broadcast flag in great detail from development to effectiveness).

27. *In re* Digital Broadcast Content Protection, 18 F.C.C.R. at 23556 ¶ 13.

28. *Id.*

29. *Id.* ¶¶ 13-14.

the “analog hole.” The analog hole refers to the fact that in order for video and audio to be discernible to an audience, the content must be converted from a flagged digital format to an analog format that our eyes and ears can process.³⁰ Users seeking to copy programming can watch broadcast flag-protected television, record the audio and video through an external device, and then distribute the material online. Unless other measures are taken,³¹ such an easy method of circumvention limits the efficacy of the broadcast flag.

The broadcast flag imposes minimal costs on consumers.³² Current owners of digital televisions would not need to buy new equipment because the flag is backward compatible, meaning that it does not alter the ability of older televisions to receive digital broadcasts. Requiring a demodulator to recognize and implement the flag will add to the cost of all DTV-capable devices, but all of the proposed anti-piracy technologies require some form of demodulator to implement the copy protection technology. The broadcast flag demodulator promises to be the cheapest because it is relatively simple to implement³³ and because its developers have agreed to license it to manufacturers on a royalty-free basis.³⁴ The

30. An even more critical and systemic problem is the ‘analog hole.’ Video content, even when delivered digitally in a protected manner, must be converted to an unprotected analog format to be viewed on the millions of analog television sets in consumer homes. Once content is ‘in the clear’ in analog form, it can be converted back into a digital format which can then be subject to widespread unauthorized copying and redistribution, including over the Internet. This problem applies to all delivery means for audiovisual content, from DVDs to pay per view, to over the air broadcasts.

Competition, Innovation, and Public Policy in the Digital Age: Is the Marketplace Working to Protect Digital Creative Works?: Hearing Before the S. Comm. on the Judiciary, 107th Cong. 41-48 (statement of Richard Parsons, CEO, AOL Time Warner).

31. The House Subcommittee on Courts, the Internet, and Intellectual Property held hearings on the Analog Content Protection Act of 2005 on November 3, 2005, which calls for incredibly complex regulation of devices to close the analog hole. *See* HOUSE SUBCOMM. ON COURTS, THE INTERNET, AND INTELLECTUAL PROPERTY, ANALOG HOLE LEGISLATION DISCUSSION DRAFT 11/03/05, available at <http://judiciary.house.gov/media/pdfs/analoghole110305.pdf>.

32. *In re* Digital Broadcast Content Protection, 18 F.C.C.R. 23550, 23559 ¶121 (2003).

33. *See* Crawford, *supra* note 26, at 611.

34. The technology was developed by a consortium of five technology companies: Intel, Hitachi, Matsushita, Sony, and Toshiba. *See* Comments of Digital Transmission Licensing Administrator, LLC, *In re* Digital Broadcast Copy Protection at 1, MB No. 02-230 (Fed. Commc’ns Comm. Dec. 6, 2002) [hereinafter DTLA Comments], available at http://gullfoss2.fcc.gov/prod/ecfs/retrieve.cgi?native_or_pdf=pdf&id_document=6513395250. The developers license the broadcast flag technology through the Digital Transmis-

broadcast flag also imposes no new costs on broadcasters because it only requires the addition of a short signal prior to a program's transmission.

2. Encryption

One alternative considered by the FCC calls for encrypting all DTV signals at the source.³⁵ Such a regime would require television stations to encrypt their broadcasts prior to transmission. Devices possessing a demodulator would then be able to decrypt the broadcasts and play them. As long as the decryption protocol is licensed only to manufacturers who promise to prevent their devices from copying or redistributing programming, content owners can rest assured. Unlike the broadcast flag, encrypting DTV signals would prevent legacy devices from receiving any programming, closing one gap in security but rendering a generation of DTV-capable televisions worthless without the purchase of an add-on demodulator. However, an encryption regime does share the broadcast flag's vulnerability to the analog hole once the content is displayed.

In total, an encryption regime imposes costs on multiple parties. Broadcasters would be required to license the encryption technology before transmitting their programming. Manufacturers would have to include demodulators in televisions capable of decrypting the signal. All consumers with old televisions would be required to purchase converters or new televisions to be able to watch the encrypted programming. At all stages in the process, users would have to license the encryption technology.³⁶ At present, no encryption provider has created an open license to lower transaction costs similar to the license offered by the owners of the broadcast flag.³⁷ Any adoption of an encryption regime would require an agreement with the encryption developer to license it to all parties on reasonable terms.³⁸

sion Licensing Administrator ("DTLA"), which holds harmless all infringers of the flag who follow guidelines governing the security of the broadcast flag protocol and limitations on its use. DTLA IP Statement, <http://www.dtcp.com/data/IPStatement07102001.pdf> (last visited Mar. 18, 2006).

35. *In re Digital Broadcast Content Protection*, 18 F.C.C.R. at 23560-61 ¶¶ 22-24.

36. *See, e.g.*, U.S. Patent No. 5,933,498 (issued Nov. 5, 1997) (underlying the VeriFIDES encryption technology discussed *infra*).

37. The open license proved to be an important factor in the FCC's decision to adopt the broadcast flag. *See In re Digital Broadcast Content Protection*, 18 F.C.C.R. at 23559, ¶ 21.

38. *See generally* Comments of Motorola, *In re Digital Broadcast Copy Protection*, MB No. 02-230 (Fed. Commc'ns Comm. Dec. 6, 2002) [hereinafter Motorola Comments], available at http://gullfoss2.fcc.gov/prod/ecfs/retrieve.cgi?native_or_pdf=pdf&id_document=6513397321; Comments of Veridian Corporation, *In re Digital Broadcast Copy Protection*, MB No. 02-230 (Fed. Commc'ns Comm. Oct. 30, 2002) [hereinafter

3. Watermarking

Watermarking, or fingerprinting, technology is a copy protection scheme that closes the analog hole.³⁹ Watermarking begins by using a signal identical to the broadcast flag. However, instead of attaching the flag to the beginning of the transmission, it embeds the signal throughout the video and audio content of the program.⁴⁰ While an intentional copyright infringer can evade the broadcast flag by exploiting the analog hole, developers of watermarking claimed that the watermark remains recognizable in every digital copy and dozens of generations of analog copies because it is part of the video or audio track.⁴¹ When a device with a demodulator that recognizes the watermark receives a watermarked broadcast, it can impose restrictions on copying and redistribution, just like the broadcast flag.

