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## TABLE OF CONTENTS

FOREWORD: THE RISE OF INTERNET INTEREST GROUP POLITICS *by Aaron Burstein, Will Thomas DeVries & Peter S. Menell* ..... 1

### I. INTELLECTUAL PROPERTY

#### A. COPYRIGHT

##### 1. Notes

- IN RE AIMSTER & MGM, INC. v. GROKSTER, LTD.: PEER-TO-PEER AND THE SONY DOCTRINE *by Elizabeth Miles* ..... 21
- LEXMARK INTERNATIONAL, INC. v. STATIC CONTROL COMPONENTS, INC. & CHAMBERLAIN GROUP, INC. v. SKYLINK TECHNOLOGIES, INC.: THE DMCA AND DURABLE GOODS AFTERMARKETS *by Daniel C. Higgs* ..... 59
- ELDRED v. ASHCROFT: THE CONSTITUTIONALITY OF THE COPYRIGHT TERM EXTENSION ACT *by Michael Jones* ..... 85

##### 2. Additional Developments

- UNITED STATES v. ELCOM LTD ..... 107
- KELLY v. ARRIBA SOFT CORP. .... 108
- STATE SUPER-DMCA LAWS ..... 109

#### B. PATENT

##### 1. Notes

- FESTO X: THE COMPLETE BAR BY ANOTHER NAME? *by Marc D. Sharp* ..... 111
- MOBA v. DIAMOND AUTOMATION, INC.: QUESTIONING THE SEPARATE WRITTEN DESCRIPTION REQUIREMENT *by Stephen J. Burdick*.. 133
- TEXAS DIGITAL SYSTEMS v. TELEGENIX, INC.: TOWARD A MORE FORMALISTIC PATENT CLAIM CONSTRUCTION MODEL *by Ruoyu Roy Wang*..... 153
- MADEY v. DUKE UNIVERSITY: SHATTERING THE MYTH OF UNIVERSITIES' EXPERIMENTAL USE DEFENSE *by Michelle Cai*..... 175
- INTEGRA v. MERCK: LIMITING THE SCOPE OF THE § 271(E)(1) EXCEPTION TO PATENT INFRINGEMENT *by George Fox* ..... 193

##### 2. Additional Developments

- BAYER AG v. HOUSEY PHARMACEUTICALS, INC. .... 217
- ELI LILLY & CO. v. BOARD OF REGENTS OF THE UNIVERSITY OF WASHINGTON ..... 218
- OMEGA ENGINEERING, INC. v. RAYTEK CORP. .... 219
- SCHERING CORP. v. GENEVA PHARMACEUTICALS, INC. .... 220

C.	TRADEMARK	
1.	Notes	
•	MOSELEY V. V SECRET CATALOGUE, INC. <i>by Brian Paul Gearing</i> ....	221
•	DASTAR CORP. V. TWENTIETH CENTURY FOX FILM CORP. <i>by Richard Ronald</i> .....	243
2.	Additional Developments	
•	CABLE NEWS NETWORK LP, LLP V. KHOURI DLUHOS V. STRASBERG. ....	263
•	PROMOTEK INDUS., LTD. V. EQUITRAC CORP. HORPHAG RESEARCH, LTD. V. PELLEGRINI .....	264
•	TAUBMAN CO. V. WEBFEATS.....	266
•	TY INC. V. PERRYMAN. ....	267
D.	TRADE SECRET	
1.	Notes	
•	DVD COPY CONTROL ASSOCIATION V. BUNNER: FREEDOM OF SPEECH AND TRADE SECRETS <i>by Alex Eaton-Salners</i> .....	269
•	CADENCE V. AVANT!: THE UTSA AND CALIFORNIA TRADE SECRET LAW <i>by Jeff Danley</i> .....	289
II.	ANTITRUST	
A.	NOTES	
•	RAMBUS V. INFINEON: PATENT DISCLOSURES IN STANDARD-SETTING ORGANIZATIONS <i>by David Alban</i> .....	309
•	SURVEYING THE MICROSOFT ANTITRUST UNIVERSE <i>by Amanda Cohen</i> ...	333
•	IN RE CARDIZEM & VALLEY DRUG CO.: THE HATCH-WAXMAN ACT, ANTICOMPETITIVE ACTIONS, AND REGULATORY REFORM <i>by Larissa Burford</i> .....	365
•	INTERNET AND DOMAIN NAME GOVERNANCE: ANTITRUST LITIGATION AND ICANN <i>by Lily Blue</i> .....	387
III.	CYBERLAW	
A.	NOTES	
•	RIAA V. VERIZON: APPLYING THE SUBPOENA PROVISION OF THE DMCA <i>by Alice Kao</i> .....	405
•	INTEL CORP. V. HAMIDI: TRESPASS TO CHATTELS AND A DOCTRINE OF CYBER-NUISANCE <i>by Steven Kam</i> .....	427
•	IN RE PHARMATRAK & THEOFEL V. FAREY-JONES : RECENT APPLICATIONS OF THE ELECTRONIC COMMUNICATIONS PRIVACY ACT <i>by Raechel V. Groom</i> .....	455
•	BATZEL V. SMITH & BARRETT V. ROSENTHAL: DEFAMATION LIABILITY FOR THIRD-PARTY CONTENT ON THE INTERNET <i>by Jae Hong Lee</i> .....	469
•	TICKETMASTER CORP. V. TICKETS.COM, INC.: PRESERVING MINIMUM REQUIREMENTS OF CONTRACT ON THE INTERNET <i>by Tarra Zynda</i> .....	495
•	A SURVEY OF PERSONAL JURISDICTION BASED ON INTERNET ACTIVITY: A RETURN TO TRADITION <i>by TiTi Nguyen</i> .....	519
B.	ADDITIONAL DEVELOPMENTS	
•	ACCESS NOW, INC. V. SOUTHWEST AIRLINES, CO. ....	543
•	ALLEN V. COMMISSIONER OF LABOR.....	544
•	AMERICA ONLINE, INC. V. NAM TAI ELECTRONICS, INC.....	545

<ul style="list-style-type: none"> <li>• ARONSON V. BRIGHT-TEETH NOW, LLC</li> <li>MISSOURI V. AMERICAN BLAST FAX, INC.</li> <li>CALIFORNIA ANTI-SPAM LEGISLATION .....</li> <li>• KREMEN V. COHEN .....</li> <li>• EF CULTURAL TRAVEL BV V. ZEFER CORP.....</li> <li>• PAVLOVICH V. SUPERIOR COURT.....</li> <li>• SEARCH KING, INC. V. GOOGLE TECHNOLOGY, INC.....</li> <li>• USA PATRIOT ACT UPDATE .....</li> </ul>	<p>546</p> <p>548</p> <p>549</p> <p>550</p> <p>551</p> <p>552</p>
IV. CONSTITUTIONAL LAW	
A. NOTES	
<ul style="list-style-type: none"> <li>• UNITED STATES V. AMERICAN LIBRARY ASS'N: THE CHILDREN'S INTERNET PROTECTION ACT, LIBRARY FILTERING, AND INSTITUTIONAL ROLES <i>by Felix Wu</i>.....</li> <li>• INTERACTIVE DIGITAL SOFTWARE ASS'N V. ST. LOUIS COUNTY: THE FIRST AMENDMENT AND MINORS' ACCESS TO VIOLENT VIDEO GAMES <i>by Nathan Phillips</i>.....</li> </ul>	<p>555</p> <p>585</p>
V. FOREIGN & INTERNATIONAL LAW	
A. RECENT DEVELOPMENTS	
<ul style="list-style-type: none"> <li>• DOW JONES &amp; CO. V. GUTNICK .....</li> <li>• FINLAND COPYRIGHT REFORM LEGISLATION .....</li> <li>• U.S. RATIFIES AND IMPLEMENTS THE MADRID PROTOCOL.....</li> </ul>	<p>613</p> <p>614</p> <p>615</p>
VI. CUMULATIVE INDEX.....	617

# FOREWORD: THE RISE OF INTERNET INTEREST GROUP POLITICS

By Aaron Burstein,<sup>†</sup> Will Thomas DeVries<sup>‡</sup> & Peter S. Menell<sup>‡‡</sup>

Fourteen years have passed since a forerunner of the World Wide Web's core protocol was first implemented.<sup>1</sup> Throughout this time, courts, policymakers, and commentators have struggled to decide whether and how the Internet—of which the web is the best-known component—should be governed and regulated. The “adolescent” age of the Internet<sup>2</sup> invites one to take a somewhat different tack. The record of Internet regulation is rapidly expanding, and introducing this year's *Annual Review of Law & Technology* presents an opportunity to discuss how Internet regulation has actually evolved. In particular, the cases that provide the subject matter for many of the Notes in this volume highlight some features of Internet regulation that are mature and others that are still in their infancy.