Like the broadcast flag, watermarking imposes no significant costs on broadcasters because the signal already exists within the programming. Watermarking also imposes no costs on owners of legacy devices because the transmission remains unencrypted. However, successfully licensing the technology could prove more difficult than licensing an encryption protocol. While any company could develop a new method of encrypting data, the watermarking process of embedding a code in a signal is covered by 65 patents and 300 pending patents owned by Digimarc and Macrovision.⁴² Implementing a watermarking regime will require negotiating a license from these parties for everyone that embeds a watermark or uses a demodulator to recognize one. Additionally, detecting and implementing a watermark signal is technologically more difficult than the broadcast flag, which would increase the cost of the demodulating equipment in every DTV-capable device.

Veridian Comments], available at http://gullfoss2.fcc.gov/prod/ecfs/retrieve.cgi?native_or_pdf=pdf&id_document=6513299133.

39. See Comments of Digimarc Corp. & Macrovision Corp. at 7, *In re Digital Broadcast Copy Protection*, MB No. 02-230 (Fed. Comm'n Comm. Dec. 5, 2002) [hereinafter Digimarc & Macrovision Comments], available at http://gullfoss2.fcc.gov/prod/ecfs/retrieve.cgi?native_or_pdf=pdf&id_document=6513394411.

40. This was discussed by the FCC in *In re Digital Broadcast Content Protection*, 18 F.C.C.R. at 23561-62 ¶¶ 25-26.

41. See Digimarc & Macrovision Comments, *supra* note 39, at 8.

42. DIGIMARC, CAPABILITIES BRIEF: PROTECTING VIDEO IN THE DIGITAL AGE 11 (2002), available at <http://www.digimarc.com/docs/analogHole/Protecting%20Video%20Brief%20FINAL.pdf>.

D. Interest Group Politics and the Broadcast Flag

Given the thorny issues involved in requiring all DTV signal receivers to include hardware that would give effect to the broadcast flag, the FCC requested comments from concerned groups on how to proceed.⁴³ Among its concerns, the FCC asked for guidance on which technological measure would best prevent infringement while still serving consumers' needs.⁴⁴ The FCC's call for comments generated thousands of responses.⁴⁵ Understanding the stakes involved in the DTV transition for the different interest groups is crucial to evaluating possible solutions to the current impasse.

1. Content Providers

Content providers rely on copyright to protect the value of the programming they create. Without the compensation provided by movie tickets, DVD sales, syndication rights, and other avenues for licensing their programming, content providers cannot recoup the massive costs of creating movies and shows. Accordingly, the Motion Picture Association of America (MPAA)⁴⁶ lobbied vigorously for the immediate implementation of the broadcast flag,⁴⁷ arguing that the threat of digital piracy would force them to keep digital programming off the airwaves.⁴⁸ Withholding programming would destroy syndication and resale markets and force the creation of a "two-tiered" media market of premium content on cable and satellite systems, and inferior content on traditional broadcast television.⁴⁹ Such arguments indicate that the content providers do not seek to com-

43. See *In re* Digital Broadcast Copy Protection, 17 F.C.C.R. at 16028-29 ¶¶ 4-9.

44. See *id.* at 16028 ¶ 6.

45. Thousands of comments were filed in response to the agency's [notice of proposed rulemaking]. Owners of digital content and television broadcasters urged the Commission to require DTV reception equipment to be manufactured with the capability to prevent unauthorized redistributions of digital content. Numerous other commenters voiced strong objections to any such regulations, contending that the FCC had no authority to control how broadcast content is used after it has been received.

Am. Library Ass'n v. FCC, 406 F.3d 689, 691 (D.C. Cir. 2005).

46. The MPAA wrote on behalf of numerous Hollywood groups, including ABC, CBS, Fox, ASCAP, Hollywood trade unions, the Screen Actors Guild, and the Writers' Guilds. See Joint Comments of the MPAA et al., *In re* Digital Broadcast Copy Protection at 1, MB No. 02-230 (Fed. Commc'ns Comm. Dec. 6, 2002) [hereinafter MPAA Comments], available at http://gullfoss2.fcc.gov/prod/ecfs/retrieve.cgi?native_or_pdf=pdf&id_document=6513395156.

47. *Id.* at 12.

48. See *id.*

49. *Id.* at 10.

pletely eradicate infringement, because even cable and satellite systems are vulnerable to the analog hole. Instead, content providers rationally seek to raise the cost of infringement by making it more difficult for the ordinary consumer, while tolerating a background, or efficient, level of infringement.⁵⁰

Not all media groups are purely interested in regulating DTV to protect their copyrights. While the National Football League (NFL) and its supporters⁵¹ expressed similar concerns about online piracy, they also worried about the effectiveness of local blackouts to drive stadium ticket sales if viewers outside the blackout area could share the game with those within.⁵² Whereas the MPAA hopes that strong anti-piracy provisions will protect its copyrights, the NFL is concerned about losing its ability to fill stadium seats by leveraging its copyright on the televised version of the game.⁵³ Commentators have criticized the NFL for this position, arguing that the NFL is illegitimately using copyright law to enhance profits in other business sectors.⁵⁴

The content providers have generally threatened to hold out and confine their digital programming to cable and satellite markets, absent some form of copy protection. Viacom articulated this absolutist policy when it first appeared before the FCC: "if a broadcast flag is not implemented and enforced by Summer 2003, Viacom's CBS Television Network will not provide *any* programming in high definition for the 2003-2004 television season."⁵⁵ This segregation of programming would work to the detriment of the tens of millions of mainly low-income consumers who rely on

50. "I do not mean to imply that we seek absolute protection against unauthorized use of our movies. We understand that committed pirates will break any security measures we can devise and these pirates will have to be dealt with by way of criminal and civil legal remedies." *Glickman Statement, supra* note 22, at 54. As explained by a critic of the broadcast flag, "modern [digital rights management] technology is mostly successful in keeping honest people honest." *Piracy Prevention and the Broadcast Flag: Hearing Before the Subcomm. on Courts, the Internet, and Intellectual Property of the H. Comm. on the Judiciary*, 108th Cong. 49-56 (2003) (statement of Edward J. Black, President and CEO, Computer and Commc'ns Indust. Ass'n).

51. The NFL wrote on behalf of the NBA, MLB, NHL, WNBA, PGA, LPGA, and NCAA. Comments of National Football League et al., *In re Digital Broadcast Copy Protection* at 1, MB No. 02-230 (Fed. Commc'ns Comm. Dec. 6, 2002), available at http://gullfoss2.fcc.gov/prod/ecfs/retrieve.cgi?native_or_pdf=pdf&id_document=6513394221

52. *Id.* at 7-8.

53. *Id.*

54. See Rob Pegoraro, *TiVo vs. the Broadcast Flag Wavers*, WASH. POST, Aug. 1, 2004, at F6.

55. Viacom Comments, *supra* note 23, at 1.

broadcast television by denying them the breadth of programming available to consumers who pay for satellite or cable.⁵⁶

2. Broadcasters

Broadcasters derive their revenue from advertising, which depends on the number of viewers who watch the programming they air. Broadcasters directly compete with cable and satellite service providers for viewers.⁵⁷ Because content providers threatened to withhold content and provide it only to these competitors, broadcast groups adamantly supported the implementation of a broadcast flag regime.⁵⁸ The North American Broadcasters Association (NABA), Corporation for Public Broadcasting (CPB), and NBC all argued that absent some form of copyright protection, they would not be able to broadcast high-quality digital content to their viewers.⁵⁹

While the broadcasters are not directly harmed by online infringement, their interests remain firmly aligned with the content providers. Because their needs only demanded the minimum protection necessary to keep content available to them, the broadcasters supported the broadcast flag, the technology with the lowest costs for broadcasters.⁶⁰ Broadcasters apparently did not support an encryption regime because it would impose higher transmission costs and alienate viewers with legacy televisions who could no longer tune in to a broadcaster's station without buying a new television or demodulator.

3. Technology Companies

Technology companies spanned the spectrum of opinion about the broadcast flag, based on the flag's potential impact on their particular financial interests. They tended to distinguish themselves based on whether

56. "Tens of millions of American households depend upon free-over-the-air broadcast for their television reception and a central purpose of this decision is to ensure that they do not become second-class consumers of second-class content." *In re Digital Broadcast Content Protection*, 18 F.C.C.R. 23550, 23615-16 (2003) (Copp, Comm'r, dissenting in part).

57. NBC Affiliates Comments, *supra* note 23, at 2.

58. Comments of the North American Broadcasters Association (NABA), *In re Digital Broadcast Copy Protection* at 1, MB No. 02-230 (Fed. Commc'ns Comm. Dec. 6, 2002) [hereinafter NABA Comments], available at http://gullfoss2.fcc.gov/prod/ecfs/retrieve.cgi?native_or_pdf=pdf&id_document=6513395146

59. *Id.*; NBC Affiliates Comments, *supra* note 23, at 3; Reply Comment of Corporation for Public Broadcasting, *In re Digital Broadcast Copy Protection* at 4, MB No. 02-230 (Fed. Commc'ns Comm. Feb. 19, 2003), available at http://gullfoss2.fcc.gov/prod/ecfs/retrieve.cgi?native_or_pdf=pdf&id_document=6513482839

60. NABA Comments, *supra* note 58, at 1.

they provided copy-protection technology or manufactured devices that will need to comply with the chosen regulatory regime. Intel, Hitachi, Matsushita, Sony, and Toshiba all voiced their support for the broadcast flag regime, which they collectively developed.⁶¹ On the other hand, Philips Electronics blasted the broadcast flag proposal as wholly insufficient to prevent infringement because of the analog hole, and claimed that requiring the flag “makes little public policy sense.”⁶² Philips instead advocated watermarking technology,⁶³ pushing the same watermarking protocols that Phillips semiconductors are capable of implementing.⁶⁴

Motorola, left out of the flag development consortium, similarly argued that the broadcast flag regime would never succeed in preventing widespread infringement, pointing to the recent failure of CSS to protect DVDs from copying.⁶⁵ It instead recommended a regime of source encryption.⁶⁶ Motorola hypothesized that opposition to encryption likely arose from parties who did not want to bear the cost of upgrading their equipment to handle encryption.⁶⁷ Motorola also noted that the FCC would need to mandate licensing terms for whatever encryption technology was chosen. Veridian showed no such subtlety in attempting to collect industry-wide royalties from the FCC’s chosen copyright protection scheme. Veridian assailed the many failures of the broadcast flag, and offered up an alternative technology—VeriFIDES, its proprietary encryption protocol.⁶⁸

61. DTLA Comments, *supra* note 34, at 1-2.

62. Comments of Philips Electronics North America Corporation, *In re Digital Broadcast Copy Protection* at 13, MB No. 02-230 (Fed. Commc’ns Comm. Dec. 6, 2002) [hereinafter Philips Comments], available at http://gullfoss2.fcc.gov/prod/ecfs/retrieve.cgi?native_or_pdf=pdf&id_document=6513394869.

63. *Id.* at 3.

64. Philips’ adoption of Macrovision’s latest content protection specification reflects our concern to deliver technology fully adapted to current market trends, particularly in the move from analog to digital. . . . [t]he combination of our world-beating video decoding technology and Macrovision copy protection detection system enables manufacturers to develop advanced set-top boxes, hard disk drives and DVD-recordable based personal TV entertainment systems which comply with key legislation such as the USA’s Digital Millennium Copyright Act.