A common—and striking—feature of many of these Notes is the extent to which established law and institutions are being called upon to resolve disputes based upon Internet activities. That is, there is little evidence of *ab initio* Internet governance, free from the influences and con-

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1. World Wide Web Consortium, *A Little History of the World Wide Web*, at <http://www.w3.org/History.html> (last visited Mar. 12, 2004) [hereinafter *Web History*] (reviewing events leading to the writing of a “global hypertext protocol” and a “[l]ine mode browser”); see also T. Berners-Lee et al., *Hypertext Transfer Protocol—HTTP/1.0* § 1.1 (May 1996), at <http://www.ietf.org/rfc/rfc1945.txt> (“HTTP has been in use by the World-Wide Web global information initiative since 1990.”). For a brief but general overview of the Internet's history, see generally Barry M. Leiner et al., *A Brief History of the Internet, Part I* (May/June 1997), at <http://www.isoc.org/oti/articles/0597/leiner.html>.

2. See *Web History*, *supra* note 1 (noting that, in January 1994, several companies devised the “‘Internet in a box’ product to bring the Web into homes”). Note that, while the web is helped to popularized the Internet, the web is, technically speaking, a component of the Internet. Throughout this Foreword, we refer to the Internet in the broad sense that is described *infra*.

trol of traditional governments.<sup>3</sup> The current ascendancy of traditional law and institutions in regulating Internet-based activities does not imply, however, that the Internet lacks features that deserve special legal and policy consideration, or that traditional doctrines provide the best answers for addressing Internet-based disputes. We do not wish to oversell the importance of the Internet in law and technology; many of the Notes in the 2004 *Annual Review* discuss important developments in patent, trademark, trade secret, and First Amendment law that are independent of the effects of the Internet. But many of the Notes in the *Annual Review* tell a story of how the Internet is straining the law and the institutions and agencies that administer it. Moreover, these Notes indicate that the Internet can rapidly change the social and political conditions that underlie the purposes of many laws, as well as the definitions of groups that benefit from them and bear their costs. Recent developments in copyright law provide particularly vivid illustrations of these pressures, though the Notes discussing privacy, antitrust, common law, and constitutional law all highlight the influence of new interests. Other recent developments, from patent law to trademark to telecommunications, although beyond the scope of this *Foreword*, would likely similarly reveal the participation of new actors and interests.<sup>4</sup> We do not suggest that existing doctrines have become or

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3. One commentator has argued that this situation represents an inversion of some predictions (see *infra* notes 15-16 and accompanying text) of the path that law on the Internet would take. See generally Michael Geist, *Cyberlaw 2.0*, B.C. L. REV. 323 (2003). Geist associates three principles with "Cyberlaw 1.0": (1) that a "borderless" Internet would pose "virtually insurmountable" hurdles to enforcing local laws on the Internet, *id.* at 325-27; (2) that the primary regulator of the Internet would be computer hardware and software ("code"), *id.* at 327-28; and (3) that governments would leave policy decisions about the Internet to the private sector, *id.* at 328-32.

Geist argues that each of these principles is being inverted to form "Cyberlaw 2.0," in which "the borderless Internet becomes bordered, bordered laws become borderless, the regulation of code becomes regulated code, and self-regulation becomes industry consultation, as government shifts toward a more traditional regulatory approach." *Id.* at 332.

4. The Federal Trade Commission has recently proposed wide-ranging reforms of the patent system that may reveal such pressures. FTC, *To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy* (Oct. 2003), available at <http://www.ftc.gov/os/2003/10/innovationrpt.pdf>. The World Wide Web Consortium (W3C), an international organization of industry, academe, users' organizations, and public policy experts responsible for setting the core technical standards for the web, recently requested reexamination of a patent which covers basic Internet functionality. Press Release, W3C, World Wide Web Consortium Presents U.S. Patent Office with Evidence Invalidating Eolas Patent (Oct. 29, 2003), at <http://www.w3.org/2003/10/28-906-briefing>.

should become inapplicable. Rather, we suggest that approaching technology law developments with an explicit focus on the Internet's ability to create and transform interest groups may help to draw out common features of the response of disparate doctrinal areas to the Internet.

In Part I, we provide a brief overview of the legally salient features of the Internet and the range of scholarly views as to how it should be governed. Part II surveys public choice theory and explains its utility as a descriptive framework for law relating to the Internet. Finally, in Part III, we focus on developments in copyright law as covered in the 2004 *Annual Review* to reveal rapidly changing interests at work.

## I. BACKGROUND

### A. The Technology of the Internet

Although the Internet is still adolescent and capable of further evolution, it is stable enough to support an examination of its most salient features. The Internet itself is as difficult to characterize as the content it contains. In a narrow sense, it is simply a set of tools: the servers and other hardware that compose the physical medium of the World Wide Web, e-mail, and other networked environments.<sup>5</sup> It has aspects of a forum or gathering place, of a market or commercial hub, of a library or archive, and of a well-amplified megaphone. Although its many meanings are sometimes invoked haphazardly, we use the term "Internet" largely as shorthand to describe the world of interconnected digital networks and the cluster of technologies that constitute and regulate it.

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In the trademark area, the Internet Advertising Bureau ("IAB"), an organization supporting the development of advertising models on the Internet, as well as several search engines and new companies delivering pop-up advertisements, have become engaged in litigation over trademark issues. See Bob Tedeschi, *Legal Battles Pit Online Advertising Companies That Create Pop-up Ads Against the Owners of Web Sites*, N.Y. TIMES, July 7, 2003, at C6; Leslie Walker, *Publishers Sue Gator Over Web Ad Tactics*, WASH. POST, June 27, 2002, at E06.

The ability to carry voice over the Internet Protocol (VoIP) has attracted the interest of the telecommunications field and will undoubtedly reshape the telephony industry. See Voice-Over-Internet Protocol, Consumer & Governmental Affairs Bureau, Federal Communications Commission, at <http://www.fcc.gov/voip/> (last updated Mar. 12, 2004) (discussing this technology and providing links to proposed rules and statements of the Commissioners).

5. See A. Michael Froomkin, *Flood Control on the Information Ocean: Living with Anonymity, Digital Cash, and Distributed Databases*, 15 J.L. & COM. 395, 398 n.1 (1996).

Of the many Internet-related technological features driving the development of new interests and pressures, and thus affecting legal institutions and the substance of law, a few are particularly salient. First, several features of digital technology are worth noting. The vast memory storage, geometrically increasing processor speed, and compression technologies now available make it possible to harness information in a way that seemed inconceivable even a decade ago.<sup>6</sup> Digital computing also allows flawless, cheap, and instant copying and transmission.<sup>7</sup> Anyone with a laptop computer and a home broadband connection can easily become a large-volume publisher.

Second, the interconnected nature of network computing that is so central to the Internet has led to some remarkable changes in the social environment. In addition to making the distribution of content almost as cheap and instantaneous as copying it,<sup>8</sup> the vast “population” of the Internet, and the remarkable search tools now available, bring together and coalesce its denizens in a way not possible in a physical forum. Moreover, as a communications medium, the Internet becomes more valuable as greater numbers of people connect to it—a self-reinforcing growth pattern, or “network externality.”<sup>9</sup> Connections among Internet users have also created value in interoperability, which in turn encourages uniformity in platforms, applications, and protocols.<sup>10</sup>

Third, the interactive technologies of the Internet have created a strange paradox; activity on the Internet is simultaneously more anonymous and more monitored than on any other communicative medium. The anonymity of the Internet is part of its popular mythology, and it can allow interaction and communication free of any need to truthfully identify oneself.<sup>11</sup> But in another sense, anonymity is easily shattered by technology—

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6. See Peter S. Menell, *Envisioning Copyright Law's Digital Future*, 46 N.Y.L. SCH. L. REV. 63, 110-11 (2003).

7. See *id.* at 114.

8. See *id.* at 116.

9. See Mark A. Lemley, *Antitrust and the Internet Standardization Problem*, 28 CONN. L. REV. 1041, 1045-47 (stating that “the Internet is a rare example of the ‘strong’ form of network externality”); see also Mark A. Lemley & David McGowan, *Legal Implications of Network Economic Effects*, 86 CALIF. L. REV. 479, 483 (“[A] network effect exists where purchasers find a good more valuable as additional purchasers buy the same good.”); Michael L. Katz & Carl Shapiro, *Network Externalities, Competition, and Compatibility*, 75 AM. ECON. REV. 424, 424 (1985) (defining various kinds of network externalities).

10. See Lemley, *supra* note 9, at 1047-50 (discussing network externalities in computer operating systems, programming languages, and web browsers).

11. See Froomkin, *supra* note 5, at 414.

the cookies, web bugs, and other technologies that constantly monitor and record individual users' activities<sup>12</sup>—and by firms that hold (and often sell or release) the information necessary to connect a network address to a name.<sup>13</sup>

Finally, the Internet's "end-to-end" method of sending content makes the networks themselves agnostic to the content of the "bits" they carry.<sup>14</sup> The wires and hubs of the Internet are just as happy delivering an e-mail from Aunt Bessie as a crippling computer virus. This feature protects the reliability of Internet transmissions, but makes distinctions based on content difficult to enforce at the transmission level. All of these features have profound implications for the application of traditional legal institutions and substantive law to the Internet.

## **B. The Spectrum of Scholarly Perspectives on Internet Governance**

Early in the Internet's history, legal scholars began to take notice of these technological features. Theories concerning how to address the legal implications of the Internet varied widely, but it is helpful for our purposes to note two polar perspectives. One response has been "cyberlibertarianism."<sup>15</sup> Cyberlibertarianism's proponents described the Internet as a separate "place," and argued that the Internet should be left entirely to self-regulation.<sup>16</sup> The other end of the spectrum might fairly be called the "clear rules" view.<sup>17</sup> Its adherents claim that the Internet presents few, if

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12. See Will Thomas DeVries, Note, *Protecting Privacy in the Digital Age*, 18 BERKELEY TECH. L.J. 283, 291-92 (2003).