Philips Semiconductors, 6 BRIEFING: TECHNOLOGY FOR CONSUMER APPLICATIONS, May 2001, at 1-9, available at http://www.semiconductors.philips.com/acrobat_download/literature/9397/75008116.pdf.

65. Motorola Comments, *supra* note 38, at 4.

66. *Id.* at 4-5.

67. *Id.* at 6.

68. Veridian Comments, *supra* note 38, at 3.

Device manufacturers, as opposed to copy protection developers, are driven to provide televisions and other devices at the lowest possible cost. They are indifferent to whether the content arrives by broadcast, cable, or satellite. Accordingly, the Information Technology Association of America (ITAA) argued that the broadcast flag standard was not ready for adoption.⁶⁹ Instead, the ITAA urged the FCC to wait and allow voluntary standard-setting bodies to compete to create a better standard.⁷⁰ The Consumer Electronics Association (CEA) took an extreme view, arguing that the FCC should disallow even voluntary use of the broadcast flag and should also prevent any signal encryption technologies from being adopted, because such regulations would impede product innovation.⁷¹

4. *The Public Interest*

A number of non-profit groups representing the public interest also weighed in with comments on the broadcast flag. The Center for Democracy and Technology endorsed the goals of a copyright protection scheme, but encouraged the FCC to remember the public's fair use rights⁷² and the cost of upgrading to new technologies.⁷³ The American Library Association (ALA) also opposed a far-reaching broadcast flag regime because of concerns about the effect the regime might have on fair use.⁷⁴ The Electronic Frontier Foundation (EFF) took a much more extreme viewpoint, urging a wholesale rejection of the broadcast flag regime because it per-

69. Comments of the Information Technology Association of America, *In re Digital Broadcast Copy Protection* at 18, MB No. 02-230 (Fed. Commc'ns Comm. Dec. 6, 2002), available at http://gullfoss2.fcc.gov/prod/ecfs/retrieve.cgi?native_or_pdf=pdf&id_document=6513394917.

70. *Id.* at 9-10, 13.

71. Comments of the Consumer Electronics Association, *In re Digital Broadcast Copy Protection*, at 3, MB No. 02-230 (Fed. Commc'ns Comm. Dec. 6, 2002), available at http://gullfoss2.fcc.gov/prod/ecfs/retrieve.cgi?native_or_pdf=pdf&id_document=6513397277.

72. The fair use exception allows consumers to make copies of copyrighted material in some circumstances. *See* 17 U.S.C. § 107 (2000). However, technology that prevents all copying also prevents the public from making limited fair use of copyrighted material. Fair use concerns are discussed in more depth in Section III.B *infra*.

73. Comments of the Center for Democracy and Technology, *In re Digital Broadcast Copy Protection* at 2-4, MB No. 02-230 (Fed. Commc'ns Comm. Dec. 6, 2002), available at http://gullfoss2.fcc.gov/prod/ecfs/retrieve.cgi?native_or_pdf=pdf&id_document=6513394761.

74. *See generally* Comments of the Library Associations, *In re Digital Broadcast Copy Protection*, MB No. 02-230 (Fed. Commc'ns Comm. Dec. 6, 2002), available at http://gullfoss2.fcc.gov/prod/ecfs/retrieve.cgi?native_or_pdf=pdf&id_document=6513394836.

ceived no additional threat of piracy from DTV.⁷⁵ The EFF also argued that the broadcast flag was an ineffective protection method⁷⁶ and that it would frustrate inter-operability between devices.⁷⁷

E. Legal Challenge to the Broadcast Flag Order

After parsing the thousands of comments received from groups like the private companies, industry groups, public interest organizations, and concerned citizens, the FCC issued a regulation requiring all devices capable of receiving DTV signals to include a demodulator that would give effect to the broadcast flag starting on July 1, 2005.⁷⁸ The order did not include any mandate that the flags attached to programming allow consumers to exercise their normal fair use rights, so the ALA immediately filed for review of the FCC's order before the D.C. Circuit Court of Appeals.⁷⁹ The ALA alleged that the broadcast flag order should be vacated because the FCC overstepped its jurisdiction in requiring that all devices recognize the flag.⁸⁰

The D.C. Circuit agreed that the FCC had overstepped its jurisdiction and vacated the FCC's order.⁸¹ The court first noted that Title I of the Communications Act of 1934 endows the FCC with authority only to regulate "interstate and foreign commerce in communication by wire and radio."⁸² While this jurisdiction is "expansive," it does not permit the FCC to regulate beyond activities that engage in "communication by wire or radio."⁸³ Accordingly, the three-judge panel turned to the question of whether requiring a demodulator to give effect to the broadcast flag was an activity engaged in "communication by wire or radio."⁸⁴

75. "Unauthorized Internet redistribution is a problem that simply has no nexus with DTV today, and is not likely to have any appreciable nexus with it in the foreseeable future." Comments of Electronic Frontier Foundation, *In re Digital Broadcast Copy Protection* at 3, MB No. 02-230 (Fed. Comm'ns Comm. Dec. 6, 2002), available at http://gullfoss2.fcc.gov/prod/ecfs/retrieve.cgi?native_or_pdf=pdf&id_document=6513395409.

76. *Id.* at 8-11.

77. *Id.* at 15-17.

78. *In re Digital Broadcast Content Protection*, 18 F.C.C.R. 23550, 23570 ¶ 40 (2003) (requiring demodulators capable of recognizing broadcast flags); *id.* at 23576 ¶ 57 (setting compliance deadline of July 1, 2005).

79. *See Am. Library Ass'n v. FCC*, 406 F.3d 689, 695 (D.C. Cir. 2005).

80. *Id.*

81. *Id.* at 703-05.

82. 47 U.S.C. § 151 (2000).

83. *Accuracy in Media, Inc. v. FCC*, 521 F.2d 288, 293 (D.C. Cir. 1975).

84. *Am. Library Ass'n*, 406 F.3d at 703.