13. See *In re DoubleClick, Inc. Privacy Litig.*, 154 F. Supp. 2d 497 (S.D.N.Y. 2001) (dismissing privacy claims against Internet advertising company that released the personal information of web surfers).

14. Mark A. Lemley & Lawrence Lessig, *The End of End-to-End*, 48 U.C.L.A. L. REV. 925, 930-31 (2001).

15. See, e.g., David R. Johnson & David Post, *Law and Borders—The Rise of Law on the Internet*, 48 STAN. L. REV. 1367 (1996). The earliest use of the term "cyberlibertarian" that we have been able to find occurred in 1997. See Margaret Chon, *Introduction to Symposium on Internet Law*, 20 SEATTLE UNIV. L. REV. 613, 614 (1997).

16. See Johnson & Post, *supra* note 15.

17. See, e.g., Frank H. Easterbrook, *Cyberspace and the Law of the Horse*, 1996 U. CHI. LEGAL F. 207 (1996) [hereinafter Easterbrook, *Law of the Horse*]; Jack L. Goldsmith, *Against Cyberanarchy*, 65 U. CHI. L. REV. 1199, 1201 (1998) (arguing that regulation of cyberspace is feasible and legitimate from the perspective of jurisdiction and choice of law"); Joseph H. Sommer, *Against Cyberlaw*, 15 BERKELEY TECH. L.J. 1145 (2000) (arguing generally: "Let us forget about the 'law of the Internet,' or 'cyberlaw.' They cannot be useful and may cause harm."). Judge Easterbrook argued, however, that some existing doctrines, such as fair use, should be expressed in clearer

any, new legal questions, and could be handled within existing institutions and viewpoints. It is best, they argued, to apply existing legal rules to the Internet, because creating Internet-specific doctrines was unlikely to succeed and, according to one of these commentators, “may cause harm.”<sup>18</sup>

Both groups of theorists have strong normative views about how the Internet should be regulated, and are part of a continuing debate. We do not attempt to settle that debate here, but simply note that a significant amount of regulation is occurring through the adaptation of pre-Internet laws and institutions to the Internet.<sup>19</sup> Nevertheless, the development of Internet regulation appears far from its end. This year’s Notes suggest that policy discussions about the best path for Internet regulation might benefit from an understanding of these developments and the actors and interests shaping them. We suggest below that public choice theory provides a useful framework for this description.

## II. INTEREST GROUP THEORY AND THE INTERNET

All agree that the Internet facilitates the work of groups that provide information on specific topic.<sup>20</sup> This availability of information, combined with Internet users’ ability to “perfectly filter” disagreeable information and viewpoints, has led some to worry that the Internet will lead to “polarization, cascades of false information, and a concomitant rise in extremism.”<sup>21</sup> Thus, the suggestion is that the Internet will cause fractures in public discourse about matters of political concern.<sup>22</sup> We advance an orthogonal argument: that the Internet is both creating and facilitating interest

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rules, irrespective of their application to Internet activities. See Easterbrook, *Law of the Horse*, *supra*, at 208.

18. Sommer, *supra* note 17, at 1227. A third group of Internet theorists combines elements of cyberliberarianism and the “clear rules” school. On the one hand, they recognize that the Internet will need more than self-regulation. On the other hand, they warn that mechanical application of existing law through existing legal institutions would preclude the development of a regulatory regime that protects the openness and neutrality of the Internet’s technological structure. See Dan Hunter, *Cyberspace as Place and the Tragedy of the Digital Anticommons*, 91 CALIF. L. REV. 439, 507-14 (2003); Lemley & Lessig, *supra* note 14.

19. See Geist, *supra* note 3.

20. See *Reno v. ACLU*, 521 U.S. 844, 851 (1997) (“There are thousands of such [news]groups, each serving to foster an exchange of information or opinion on a particular topic running the gamut from, say, the music of Wagner to Balkan politics to AIDS prevention to the Chicago Bulls.”).

21. See Dan Hunter, *Philippic.com*, 90 CALIF. L. REV. 611, 611 (2002) (book review) (arguing that claims of perfect filtering and its potential consequences are overblown).

22. See *id.*

groups that are pursuing their interests in traditional regulatory forums. To understand why it is significant to find the Internet acting in this way, a better understanding of the operation of interest groups is helpful.

Some of this understanding is provided by public choice theory. This theory has been described as “the application of the economist’s methods to the political scientist’s subject.”<sup>23</sup> That is, public choice theory examines government by working from the fundamental postulate the individuals rationally seek to advance their own self-interests.<sup>24</sup> The “interest group branch” of public choice theory uses this axiom of self-interest to explain and predict the behavior of political actors.<sup>25</sup> An interest group is “a number of individuals with a common interest,”<sup>26</sup> and interest group theory seeks to explain why groups form around some interests but not others and to account for the variation in the size of interest groups.<sup>27</sup> We focus primarily on the descriptive part of this theory—identifying political actors and describing how they act under the constraints of institutional rules.<sup>28</sup> Of particular concern to interest group theory is the problem of identifying a group whose individuals share a common interest in obtaining some collective good, such as legislation or favorable legal precedent.<sup>29</sup>

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23. DANIEL A. FARBER & PHILIP P. FRICKEY, *LAW AND PUBLIC CHOICE: A CRITICAL INTRODUCTION* 1 (1991).

24. Robert D. Tollison, *Public Choice and Legislation*, 74 VA. L. REV. 339, 339 (1988) (asserting that public choice can be used to emphasize “testable propositions at the expense of normative evaluations of democratic decisionmaking processes” and to separate the question of “whether a law is ‘good’ or bad” from “such questions as why the law was passed, how the law was passed, or why it has not been repealed”); *see also* FARBER & FRICKEY, *supra* note 23, at 44 (“In public choice, government is merely a mechanism for combining private preferences into a social decision.”).

25. *See* Jerry L. Mashaw, *The Economics of Politics and the Understanding of Public Law*, 65 CHI.-KENT L. REV. 123, 128 (1989) [hereinafter Mashaw, *Economics of Politics*] (distinguishing “interest group theory” from voting theory, which “is primarily concerned with the structure of voting rules and with the effect of voting structures on the outcomes of collective decisionmaking”).

26. MANCUR OLSON, *THE LOGIC OF COLLECTIVE ACTION: PUBLIC GOODS AND THE THEORY OF GROUPS* 8 (1965).

27. *Id.* at 1-2.

28. *See id.* at 126.

29. Olson uses the terms “collective good” and “public good” interchangeably. *See id.* at 14 (noting that “the common or collective benefits provided by governments are usually called ‘public goods’ by economists”). In brief, the theory predicts that “the larger the group, the farther it will fall short of providing an optimal amount of a collective good.” *Id.* at 35.

Olson cites labor unions as one example of a “large” group that relies upon coercion to finance its lobbying activities. *See id.* at 135-37 (explaining that “[i]t was only

This descriptive framework has generated a wide variety of normative applications, which range from a fully economic theory of legislation,<sup>30</sup> to theories of statutory interpretation,<sup>31</sup> to a rejection of public choice theory on the grounds that it cloaks descriptive inaccuracy in scientific certainty.<sup>32</sup> We view public choice theory as a “piece of the elephant,”<sup>33</sup> insufficient standing alone but a useful part of a bigger picture.<sup>34</sup> We do not attempt to present the whole picture here. Instead, we use some of the cases discussed in the *Annual Review* to draw attention to how the rapidly changing composition of interest groups is a central difficulty in applying several areas of substantive law to Internet-related cases.<sup>35</sup> Thus, this

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the labor unions started to deal with the employers, who alone had the power to *force* the workers to join the union, that they began to prosper”). “Business lobbies,” by contrast, are organized by the “series of (generally oligopolistic) ‘industries,’ each of which contains only a fairly small number of firms.” *Id.* at 143. Therefore, according to Olson, “these industries will normally be small enough to organize voluntarily to provide themselves with an active lobby.” *Id.*

30. See, e.g., Frank Easterbrook, *Foreword: The Court and the Economic System*, 98 HARV. L. REV. 4, (1984).

31. See William N. Eskridge, Jr., *Dynamic Statutory Interpretation*, 135 U. PA. L. REV. 1479, 1482-98 (1987) (proposing an “evolutive perspective” on statutory interpretation that would allow judges to consider whether “societal conditions [have] change[d] in ways not anticipated by Congress and, especially, when the legal and constitutional context of the statute [has] decisively shift[ed]” when interpreting a statute). Eskridge proposes three general justifications for this model: (1) Some scholarship suggests that the Madisonian view of the Constitution is not one that requires “rigid separation of powers or pure majoritarianism”; (2) “Judicial lawmaking from statutes has a constructive role to play” in the Constitution’s system of “deliberative,” public-regarding government; (3) A wide range of scholarly disciplines denies the possibility of static interpretation—that is, the “objective and mechanical process of discovering ‘historical’ meaning.” *Id.* at 1498.