The Communications Act defines both “radio” and “wire communication” as including all transmission by radio, wire, cable or other like connection “of writing, signs, signals, pictures, and sounds of all kinds” as well as “all instrumentalities, facilities, apparatus, and services (among other things, the receipt, forwarding, and delivery of communications) incidental to such transmission.”⁸⁵ Using this definition, the court rejected the FCC’s contention that it could regulate any apparatus associated with television broadcasts, because the statute only confers authority on the FCC to regulate an apparatus “incidental to such transmission.”⁸⁶ Since the demodulator required by the Broadcast Flag Order would only implement the broadcast flag once the transmission was complete, the court determined that the demodulator was not incidental to the transmission of the signal.⁸⁷ Essentially, the court held that the FCC cannot assert jurisdiction over a device that is not actively engaged in sending or receiving a transmission.⁸⁸ Because the broadcast flag regulations all governed the operation of the demodulator after the reception of the transmission, the court vacated the broadcast flag regulations.⁸⁹

II. ESTABLISHING STANDARDS FOR COPYRIGHT PROTECTION

Enabling the switch to DTV requires setting a single copyright-protection standard.⁹⁰ A single copyright-protection technology standard is necessary to ensure that all devices can receive all broadcasts while keeping content secure. Since the D.C. Circuit vacated the FCC’s order establishing the broadcast flag as the standard, there is no single copyright-protection standard for devices that receive DTV.

This Part introduces a number of general models for setting technology standards. It then applies those models to the available copyright-protection technologies discussed above. These results demonstrate how

85. 47 U.S.C. §§ 153(33), (52) (2000).

86. *Am. Library Ass’n*, 406 F.3d at 703.

87. *Id.*

88. *Id.* at 705 (“We think that, for the reasons discussed above, the FCC *never* has possessed ancillary jurisdiction under the Communications Act of 1934 to regulate consumer electronic devices that can be used for receipt of wire or radio communication when those devices are not engaged.”).

89. *Id.* at 708.

90. The following formulation is based heavily on that found in Mark A. Lemley, *Intellectual Property Rights and Standard-Setting Organizations*, 90 CALIF. L. REV. 1889 (2002).

each copyright-protection regime can be implemented, and which scheme would best serve the consumer interest the FCC is tasked to advance.

A. A General Model for Standard Setting

Industry standards can arise from three different sources: private standard-setting organizations, market forces, or government authority.⁹¹ Under the first model, private standard-setting organizations (SSOs) work together to choose a standard to enable the development of an industry.⁹² The initial proposal for the broadcast flag came out of such a working group.⁹³ There are two distinct types of SSOs.⁹⁴ One imposes standards that control interoperability or access to a network.⁹⁵ These standards vary from the technical, like TCP/IP, to the abstract, like a uniform written language that allows the reader to understand the writer. These standards are exclusive; those who do not adopt them are locked out of the market. The other type of SSO creates guidelines for quality within an industry.⁹⁶ Examples include professional organizations like state bar associations, or quality guidelines for materials like concrete. Unlike network standards, these standards are not inherently exclusive.⁹⁷ The existence of a set of rules for a minimum quality of lawyering or concrete strength does not inherently prevent the existence of subpar lawyers or weak concrete. Quality-driven standards therefore rely on some outside authority, like the government, to compel adoption of the standard.

When an industry cannot agree on a single network standard, one can arise from the operation of the market.⁹⁸ As consumers flock to one standard or another, the industry "tips" and one standard becomes the default while the other becomes obsolete.⁹⁹ This type of standard-setting only occurs where consumers feel a network effect, meaning either a benefit from being part of a larger network or a loss from being outside the network. Without such a benefit or cost, there is no incentive to switch over. The

91. *Id.* at 1898-99.

92. *Id.* at 1898.

93. The Broadcast Protection Discussion Group worked by consensus to develop the broadcast flag. Not every party was pleased with the results (particularly Philips). See generally MPAA Comments, *supra* note 46; Philips Comments, *supra* note 62; and DTLA Comments, *supra* note 34.

94. Lemley, *supra* note 90, at 1898-99.

95. Lemley, *supra* note 90, at 1898.

96. Lemley, *supra* note 90, at 1898.

97. Lemley, *supra* note 90, at 1898.

98. *Id.* at 1897-98. For more discussion of the market dynamics of tipping, see CARL SHAPIRO & HAL R. VARIAN, INFORMATION RULES 173-190 (1999).

99. SHAPIRO & VARIAN, *supra* note 98, at 175-77.

widespread adoption of the Windows operating system is a common example of such *de facto* standard-setting in high-tech industries.¹⁰⁰ At a more abstract level, near-global use of the metric system is another example of this “tipping” phenomenon—a party who chooses to exist outside the system must pay massive transaction costs to interact with everyone inside the network.¹⁰¹ However, tipping cannot occur without the network effect to lure in consumers. For example, car brands proliferate because there is nothing one company can do to make it more beneficial for you and your neighbor to drive the same type of car. Many businesses therefore try to design network effects to create this tipping phenomenon, from “in” calling plans to ATM surcharges for non-bank members.

When industry bargaining and market forces fail to impose a standard, a properly authorized administrative body can impose one through regulations.¹⁰² For example, the FCC’s regulations promulgated under the All Channel Receiver Act that require all televisions to receive both VHF and UHF television signals are an example of mandated standard-setting when market forces and industry bargaining failed to settle on a standard.¹⁰³

Under all three models, the intellectual property rights inherent in the standard can prove a major obstacle to adoption. A patented standard can give the patent holder monopoly control over who can and cannot use the standard. Development of improvements on the patent by third parties can also block further development. Mandatory-licensing schemes can ensure equal access to the network, but there is no guarantee the license terms will be reasonable, nor that such a scheme can be agreed upon in the first place.

B. Setting Standards for the Broadcast Flag and Watermarking

The broadcast flag and watermark both require adding a small amount of data to the normal broadcast signal. They also both rely on a demodulator that can recognize the flag or watermark and appropriately protect the received programming. Beyond the details of how the signal is embedded in the programming, the technologies are similar enough to analyze under the same framework.

100. Lemley, *supra* note 90, at 1899.

101. “Industry in the United States is often at a competitive disadvantage when dealing in international markets because of its nonstandard measurement system, and is sometimes excluded when it is unable to deliver goods which are measured in metric terms.” 15 U.S.C. § 205(a)(4) (2000).

102. Lemley, *supra* note 90, at 1899. For a discussion of how the FCC helped develop the HDTV standard, see SHAPIRO & VARIAN, *supra* note 98, at 220-23.

103. See *supra* note 18.

1. *SSO Action and Market Tipping*

An SSO gave birth to the broadcast flag, so what would prevent an SSO from getting the marketplace to adopt the broadcast flag? The answer lies with how the technology functions. Both the broadcast flag and watermark attach or embed a digital signal that instructs the receiving device to take an action and restrict the use of the data, but neither the flag nor the watermark can prevent a device that does not recognize them from accessing the copyrighted data.¹⁰⁴ This aspect of the two technologies is responsible for their backward compatibility with pre-existing digital tuners. However, backward compatibility also prevents an SSO from forcing adoption of the standard because there is no mechanism to force manufacturers to include a demodulator to recognize the signal.

Even if a device manufacturer agreed with the content providers and wanted to add a demodulator to recognize the flag, doing so would raise its costs in comparison with a manufacturer that did not. This price differential, in a competitive market, would force the more expensive device out of the marketplace. Given the option between purchasing devices that recognize the flag and devices that do not, a rational consumer would also prefer the device that imposed no restrictions on his use of the content received by the device. This inability to “lock out” parties that do not adopt the standard makes an SSO that imposes the broadcast flag on its members more like a quality group than a network group. Such groups cannot successfully impose restrictions across a marketplace without the force of law.

Similarly, because there is no benefit to consumers from being inside the network of flag-recognizing devices, nor any cost to being outside of it, there will never be an incentive for them to adopt the technology. Without such an incentive, the market cannot tip toward a *de facto* standard.

2. *Government Action*

Because the broadcast flag and watermarking technologies lack this lock-out characteristic, they cannot force consumers or device manufacturers to adopt them without the force of a governing authority. However, the D.C. Circuit held that the FCC lacks such authority when it struck down the broadcast flag order as beyond the FCC’s jurisdiction.¹⁰⁵ The only way then to force society to adopt a broadcast flag or watermarking regime is for Congress to pass a law either choosing a standard or delegat-

104. *In re Digital Broadcast Content Protection*, 18 F.C.C.R. 23550, 23561 ¶ 25 (2003).

105. *Am. Library Ass’n v. FCC*, 406 F.3d 689, 703-05 (D.C. Cir. 2005).

ing authority to the FCC to adopt standards for copyright protection of digital television.¹⁰⁶

C. Setting Standards for Encryption

Encryption technology behaves differently from both the broadcast flag and the watermark because consumers who lack the proper demodulator cannot decrypt the television signal. This lock-out effect leads to different results under the standard-setting models described above.

1. SSO Action and Market Tipping

Unlike the broadcast flag or watermarking, encryption of the signal at its source would prevent devices without demodulators from accessing the data in the signal. In this situation, a consumer derives a benefit (being able to watch TV) from being inside the network and thus has an incentive to adopt the encryption standard. Accordingly, content providers could form an SSO to settle on an encryption standard and refuse to license their programming unless broadcasters used the encryption standard. Device manufacturers would also be forced to license the technology to decrypt the signals if they wanted their buyers to be able to watch anything on their devices. In exchange for licensing the key to the encryption algorithm, content providers could force the device manufacturers to prevent any unauthorized redistribution or copying of digital content.

If the parties were unable to settle on a proper royalty for use of an encryption technology, the market could still pick a winner. Broadcasters would have to select an encryption protocol for their transmissions. Content providers would only license their programming to broadcasters who used a strong enough encryption protocol to keep their content safe from piracy. Owners of encryption protocols would then have to compete with each other to license their technology to individual stations.

Manufacturers would also have to license these encryption protocols for their devices to decrypt the broadcasts. One of two scenarios would then result, based on whether device manufacturers or encryption providers possessed more bargaining power. In the first scenario, each encryption provider could force its licensee device manufacturers and licensee broadcasters to use only its encryption technology. Consumers would then be forced to purchase a device based on the channels they enjoy watching.

106. The House Subcommittee on Courts, the Internet, and Intellectual Property has begun such a process by discussing the Broadcast Flag Authorization Act of 2005. STAFF OF SUBCOMM. ON COURTS, THE INTERNET, & INTELLECTUAL PROP. OF THE H. COMM. ON THE JUDICIARY, BROADCAST FLAG LEGISLATION DISCUSSION DRAFT 11/3/2005, (2005), available at <http://judiciary.house.gov/media/pdfs/broadflag110305.pdf>.

As consumers chose one device over another, broadcasters would flock to the encryption protocol used by the devices owned by the most consumers and the market would tip to a standard.

In the second scenario, manufacturers and broadcasters would be able to license multiple encryption protocols. As long as devices could decrypt multiple standards and still be affordable, consumers would be able to enjoy all of the channels. This ideal situation would allow for complete copyright protection and for the peaceful coexistence of multiple encryption protocols because consumers' devices would not lock out the other protocols. In both scenarios, the market eventually would settle on a scheme ensuring copyright protection through one or more encryption protocols.

While encryption at the source would go against the United States' prior preference for freely accessible broadcasting¹⁰⁷ and would impose high costs on consumers (who would have to buy new devices that hopefully would match the network standard chosen by society), a market solution is feasible. However, the transaction costs involved in bargaining between content providers, broadcasters, device manufacturers, and encryption providers to settle on a standard would be prohibitive. Additionally, consumer dissatisfaction from switching costs as they are forced to purchase multiple devices to decrypt different protocols makes this purely private solution impractical.