32. See, e.g., Abner Mikva, *Foreword to Symposium on the Theory of Public Choice*, 74 VA. L. REV. 167, 169-70 (1988).

33. See *id.*

34. The list of caveats might include the concession that economic self-interest is not the only kind of self-interest that one must consider. See JERRY L. MASHAW, GREED, CHAOS, AND GOVERNANCE 45 (1997).

35. See Mashaw, *Economics of Politics*, *supra* note 25, at 123. (“[E]conomics provides substantive criteria for the application of law, describes its underlying rationale or defines parameters for the evaluation of the law’s success or failure.”).

Several studies reveal interest groups at work in several areas of technology-related law. See, e.g., Jessica Litman, *Copyright Legislation and Technological Change*, 68 OR. L. REV. 275 (1989) (providing a detailed history of the role of interest groups in shaping the Copyright Acts of 1909 and 1976); Robert P. Merges, *One Hundred Years of Solicitude: Intellectual Property Law, 1900-2000*, 88 CALIF. L. REV. 2187, 2234-40 & nn.217-34 (2000) (discussing the Copyright Term Extension Act of 1998 as a “classic instance of almost pure rent-seeking legislation,” and relating this law to the activities of

*Foreword* provides an opportunity to relate these new actors to the laws that regulate them, or to the institutions that administer those laws. Finally, while we accept that many institutions and legal doctrines have been applied to Internet-related actions, we do not believe that a final equilibrium has been reached. Instead, in this *Foreword*, we hope to demonstrate, most specifically through the lens of copyright law, that this would be a bold prediction, one that we do not make ourselves.<sup>36</sup>

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lobbying groups affiliated with the entertainment industries); David Nimmer, *Appreciating Legislative History: The Sweet and Sour Spots of the DMCA's Commentary*, 23 CARDOZO L. REV. 909, 916-18 (2002) (describing the anti-circumvention provisions and the Internet service provider (ISP) immunity provisions of the DMCA as a balance between the “divergent interests” of copyright holders and ISPs, which would present a “deep pocket” for copyright infringement claims).

In addition, some commentators have used theories of political and social conditions to suggest doctrinal reform. See, e.g., Joseph P. Liu, *Copyright and Time: A Proposal*, 101 MICH. L. REV. 409-10 (2002) (“[C]ourts should adjust the scope of copyright protection to account for the passage of time by expressly considering time as a factor in fair use analysis. More specifically, . . . the older a copyrighted work is, the greater the scope of fair use should be . . . .”) (citation omitted). One theoretical justification given for this proposal is that “consumers do not band together in sufficient numbers to oppose efforts by the copyright industries to expand protection.” *Id.* at 448; see also Neil W. Netanel, *Copyright and a Democratic Civil Society*, 106 YALE L.J. 283, 286-87 (1996) (arguing that copyright law requires a balance between “neoclassicist” expansion and “minimalism” in order to preserve copyright’s purpose of facilitating the dissemination of ideas in a democratic society); Kurt M. Saunders, *Patent Nonuse and the Role of Public Interest as a Deterrent to Technology Suppression*, 15 HARV. J.L. TECH. 389, 427-30 (2002) (explaining that a Rawlsian theory of “public reason” suggests that patent holders should be required to justify to society their basis for suppressing patented information).

36. Cf. Jack M. Balkin, *Digital Speech and Democratic Culture: A Theory of Freedom of Expression for the Information Society*, 80 N.Y.U. L. REV. (forthcoming 2004), at [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=470842](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=470842). Professor Balkin notes that:

If we assume that a technological development is important to law only if it creates something utterly new, and we can find analogues in the past—as we always can—we are likely to conclude that because the development is not new, it changes nothing important. That is the wrong way to think about technological change and public policy, and in particular, it is the wrong way to think about the Internet and digital technologies.

*Id.* (man. at 1-2). *Contra* Easterbrook, *Law of the Horse*, *supra* note 17; Sommer, *supra* note 17.

### III. THE EMERGENCE OF INTEREST GROUPS IN INTERNET REGULATION

Recent discussions of the Internet and copyright have focused largely on the unauthorized copying and distribution of creative works over the Internet, and the entertainment industries' attempts to curb this infringement. But the entertainment industries, as well as other groups traditionally interested in copyright—broadcasters, cable television providers, and consumer electronics manufacturers, for example—are increasingly interacting with new groups whose interests in copyright and whose abilities to organize are tied to the Internet. Throughout the growth of the Internet's popularity, commentators have debated whether digital technology alters the balance of interests that copyright serves.<sup>37</sup> One of us recently described in detail the emerging economic and social forces reshaping the copyright domain.<sup>38</sup> In addition to the traditional copyright players (the content and technology industries), the copyright law and policy field has attracted and inspired a wide range of new players focused on innovation, civil liberties, consumer protection, and artists' rights. The past year has furnished cases that illustrate not only that the Internet has changed the distribution of costs and benefits of copyright rules to formerly diffuse interest groups, but also that those interest groups are willing to invest in changing the law.

#### A. *Eldred v. Ashcroft* and the Copyright Term Extension Act

The most obvious example of the Internet spurring the involvement of new groups and new interests in traditional areas of law arose from the Congress's recent tinkering with the duration of copyrights. In 1998, Congress passed the Copyright Term Extension Act ("CTEA"), which ex-

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37. See, e.g., Netanel, *supra* note 35, at 286-87, 308-11, 336-39 (summarizing tension between the "neoclassicist" view that "far from simply inducing the creation and dissemination of new expression, copyright serves as a vehicle for directing investment in existing works," and the "minimalist" view that digital technology so dramatically changes the balance of social costs and benefits of copyright that it should be confined to the duration and scope required to induce creation of specific categories of works). For historical perspective, see Jane C. Ginsburg, *Copyright and Control over New Technologies of Dissemination*, 101 COLUM. L. REV. 1613, 1618 (2001) (arguing that the DMCA's anti-circumvention provisions "implements lessons drawn from prior resolutions of tensions between copyright and new technologies, and is consistent with the earlier pattern" of allowing copyright holders to control technologies that would otherwise deprive them of access to new markets).

38. See Menell, *supra* note 6, at 162-90.

tended by twenty years U.S. copyright protection for creative works.<sup>39</sup> Term extension is nothing new—it has occurred eleven times in the last forty years<sup>40</sup>—but this recent law, a result of heavy lobbying by major copyright owners,<sup>41</sup> happened to coincide with the rise of the Internet.

A justification for the CTEA—that allowing copyrights on commercially valuable works to expire would remove most incentives to keep these works available—is weakened when one considers that the Internet allows existing works to be published with little very little investment. That is, the Internet has lowered the costs of publishing public domain works to such a degree that people have become willing to offer them for free.<sup>42</sup> Representatives of this group were largely absent from discussions of the CTEA,<sup>43</sup> but in the year following the CTEA's enactment, a group with an interest in publishing public-domain creative works challenged the law. Led by Eric Eldred, a computer administrator who publishes public domain works online, a group of plaintiffs that included commercial

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39. Sonny Bono Copyright Term Extension Act of 1998, Pub. L. No. 105-298, 112 Stat. 2829 (codified at 17 U.S.C. §§ 108, 203, 301-304).

40. Brief for the Respondent at \*9, *Eldred v. Ashcroft*, 537 U.S. 186 (2003) (No. 01-618), 2002 WL 1836720.

41. See William M. Landes & Richard A. Posner, *Indefinitely Renewable Copyright*, 70 U. CHI. L. REV. 471, 483 (noting “Disney’s successful efforts to lobby for the Sonny Bono Act”); see also Christina N. Gifford, *The Sonny Bono Copyright Term Extension Act*, 30 U. MEM. L. REV. 363, 385-86 (2000).

42. “The public domain” is an expansive concept that includes facts and ideas as well as works whose copyright has expired. For a “mapping” of the public domain, see Pamela Samuelson, *Mapping the Public Domain: Threats and Opportunities*, 66 LAW & CONTEMP. PROBS. 147, 148. (“The public domain has been, for the most part, an uncharted terrain. Sometimes it seems an undifferentiated blob of unnamed size and dimensions.”). In *Graham v. John Deere Co.*, the Supreme Court included in the public domain notions of patentability. See 383 U.S. 1, 5 (1967) (“Congress may not authorize the issuance of patents whose effects are to remove existent knowledge from the public domain, or to restrict free access to materials already available.”). For a discussion of the public domain in relation to excludability under copyright, trademark, and contract law, see Samuelson, *supra*, at 148-69.

We restrict ourselves to a discussion of the entry of copyrighted works into the public domain.

43. See Edward C. Walterscheid, *Defining the Patent and Copyright Term: Term Limits and the Intellectual Property Clause*, 7 INTELL. PROP. L. 315, 387-88 (2000) (“[T]he industries controlling [highly valuable] copyrights will continue to obtain major royalties for the use of the works covered by them for twenty years longer than they had any reasonable basis to expect, other than their lobbying skills.”).

presses and nonprofit performers and archivists<sup>44</sup> filed a lawsuit to challenge the constitutionality of the CTEA.<sup>45</sup>

The controversy around the *Eldred v. Ashcroft* case grew proportionally with the Internet and its constituencies. As the Note on *Eldred* discusses, by the time the Court heard arguments in October 2002, a public domain interest group had formed. Though Eldred and his supporters—archivists, librarians, computer scientists, and Internet enthusiasts everywhere—lost the Court,<sup>46</sup> they may have won the public. Based on the rising popularity of causes such as Eldred's,<sup>47</sup> and interest in Congress to sharpen the blunt instrument of blanket retroactive and prospective copyright term extensions,<sup>48</sup> it seems unlikely that a future Congress contemplating another copyright term extension will be able to ignore that interest groups have formed around the cause of exploiting works that have fallen out of copyright protection. Nevertheless, as Notes in the *Annual Review* discuss, other avenues for protecting uncopyrightable information may be open. One way is through the use of trademark law, though the Supreme Court in *Dastar* held that the doctrine of reverse passing off does not prohibit a party from distributing works whose copyrights have expired.<sup>49</sup> A second and potentially more expansive way of protecting information that a party finds valuable is through the use of contracts. As a Note on *Ticketmaster v. Tickets.com* discusses, the rules for enforcing contracts that restrict gathering and reusing information offered on the Internet remain in flux.

## B. Anti-Circumvention and the Digital Millennium Copyright Act

In response to the spectre of digital copying and distribution, many copyright owners have resorted to technological protection mechanisms to prevent copying. Because many of these mechanisms—such as encryption

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44. See Brief for Petitioners at \*3-\*7, *Eldred v. Ashcroft*, 537 U.S. 186 (2003) (No. 01-618), 2002 WL 1041928.

45. *Eldred v. Reno*, 74 F. Supp. 2d 1, 3 (D.D.C. 1999) (alleging that the CTEA exceeded Congress's authority under the Copyright Clause, U.S. CONST. art. I, § 8, cl. 8).

46. *Eldred v. Ashcroft*, 537 U.S. 186 (2003) (upholding the CTEA).

47. See Supporters, The Eric Eldred Act, at [http://eldred.cc/ea\\_supporters.html](http://eldred.cc/ea_supporters.html) (last visited Mar. 10, 2004).

48. See, e.g., The Public Domain Enhancement Act, H.R. 2601, 108th Cong. (2003) (requiring that copyright holders renew registrations for their works after 50 years in order to maintain copyright protection). Cf. Landes & Posner, *supra* note 41, at 473-75 (arguing that requiring copyright owners to renew their copyrights, but allowing them to do so indefinitely, "need not starve the public domain").

49. *Dastar Corp. v. Twentieth Century Fox Film Corp.*, 123 S. Ct. 2041 (2003).

and watermarking<sup>50</sup>—may be defeated by enterprising hackers, the content industries sought laws prohibiting the “circumvention” of digital rights management (“DRM”) technologies.<sup>51</sup> This pressure resulted in the Digital Millennium Copyright Act of 1998 (DMCA),<sup>52</sup> which accommodated the competing interests of the content industries and a few other well-organized groups, such as the information technology and consumer electronics industries.<sup>53</sup> The DMCA, among many other changes to copyright and commercial law, created civil and criminal penalties for circumventing DRM technologies.<sup>54</sup>

As with the CTEA and the *Eldred* case, the now-evident interest of groups in the Internet-regulation aspects of the DMCA had not fully formed in 1998. That has changed. Recent litigation over and regulation of the DMCA has involved actors who represent groups with a new interest in copyright law. The Note on *Lexmark International, Inc. v. Static Control Components, Inc.*<sup>55</sup> and *Chamberlain Group, Inc. v. Skylink Technologies, Inc.*,<sup>56</sup> discusses the battle over the permissibility of reverse-engineering under the DMCA.<sup>57</sup> Thus, business groups whose members depend upon creating products—such as printer cartridges and garage door openers—that interoperate with those of their competitors are interested in establishing limits to the scope of the anti-circumvention provisions. Computer enthusiasts and innovators and free software developers share with these business groups an interest in the outcomes of these and other cases. Moreover, they are participating with the more traditional

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50. See Megan E. Gray & Will Thomas DeVries, *The Legal Fallout from Digital Rights Management Technology*, 20 No. 4 COMPUTER & INTERNET LAW, 20, 22 (2003).

51. See Pamela Samuelson, *The Copyright Grab*, WIRED, Jan. 1996, [http://www.wired.com/wired/archive/4.01/white.paper\\_pr.html](http://www.wired.com/wired/archive/4.01/white.paper_pr.html).

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

53. See JESSICA LITMAN, DIGITAL COPYRIGHT 125-26 (2001).

54. 17 U.S.C. § 1201(a)–(b) (2000). For an in-depth analysis of the anti-circumvention provisions, see 3 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 12A.03 (2003).

55. 253 F. Supp. 2d 943 (E.D. Ky. 2003). The case was subsequently argued before the Court of Appeals for the Sixth Circuit. *Static Control Components, Inc. v. Lexmark Int'l, Inc.*, No. 03-5400 (6th Cir. argued Jan. 30, 2004).

56. 292 F. Supp. 2d 1040 (N.D. Ill. 2003), *appeal docketed*, No. 04-1118 (Fed. Cir. Dec. 15, 2003); 292 F. Supp. 2d 1023 (N.D. Ill. 2003).

57. See generally Pamela Samuelson & Suzanne Scotchmer, *The Law and Economics of Reverse Engineering*, 111 YALE L.J. 1575, 1634 (2002).

copyright interest groups in shaping regulations to create exemptions to the DMCA's anti-circumvention provisions.<sup>58</sup>

The dynamic here is somewhat the opposite of the CTEA, which neglected the nascent interests of Internet publishers in making public domain works freely available online. The DMCA, by contrast, was heavily motivated by the desire to develop Internet commerce and to provide copyright owners with new rights to address copying over the Internet.<sup>59</sup> But one of its early effects has been to subject businesses that sell physical goods to unexpected liability for circumvention. If Congress revisits the DMCA, it will certainly face pressure from these mobilized groups to address these concerns.

### C. Peer-to-Peer File Sharing

The issue of online file sharing provides a similarly dramatic instance of how Internet-based activities strain the equilibrium achieved by copyright interest groups. As the Note on *In re Aimster*<sup>60</sup> and *MGM v. Grokster*<sup>61</sup> discusses in detail, these lawsuits were brought by members of the recording and film industries against information technology firms that produce peer-to-peer network software. The copyright doctrine at issue here has mediated much of their interaction between these industry groups for twenty years:<sup>62</sup> the "substantial noninfringing use" defense to secon-

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58. 17 U.S.C. § 1201(a)(1)(C)–(E) (2004); see U.S. COPYRIGHT OFFICE, RULEMAKING ON EXEMPTIONS FROM PROHIBITION ON CIRCUMVENTION OF TECHNOLOGICAL MEASURES THAT CONTROL ACCESS TO COPYRIGHTED WORKS, at <http://www.copyright.gov/1201> (last visited Mar. 12, 2004).

59. See, e.g., H.R. REP. NO. 105-551, pt. 1, at 17-20 (1998) (explaining the anti-circumvention provisions codified at 17 U.S.C. § 1201, and noting that "The act of circumventing a technological protection measure put in place by a copyright owner to control access to a copyrighted work is the electronic equivalent of breaking into a locked room in order to obtain a copy of a book").

60. *In re Aimster Copyright Litig.*, 334 F.3d 643 (7th Cir. 2003).

61. *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 259 F. Supp. 2d 1029 (C.D. Cal. 2003), *appeal pending*, No. 03-55901 (9th Cir. argued Feb. 3, 2004).

62. See *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004 (9th Cir. 2001); *Recording Indus. Ass'n of Am. v. Diamond Multimedia Sys.*, 180 F.3d 1072, 1079 (9th Cir. 1999) (extending the *Sony* doctrine to the "space-shifting" of music files from purchased digital recording media to MP3 players); *Vault Corp. v. Quaid Software, Ltd.*, 847 F.2d 255, 266-67 (5th Cir. 1988) (applying the *Sony* doctrine and holding, in a case involving a computer program that defeated software copy protection, that "the Copyright Act does not expressly render anyone liable for the infringement committed by another") (internal quotation and citation omitted).

dary copyright infringement liability.<sup>63</sup> This doctrine, which was first announced in *Sony Corp. v. Universal City Studios, Inc.*<sup>64</sup> and which relieved Sony of contributory infringement liability for manufacturing video cassette recorders (VCRs),<sup>65</sup> was framed against an interest group picture that resembles that of peer-to-peer file trading. Members of the film industry (and, in *Grokster* and *Aimster*, members of the recording industry) sued the manufacturers of products that consumers used to make unauthorized copies of copyrighted works.

The Internet, however, has changed the attributes of some of these groups' interests in the litigation. Technology companies might be said to have a sharpened interest in innovation—that is, an interest in advancing the state of the art in devices in applications, regardless of whether they bring some negative consequences with the positive. Most importantly, the millions of users of peer-to-peer networks obviously place value on their ability to access content that they might otherwise have purchased or accessed through some authorized delivery mechanism.<sup>66</sup> This distributive ability did not exist (at least at this scale) with analog technologies like the VCR. The groups whose interests the *Sony* Court reconciled—copyright owners' interest in compensation for the use of their works,<sup>67</sup> equipment manufacturers' interest in technological innovation,<sup>68</sup> and the public interest in the results of both<sup>69</sup>—changed as a result of the large-scale, loosely coordinated action possible on the Internet.<sup>70</sup>

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63. We use the broad term “secondary liability,” rather than the more specific “contributory” or “vicarious” liability, because the applicability of the *Sony* defense to vicarious liability was disputed but not resolved in the peer-to-peer cases.