2. *Government Action*

While the FCC could not force electronics manufacturers to recognize the broadcast flag, the FCC could potentially use its authority to intervene in the choice of encryption standards. Requiring all digital signals to be encrypted would likely be a regulation "incidental to transmission," and therefore within the FCC's authority under the D.C. Circuit's decision. However, the FCC would still lack the authority to force device manufacturers to include mechanisms to prevent redistribution or copying of the program once it was decrypted. Manufacturers could only be forced to include measures if such a requirement was bundled with a license to use the encryption standard. While strictly feasible, leveraging a license for an encryption protocol to regulate in areas already deemed outside the FCC's jurisdiction would likely run aground in the courts.

107. Drew Clark & Bara Vaida, *Digital Divide: Hollywood Versus Silicon Valley*, NAT'L J., Sept. 7, 2002, at 2532-41 ("The United States has a strong tradition of transmitting television unscrambled and available to everyone.").

III. RE-IMPLEMENTING THE BROADCAST FLAG

Based on the above analysis of standard-setting models and the costs of each technology, the broadcast flag regime appears easiest to implement. The perceived unpopularity of forcing consumers to buy new devices has prevented an encryption regime from gaining any traction in Washington, despite being technologically feasible. Watermarking has not been able to overcome perceptions that the technology is not mature enough for widespread use.¹⁰⁸ Unlike watermarking or encryption, the broadcast flag regime, with the support of the MPAA, has managed to gain significant support in Congress. On September 29, 2005, a bipartisan group of twenty Congressmen announced that they favored granting the FCC the authority it needs to impose the broadcast flag regime.¹⁰⁹ This Part evaluates Congress's plans for re-implementing the broadcast flag and offers suggestions for how the legislation could be improved to protect consumer interests.

A. The Broadcast Flag Authorization Act of 2005

Acting on demonstrated support for the broadcast flag, the House Judiciary Subcommittee on the Courts, the Internet, and Intellectual Property held hearings on the broadcast flag on November 3, 2005.¹¹⁰ The center of debate was a draft of the Broadcast Flag Authorization Act of 2005.¹¹¹ The bill would lay the legal foundation for implementing a broadcast flag regime. First, it would ratify the FCC's vacated broadcast flag order and

108. At this time, however, the record reflects that these [watermarking] technologies are insufficiently mature for implementation. . . . We encourage the further development of alternative mechanisms and technologies that could be used to protect digital broadcast content in the future. As discussed above, however, we conclude that a narrowly-tailored flag system in the near term will provide a sufficient level of redistribution control protection for DTV broadcasts at minimal cost to consumers and manufacturers.

In re Digital Broadcast Content Protection, 18 F.C.C.R. 23550, 23562 ¶ 26 (2003).

109. Declan McCullagh, *Politicians Want to Raise Broadcast Flag*, CNET NEWS.COM, Sept. 30, 2005, http://news.com.com/Politicians+want+to+raise+broadcast+flag/2100-1028_3-5886722.html.

110. *Content Protection in the Digital Age: The Broadcast Flag, High-Definition Radio, and the Analog Hole: Hearing Before the Subcomm. on Courts, the Internet, & Intellectual Prop. of the H. Comm. on the Judiciary*, 109th Cong. (2005).

111. STAFF OF SUBCOMM. ON COURTS, THE INTERNET, & INTELLECTUAL PROP. OF THE H. COMM. ON THE JUDICIARY, BROADCAST FLAG LEGISLATION DISCUSSION DRAFT 11/3/2005 (2005), available at <http://judiciary.house.gov/media/pdfs/broadflag110305.pdf>.

cause it to take effect on the date of the DTV transition.¹¹² Second, it would grant the FCC authority to make “such additional regulations and certifications as are necessary” to implement the broadcast flag order.¹¹³ Lastly, the FCC would also have the authority to “reconsider, amend, repeal, supplement, and otherwise modify” any such regulations and certifications.¹¹⁴ The draft bill provides no other guidance to the FCC. It does not require the FCC to force the broadcast flag to make exceptions for fair use. It does not lay down any guidelines for the certification of technologies as compliant with the broadcast flag. In short, the bill hands the FCC the power to regulate anything that transmits or receives a DTV signal.

Congress should not grant such broad and unguided authority to the FCC. Instead, Congress should direct the FCC’s development of the rules governing DTV in two areas. First, Congress should require the FCC to add fair use protections to the broadcast flag regime. Second, Congress should establish guidelines for the process of certifying devices as complying with the broadcast flag regulations, to prevent hostile interest groups from inappropriately interfering with certification, a result known as agency capture.

B. Fair Use Concerns

Because the broadcast flag can prevent a device from allowing a user to make any copies of a program, it can prevent the public from exercising its statutorily granted fair use rights.¹¹⁵ One example of fair use is taking limited portions of a copyrighted work for “criticism, comment, news re-

112. *Id.* § 101(i).

113. *Id.* § 101(x).

114. *Id.* § 101(ii). For a convincing argument that the FCC is the institution best-suited to implement the broadcast flag regime, see Molly Shaffer Van Houweling, *Communications’ Copyright Policy*, 4 J. ON TELECOMM. & HIGH TECH. L. (forthcoming 2006).

115. 17 U.S.C. § 107 (2000). The Supreme Court in *Campbell v. Acuff-Rose Music*, 510 U.S. 569, 577 (1994) noted:

Congress meant § 107 to restate the present judicial doctrine of fair use, not to change, narrow, or enlarge it in any way and intended that courts continue the common-law tradition of fair use adjudication. The fair use doctrine thus permits and requires courts to avoid rigid application of the copyright statute when, on occasion, it would stifle the very creativity which that law is designed to foster.