64. *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417 (1984).

65. *Id.* at 456.

66. By contrast, the allegedly infringing conduct at issue in *Sony* was the home taping of television broadcasts. The Court noted that “[in] the context of public broadcasting, . . . the user of the copyrighted work is not required to pay a fee for access to the underlying work.” *Id.* at 447 n.28.

67. *See id.* at 447 (discussing importance of the right to authorize certain uses of copyrighted works as a means of exploiting works economically).

68. *See id.* at 441 n.21 (noting that the “logical implication” of the studios’ claim was that “the Copyright Act confers upon all copyright owners collectively . . . the exclusive right to distribute [VCRs] simply because they may be used to infringe copyrights”).

69. *See id.* at 440 (“When a charge of contributory infringement is predicated entirely on the sale of an article of commerce that is used by the purchaser to infringe a patent, the public interest in access to that article of commerce is necessarily implicated.”).

70. *See In re Aimster Copyright Litig.*, 334 F.3d 643, 648-49 (7th Cir. 2003) (comparing principal uses of VCRs with the use of peer-to-peer software to trade files).

Whether these groups will accept courts' present interpretations of the *Sony* doctrine is unclear. As the Note discussing these cases explains, the *Grokster* and *Aimster* courts reached different judgments of the software manufacturers' liability, and the Supreme Court has stayed out of the fray.<sup>71</sup> To some, at least, the actions of peer-to-peer users do not advance a legitimate political interest, but rather consist of participation in "arguably the largest international networks of illegality in human history."<sup>72</sup>

For the most part, Congress has sought to maintain the existing proprietary structure of copyright law. Two bills in the current Congress, which propose additional criminal sanctions for peer-to-peer activities, reflect a commitment to strongly enforcing copyright holders' exclusive rights.<sup>73</sup> Some have argued, however, that Congress should consider a more fundamental change in its course, in light of a public accustomed to file sharing<sup>74</sup> and the potential benefits of peer-to-peer networks in distributing information. For example, one commentator has proposed that proprietary copyright on the Internet should be replaced with a levy on peer-to-peer enhanced goods and services in order to finance a "fair return" to creators.<sup>75</sup> As the conflict between the *Grokster* and *Aimster* courts shows, the rules provided by the pre-Internet copyright regime might not provide a technologically flexible standard for secondary infringement liability. Moreover, technologists' interests in designing their products around legal rules in order to exploit Internet copying and distribution,<sup>76</sup> combined with an uncertain understanding among the public as to whether file sharing is

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71. See *Deep v. Recording Indus. Ass'n of Am., Inc.*, 124 S. Ct. 1069 (2004) (denying *Aimster's* petition for writ of certiorari).

72. Lior J. Strahilevitz, *Charismatic Code, Social Norms, and the Emergence of Cooperation on the File-Swapping Networks*, 89 VA. L. REV. 505, 507 (2003). Strahilevitz argues that the amount of time a lawsuit takes, combined with the establishment of pro-file-sharing norms in the "loose-knit environment" of peer-to-peer networks, render civil legal enforcement practically ineffective. See generally *id.* He suggests that weakening the norms that support file uploading will be more effective in the long run. *Id.* at 595.

73. See Protecting Children from Peer-to-Peer Pornography Act of 2003, H.R. 2885 (108th Cong., July 24, 2003); Piracy Deterrence and Education Act of 2003, H.R. 2517 (108th Cong., June 19, 2003).

74. See Strahilevitz, *supra* note 72, at 507 (reporting an estimate that "as many as 40 million Americans use a peer-to-peer network to obtain copyrighted content every week").

75. Neil W. Netanel, *Impose a Noncommercial Use Levy to Allow Free Peer-to-Peer File Sharing*, 17 HARV. J.L. & TECH. 1, 3-6 (2003).

76. See Strahilevitz, *supra* note 72, at 576 (noting that *A&M Records v. Napster, Inc.*, 239 F.3d 1004 (9th Cir. 2001), "established clear rules and largely resolved the dispute among the parties" but "failed to rally the public around the cause of combating copyright infringement on the Internet").

illegal,<sup>77</sup> present a picture of groups whose interests may be difficult to reconcile with those of copyright holders.

#### D. Beyond Copyright

Many other Notes in the *Annual Review* demonstrate how the Internet strains traditional areas of law. And while we cannot examine in depth all of these, it is worth mentioning them to better appreciate the scale of the involvement of new interests. Another aspect of the peer-to-peer controversy provides an example. As one Note reports, the Recording Industry Association of America (“RIAA”) brought lawsuits against hundreds of individuals whom it accused of uploading files to peer-to-peer networks.<sup>78</sup> In order to obtain uploaders’ names, the RIAA served ISPs with subpoenas issued by a federal court under a provision of the DMCA.<sup>79</sup> Faced with statutory and constitutional challenges to applications of this provision, the D.C. Circuit in *RIAA v. Verizon*<sup>80</sup> held that the subpoena provision is inapplicable to peer-to-peer users.<sup>81</sup> Still, *Verzion* produced a result that surprised the well-organized groups whose compromise<sup>82</sup> was enacted into law just five years earlier. It also drew attention to the fragility of anonymity on the Internet, where third parties control a great deal of personally identifying information. However, another Note reviews two cases that indicate that pre-Internet privacy conceptions might not provide a viable framework privacy protection. These cases, *Theofel v. Farey-Jones*<sup>83</sup> and *In re Pharmatrak*,<sup>84</sup> involve attempts to use the Electronic Communications Privacy Act (“ECPA”)<sup>85</sup> to sanction private parties’ unauthorized disclosure of information. The ECPA, enacted at a time when electronic

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77. See Piracy Deterrence and Education Act of 2003 § 2(2) (“Many computer users either do not know that copyright laws apply to Internet activity or simply believe that they will not be caught or prosecuted for their conduct.”)

78. Amy Harmon, *The Price of Music: The Overview; 261 Lawsuits Filed on Music Sharing*, N.Y. TIMES, Sept. 9, 2003, at A1.

79. See 17 U.S.C. § 512(h)(1) (2000).

80. Recording Indus. Ass’n. of Am., Inc. v. Verizon Internet Servs., Inc., 351 F.3d 1229 (D.C. Cir. 2003).

81. *Id.* at 1236.

82. See H.R. REP. NO. 105-551, pt. 1, at 11 (1998) (stating that the title of the DMCA codified at 17 U.S.C. § 512 “addresses concerns raised by a number of on-line service and Internet access providers regarding their potential liability when infringing material is transmitted on-line through their services”).

83. 341 F.3d 978 (9th Cir. 2003).

84. 329 F.3d 9 (1st Cir. 2003).

85. Pub. L. No. 99-508, 100 Stat. 1848 (1986) (codified as amended in scattered sections of 18 U.S.C.).

communications were far less common than today,<sup>86</sup> provided little relief for the plaintiffs in either case. Although some administrative agencies, such as the Federal Trade Commission (FTC), and some non-profit groups have become active in seeking greater protection for privacy in online activities,<sup>87</sup> the distributed benefits (to the public) and concentrated costs (which fall primarily on law enforcement agencies) of the ECPA cast doubt on whether Congress will update this statute.<sup>88</sup>

Developments in antitrust law also reveal that the Internet is producing conflicts between venerable, public-regarding statutes and Internet connectivity. As we noted above, the Internet provides a driving force for standardized products. This standardization, however, can offend the Sherman Act when one producer controls a standard, or competitors agree to produce interoperable products.<sup>89</sup> Some of this conflict is evident in the differing approaches taken by government regulators and private parties in the ongoing antitrust litigation against Microsoft. As the U.S. Department of Justice continues to enforce the consent decree<sup>90</sup> it entered into with Microsoft after the company was found to have violated section 2 of the Sherman Act,<sup>91</sup> both competitors<sup>92</sup> and groups of purchasers<sup>93</sup> are leveraging the facts and law from the earlier case to seek more expansive remedies. These and other developments are surveyed in the *Annual Review*.

Finally, the past year's developments show that courts remain divided about how to translate fundamental concepts of common law and constitu-

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86. See H.R. REP. NO. 106-932, at 9 (2000) (noting that "[i]n 1986 when the Electronic Communications Privacy Act became law there were about 50,000" computers connected to the Internet).

87. For an overview of the FTC's activities in this area, see FTC, *Privacy Initiatives*, at <http://www.ftc.gov/privacy/index.html> (last visited Mar. 16, 2004). For an example of one non-profit group's work to create more stringent privacy protection, see generally the website of the Electronic Privacy Information Center, at <http://www.epic.org> (last visited Mar. 16, 2004).

88. See Eskridge, *supra* note 31, at 1518-20 (arguing that interest groups rarely form to promote diffuse benefit laws, but interest groups easily form to block legislation that imposes concentrated costs).