Id. (internal citations and quotations omitted). There are no bright-line rules for when a use is fair use and when it is copyright infringement; courts properly make decisions on a case-by-case basis. *Id.* However, to make fair use of a work, a consumer must have access to the work, and not have it completely locked away by a protection measure like the broadcast flag.

porting, teaching (including multiple copies for classroom use), scholarship, or research.”¹¹⁶ However, the FCC’s broadcast flag order did not require devices in compliance with the regulation to allow consumers to circumvent the flag for these limited purposes. Instead, the FCC expected that “technologies will come forward that will preserve consumers’ reasonable expectations, including the secure distribution of broadcast television excerpts or files over the Internet in a manner consistent with copyright law.”¹¹⁷

The FCC assumed that a sufficient number of users would demand the ability to make fair use of a program to make it profitable for a manufacturer to modify its devices to allow limited fair use copying. As with all devices implementing the broadcast flag, such a device would need FCC certification before going on the market.¹¹⁸ This certification process would impose a cost on the manufacturer by increasing time to market and imposing legal fees to navigate the process. If these costs reduced profitability of devices modified to allow for fair use, then manufacturers would not bother to allow for fair use rights. Ideally, this certification process would be quick and cheap,¹¹⁹ but if Congress does not provide a statutory process to meet these goals, the process could be corrupted and abused.

C. Protecting Certification from Agency Capture

Evidence suggests that the FCC’s self-created process for approving devices has already imposed costs too high for manufacturers to market devices with fair use capabilities. Prior to the D.C. Circuit striking the broadcast flag order, thirteen requests for certification were filed with the FCC.¹²⁰ Of these, four requests featured technology that would allow viewers to transmit programming from one device to another for limited personal use. The MPAA, joined by the NFL and Major League Baseball, immediately filed oppositions to the four proposals.¹²¹

116. 17 U.S.C. § 107 (2000).

117. *In re Digital Broadcast Content Protection*, 18 F.C.C.R. 23550, 23619 (Adelstein, Comm’r, dissenting in part).

118. *Id.* at 23575-76 ¶¶ 53-57.

119. Professor Van Houweling points out that the certification process confers an additional benefit by legitimating a feature as fair use and preventing content providers from chilling development through the threat or actual filing of copyright infringement lawsuits against manufacturers that include fair use features. Van Houweling, *supra* note 114, at 124-25.

120. CENTER FOR DEMOCRACY & TECHNOLOGY, LESSONS OF THE FCC BROADCAST FLAG PROCESS 4 (2005), available at <http://www.cdt.org/copyright/20050919flaglessons.pdf>.

121. *Id.* at 6-8.

Faced with the potential for an expensive and drawn-out legal battle before the FCC, three of the four manufacturers chose to eliminate the fair use features from their products to appease the objectors and get their devices to market.¹²² Only one manufacturer, TiVo, chose to keep its features in place and continue its fight before the FCC. From application¹²³ to the FCC's eventual certification of TiVo's limited fair use features,¹²⁴ the device idled almost six months before being allowed to go to market. Had TiVo caved like the other three manufacturers, consumers would not have been able to purchase a device that allowed them to make fair use of programming within their homes, despite demand for such a feature.

Arguably, the fact that TiVo prevailed in its proceeding indicates that the certification process does function. However, there is no guarantee that the certification process will continue to function under the Broadcast Flag Authorization Act of 2005. While the Act approves the process as it is, it also allows the FCC to make any changes it sees fit. Leaving this power in the FCC's hands makes the FCC a very appealing target for capture by content providers who wish to cut back on the public's fair use rights.

Capture occurs where a regulated industry curries favor with the regulating body, to the detriment of the public that the agency is supposed to protect.¹²⁵ Capture generally requires two conditions.¹²⁶ First, the regulated industry must bear concentrated costs, or reap concentrated benefits, from rulemaking. Second, the public that benefits from regulating the industry's behavior must enjoy only small benefits, or suffer only small costs, from changes to the agency's rules. When such conditions exist, the bearer of concentrated costs has an enormous incentive to buy influence while the public that enjoys very diffuse benefits is not paying attention. In the current situation, the public enjoys the diffuse benefits of being able to make fair use of copyrighted works on the next generation of digital devices. On the other hand, media companies endure a concentrated loss

122. Once the limited transmission features were removed from the three products, the MPAA immediately dropped its opposition. *Id.* at 9.

123. Application for Broadcast Flag Certification of TiVo Inc., Proceeding 04-63 (Feb. 27, 2004), available at http://gullfoss2.fcc.gov/prod/ecfs/retrieve.cgi?native_or_pdf=pdf&id_document=6516082665.

124. *In re* Digital Output Protection Technology and Recording Method Certifications, 19 F.C.C.R. 15876, 15879 ¶ 4 (2004).

125. See generally Sam Peltzman, *Toward a More General Theory of Regulation*, 19 J.L. & ECON. 211, 212-13 (1976); Richard B. Stewart, *The Reformation of American Administrative Law*, 88 HARV. L. REV. 1667, 1684-86 (1975).

126. The following discussion of the conditions necessary for capture generally derives from the taxonomy for legislative demand presented in WILLIAM N. ESKRIDGE ET AL., *CASES AND MATERIALS ON LEGISLATION* 54-60 (2001).

of revenue whenever a consumer substitutes fair use for another sale of programming.

A captured FCC would not need to change the rules for approving devices; it could just allow for longer opposition periods or lengthen the review process. Given that three of four manufacturers dropped out at the prospect of only a six-month review period, a longer review period could force device manufacturers to accede to content providers and drop any fair use features just to remain competitive in the marketplace. Accordingly, Congress should think twice about delegating the design of the certification process to the FCC. Instead, Congress should enshrine in the statute a fair and efficient certification procedure. This would both decrease the profitability of agency capture for interest groups and increase the cost of changing the procedure from the cost of getting the FCC to issue a new regulation to that of passing a new statute through Congress.

IV. CONCLUSION

The future of digital television remains uncertain. As the deadline for the transition is pushed back again,¹²⁷ Congress has the opportunity to protect television programming from the rampant infringement that has bedeviled the music industry. Market forces alone cannot implement solutions to this danger because the technologies involved do not produce incentives for voluntary adoption. As Congress proceeds with implementing a system for copyright protection, it should remain involved in the process and not delegate too much authority to the FCC. Instead, Congress should protect consumers' fair use expectations by designing a certification process that quickly moves technology to the market. The process should also prevent content providers from abusing the system to impose costs on manufacturers that would prevent consumers from being able to purchase technology that allows for fair use. With these protections in place, the FCC should be able to get the DTV transition back on track.

127. See *supra* note 12.

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