89. See 15 U.S.C. §1 and the sections that follow.

90. See *New York v. Microsoft*, 224 F. Supp. 2d at 76; *New York v. Microsoft Corp.*, No. 98-1233 (CKK), 2002 WL 31961461, 2002-2 Trade Cas. (CCH) ¶ 73, 854 (D.D.C. Nov. 1, 2002) (order adopting consent decree entered into by the Department of Justice and Microsoft).

91. 15 U.S.C. § 2 (2000); see *United States v. Microsoft Corp.*, 87 F. Supp. 2d 30 (D.D.C. 2000), *aff'd in part, rev'd in part, and remanded*, 253 F.3d 34 (D.C. Cir. 2001).

92. See *In re Microsoft Corp. Antitrust Litig.*, 237 F. Supp. 2d 639 (D. Md. 2002), *aff'd*, 333 F.3d 517, 534 (4th Cir. 2003).

93. *In re Microsoft Corp. Antitrust Litig.*, No. MDL 1332, 2003 WL 21766566 (D. Md. 2003)

tional law to the Internet. Perhaps the clearest example of this phenomenon is in the California Supreme Court's decision in *Intel Corp. v. Hamidi*.<sup>94</sup> In *Hamidi*, the court rejected Intel's claim, based upon the tort of trespass to chattels, that a former employee's mass e-mail to current Intel employees harmed Intel's servers.<sup>95</sup> In so deciding, the court departed from the holdings of other courts that have faced similar facts.<sup>96</sup> More broadly, the *Hamidi* decision indicates that courts are continuing to struggle with the decision of where private property interests on the Internet end and the right of speakers to access e-mail addresses begins.<sup>97</sup> The court, however, did not decide where this boundary lies. Other decisions reported in the *Annual Review* also show that federal Internet regulations do not present a coherent picture of the Internet as a communications medium. In *United States v. American Library Ass'n*, for example, the Court upheld a facial constitutional challenge to a statute that requires public libraries to install anti-obscenity filters in order to qualify for federal Internet access subsidies.<sup>98</sup> But in *Batzel v. Smith*, the Ninth Circuit decided that a defamation liability immunity provision of the Communications Decency Act<sup>99</sup>—which the court noted was more protective of speech than the First Amendment requires—applied to a class of content provider that was not explicitly named in the applicable statute.<sup>100</sup> In all of these cases, older legal principles, applied to the Internet, do not seem perfectly to capture the interests of the new actors involved.

#### IV. CONCLUSION

This brief discussion of the new interest groups created by and participating in Internet regulation only skims the surface of a complex and varied new frontier. Lawmakers in most areas of Internet regulation have decided to apply traditional modes of regulation and substantive law—at least for the time being. The particular interests and actors vary considerably from area to area, and each deserves special attention in order to un-

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94. *Intel Corp. v. Hamidi*, 30 Cal. 4th 1342 (2003).

95. *Id.* at 1347.

96. *See, e.g., eBay, Inc. v. Bidder's Edge, Inc.*, 100 F. Supp. 2d 1058, 1063, 1069-73 (N.D. Cal. 2000) (granting preliminary injunction restraining defendant from using an automated price-gathering "robot" to collect auction bids from plaintiff's site).

97. *See Hamidi*, 30 Cal. 4th at 1360-64 (declining to extend California's common law tort of trespass to chattels to include "an otherwise harmless electronic communication whose contents are objectionable").

98. 123 S. Ct. 2297 (2003).

99. 47 U.S.C. § 230(c) (2000).

100. *See Batzel v. Smith*, 333 F.3d 1018, 1020 (9th Cir. 2003).

derstand and predict the possible future compromises and equilibria that will emerge. We see quite clearly, however, that the Internet has generally motivated new actors to agitate for legal change and has given old actors new interests for which to push. For instance, Internet service providers may be similar in nature to telecommunications companies, yet have sharply different interests due to their deeper connection to the information they store and provide to their customers. Traditional industries like the makers of after-market parts for consumer products suddenly have an interest in the copyright laws. Regulation of the Internet may be possible through our familiar administrative mechanisms, but it will require re-drawing of many of the old compromises to account for the new interests spurred by Internet technology.

The final question, then, is in what direction will these new interests push the law? What substantive changes can we expect as the Internet moves from adolescence to maturity? Obviously, the substantive legal outcomes will vary from subject area to subject area, but we can discern one positive trend: The Internet has motivated many to push forcefully for the “public interest” in related areas of law. In copyright, Eric Eldred and his supporters gave voice to the “public domain” in a way not seen before. New grass-roots and lobbying organizations advocate for consumer and Internet user rights with respect to privacy, intellectual property, and free speech. While actors have organized in the past to address the public’s interest in law, the Internet has coalesced and motivated individuals around these nebulous and distributed costs and benefits. As public choice theory suggests, these organized actors will likely push the equilibria of the substantive laws closer to outcomes that benefit Internet users, which—due to the rapid diffusion of the Internet—increasingly encompasses the public in general.

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## IN RE AIMSTER & MGM, INC. V. GROKSTER, LTD.: PEER-TO-PEER AND THE SONY DOCTRINE

By Elizabeth Miles

For the last twenty years, the Supreme Court's decision in *Sony Corp. of America, Inc. v. Universal City Studios, Inc.* has guided lower courts' analysis of the potential liability of technology providers whose products may be used to infringe copyrights.<sup>1</sup> The application of the *Sony* rule to digital technologies, however, has been less than straightforward. Two recent decisions regarding the legality of distributing peer-to-peer file sharing software, *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*<sup>2</sup> and *In re Aimster Copyright Litigation*,<sup>3</sup> reached sharply different outcomes and thus left open the question of the correct legal standard to apply in assessing secondary liability for copyright infringement over the Internet.<sup>4</sup>

Taken together, *Grokster* (a California federal district court case decided in April 2003, whose appeal is pending) and *Aimster* (a June 2003 decision by the Seventh Circuit) constitute a schism in secondary copyright infringement jurisprudence that invites further guidance from the Supreme Court, Congress, or both. This Note tracks the development of secondary copyright infringement doctrine in the peer-to-peer context and proposes that while the secondary liability limitations articulated in *Sony* advance important policy goals for technological development, analysis of the instant cases and their predecessors reveals crucial gaps and conflicts in the doctrine that make it difficult for courts to surmise the current legal rules and consistently apply them to digital technologies. Thus the *Sony* rule as it stands is inadequate to guide uniform adjudication among circuits.

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1. See 464 U.S. 417 (1984) (establishing the substantial noninfringing use rule, further discussed *infra*).

2. 259 F. Supp. 2d 1029 (C.D. Cal. 2003), *appeal pending*, No. 03-55901 (9th Cir. argued Feb. 3, 2004).

3. 334 F.3d 643 (7th Cir. 2003) [hereinafter *Aimster*], *aff'g* 252 F. Supp. 2d 634 (N.D. Ill. 2002) [hereinafter *Aimster I*], *cert. denied sub nom.* Deep v. Recording Indus. Ass'n of Am., Inc., No. 03-658, 2004 WL 46690 (U.S. Jan. 12, 2004).

4. See generally Jeffrey R. Armstrong, *Sony, Napster, and Aimster: An Analysis of Dissimilar Application of the Copyright Law to Similar Technologies*, 13 DEPAUL-LCA J. ART & ENT. L. 1 (2003) (comparing the decisions in the three referenced cases).

The Note poses the open doctrinal questions that press upon how courts should apply *Sony* doctrine in the digital age: (1) whether the common law encompasses (in fact, not just in form) two distinct theories of secondary liability that yield different results for any given Internet-based technology; (2) whether *Sony* serves as an absolute shield against contributory liability or instead shapes the knowledge requirement; and (3) whether the *Sony* rule applies to vicarious liability claims. By examining the dispositions of these questions in the peer-to-peer (“P2P”) cases and discussing the interests and proposals of stakeholders, the Note seeks to illuminate the issues that must be addressed in order to clarify and lend coherence to copyright law for Internet technology.

## I. COPYRIGHT ADJUDICATION IN THE PEER-TO-PEER AGE: LEGAL AND TECHNICAL ISSUES

### A. Secondary Liability and the *Sony* Shield

Secondary liability for copyright infringement is a judge-made doctrine, never codified by Congress,<sup>5</sup> that holds a second party liable for direct infringement by others. The common law divides secondary copyright liability into contributory and vicarious infringement. Derived from tort law, the elements of contributory infringement are (1) knowledge of and (2) causation, inducement, or material involvement in a second party’s infringing conduct.<sup>6</sup> Vicarious infringement, rooted in *respondeat superior*

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5. Though Congress enacted the first copyright statute soon after the nation’s birth, it has never directly defined secondary liability. Legislative history suggests that Congress added the phrase “to authorize” to the list of copyright holders’ rights in the 1976 amendment to the Copyright Act to in some way endorse contributory liability. See 17 U.S.C. § 106 (2000); H.R. REP. NO. 75-1476, at 61 (1975), *reprinted in* 1976 U.S.C.C.A.N. 5659, 5674. Congress stated in its report:

Use of the phrase ‘to authorize’ is intended to avoid any questions as to the liability of contributory infringers. For example, a person who lawfully acquires an authorized copy of a motion picture would be an infringer if he or she engages in the business of renting it to others for purposes of unauthorized public performance.

H.R. Rep. No. 75-1476, at 61, *reprinted in* 1976 U.S.C.C.A.N. at 5674. The Digital Millennium Copyright Act, enacted in 1998, specifically preserved secondary liability in the safe harbor provision for Internet service providers, but in no way defined its elements or scope. See 17 U.S.C. § 1201(c)(2) (2000) (“Nothing in this section shall enlarge or diminish vicarious or contributory liability for copyright infringement in connection with any technology, product, service, device, component or part thereof.”).

6. See, e.g., *Gershwin Publ’g Corp. v. Columbia Artists Mgmt., Inc.*, 443 F.2d 1159, 1162 (2d Cir. 1971) (“[O]ne who, with knowledge of the infringing activity, in-

doctrine that holds employers liable for the illegal conduct of their employees or agents, requires (1) the right and ability to supervise the infringing conduct, and (2) a direct financial interest in that conduct.<sup>7</sup> Vicarious liability differs from contributory infringement in that the defendant need not be directly aware of the infringement, but rather only hold an economic stake.<sup>8</sup> Courts have extended vicarious liability for copyright infringement beyond the confines of employer-employee relationships to other arrangements that satisfy the two enumerated elements—for instance, franchise owner-concessionaire,<sup>9</sup> dance hall-dance band,<sup>10</sup> talent agency-concert promoter,<sup>11</sup> and swap meet proprietor-vendor.<sup>12</sup>

*Sony* was the first and remains the only Supreme Court decision to apply secondary liability to technology—the capabilities of machines rather than the conduct of people.<sup>13</sup> Resolved in 1984 in a 5-4 vote, *Sony* is the principal authority governing adjudication of secondary liability for copyright infringement by technology manufacturers. Faced with the then-novel proposition that a seller of technology should be held liable for the conduct of its users and lacking any statutory guidance in the Copyright

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duces, causes, or materially contributes to the infringing conduct of another, may be held liable as a ‘contributory’ infringer.”); NEIL BOORSTYN, BOORSTYN ON COPYRIGHT § 10.06[2], at 10-36.1 (2000) (“In other words, the common law doctrine that one who knowingly participates in or furthers a tortious act is jointly and severally liable with the prime tortfeasor, is applicable under copyright law.”). For an early example, see *Harper v. Shoppel*, 28 F. 613 (S.D.N.Y. 1886), holding defendant liable for selling the plaintiff newspaper’s printing plate to a third party knowing it would be used to illegally copy the plaintiff’s paper. The Supreme Court recognized contributory liability for copyright infringement in 1911, in *Kalem Co. v. Harper Bros.*, 222 U.S. 55 (1911), holding a defendant who made an unauthorized film of the book *Ben Hur* and sold it for exhibition liable for contributory copyright infringement.

7. See, e.g., *Shapiro, Bernstein & Co. v. H.L. Green Co.*, 316 F.2d 304 (2d Cir. 1963) (holding the owner of a department store chain liable for the sale of counterfeit recordings by a concessionaire); see also *Buck v. Jewell-LaSalle Realty Co.*, 283 U.S. 191, 198-99 (1931); *Dreamland Ball Room, Inc. v. Shapiro, Bernstein & Co.*, 36 F.2d 354, 355 (7th Cir. 1929) (holding dance hall proprietors liable for hiring bands that played infringing music). The hirer-hiree relationship in these cases presents the classic context for *respondeat superior* liability.

8. See *Shapiro*, 316 F.2d at 307.

9. *Id.*

10. *Buck*, 283 U.S. 191.

11. *Gershwin*, 443 F.2d at 1162 (holding talent agency that printed and sold programs of infringing musical works to be performed at concerts liable for the infringement by their musician clients).

12. *Fonovisa v. Cherry Auction*, 76 F.3d 259 (9th Cir. 1996) (finding the proprietors of a swap meet liable for the sale of pirated recordings by their vendors).

13. See *Sony Corp. of America, Inc. v. Universal City Studios, Inc.*, 464 U.S. 417 (1984) [hereinafter *Sony*].

Act,<sup>14</sup> the *Sony* Court drew on the “staple article of commerce” doctrine codified by Congress in patent law.<sup>15</sup> This provision prevents patentees from extending their exclusive rights to control over the sale of articles that might be used to infringe a patent, but that also have other legitimate uses.<sup>16</sup> Patent law protects free trade in such staple items by exempting them from contributory infringement liability.<sup>17</sup> The *Sony* Court went on to create a parallel exemption for contributory copyright infringement: “[T]he sale of copying equipment, like the sale of other articles of commerce, *does not constitute contributory infringement* if the product is widely used for legitimate, unobjectionable purposes. Indeed, it need merely be capable of substantial noninfringing uses.”<sup>18</sup>

Applying this standard, the Court found Sony not liable for contributory liability. The Court concluded that the Betamax was capable of the fair use of time shifting (recording a program for later viewing),<sup>19</sup> a nonin-

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14. The case began in a California federal district court on allegations by two movie studios that because Sony's Betamax videocassette recorder could be used to tape movies and television programs, Sony was liable for contributory copyright infringement. *See Universal City Studios, Inc. v. Sony Corp. of America*, 480 F. Supp. 429 (C.D. Cal. 1979) [hereinafter *Sony I*].

15. *Sony*, 464 U.S. at 440; *see also* 35 U.S.C. § 271(c) (2000). The patent statute states:

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.

35 U.S.C. § 271(c).

16. *See, e.g., Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 485-86 (1964) (noting that Congress enacted 35 U.S.C. § 271(c) to codify common law); *Mercoid Corp. v. Mid-Continent Inv. Co.*, 320 U.S. 661, 664-66 (1944) (discussing the common law limitations on the patent monopoly).

17. *See* 35 U.S.C. § 271(c). For instance, though a flashlight can be used in a patented process for exercising a cat with a beam of light, the patentee does not gain the sole right to control distribution of flashlights. *See* U.S. Patent No. 5,443,036 (issued Aug. 22, 1995). The Court adopted the staple article of commerce analysis from the district court's decision below. *See Sony I*, 480 F. Supp. at 461.

18. *Sony*, 464 U.S. at 442 (emphasis added). It remains a point of hot contention whether the *Sony* shield relies upon the “widely used for” standard of the first sentence or the “merely be capable of” language in the second.

19. *Id.* Though the Court initially stated that the suspect device must “be capable of commercially significant noninfringing uses,” the opinion went on to assert that the adjudicator “need not explore *all* the different potential uses of the machine,” but rather “con-

fringing use sufficient to satisfy the exemption from contributory liability even though the record showed that other, infringing uses of the Betamax were widespread.<sup>20</sup> The analysis framed the secondary liability question entirely within the staple article of commerce doctrine, presenting the technical capability for noninfringing use as a complete shield against contributory liability.<sup>21</sup> The machine's purpose and the proportion of infringing use were not relevant; in fact, the Court explicitly overturned the Ninth Circuit's ruling that Sony infringed because the record showed that the company sold video cassette recorders (VCRs) for the "primary purpose" of copying protected works and that "virtually all" of the recorded material was copyrighted.<sup>22</sup>

The *Sony* decision is marked by a concern for technology policy and the Court's reluctance to extend the copyright grant without congressional approval.<sup>23</sup> The Court called upon the economic rationale for copyright in explaining that even where infringing use is possible or proven, holding the seller of a device with lawful uses liable for contributory infringement "would block the wheels of commerce."<sup>24</sup> The majority rejected the dissent's arguments that copying technology had upset the balance in the traditional intellectual property bargain<sup>25</sup> and that a better test would look to a technology's purpose and the proportion of noninfringing uses.<sup>26</sup> Noting the plaintiffs' "fear that with any Betamax usage, invisible boundaries are

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sider whether on the basis of the facts . . . a significant number of them would be non-infringing." With regards to the Betamax, the Court said, "[I]n order to resolve this case we need not give precise content to the question of how much use is commercially significant. For one potential use of the Betamax plainly satisfies this standard, however it is understood: private, non-commercial time-shifting in the home." *Id.*

20. *Id.* at 428, 442. Infringing uses included accumulating libraries of tapes for repeat viewing. *Id.* at 423.

21. *Id.* at 442. Whether the *Sony* Court also intended the staple article of commerce rule to serve as a shield against vicarious liability is an open question, discussed *infra* Part III.C.

22. *Id.* at 428.

23. Noting that the lawsuit was an "unprecedented attempt to impose copyright liability" on technology makers, Justice Stevens wrote that finding such liability "would enlarge the scope of respondents' statutory monopolies to encompass control over an article of commerce that is not the subject of copyright protection. Such an expansion of the copyright privilege is beyond the limits of the grants authorized by Congress." *Id.* at 421.

24. *Id.* at 441 (citations and internal quotations omitted); see also Andrew Bridges, *Contributory Infringement Liability in Recent U.S. Peer-to-Peer Copyright Cases 2* (July 2003), available at <http://www.wsgr.com/common/wsgrpg.asp?sub=/library/index.asp&section=1>.

25. See *Sony*, 464 U.S. at 467 (Blackmun, J., dissenting).

26. *Id.* at 491 (Blackmun, J., dissenting).

passed,<sup>27</sup> the Court arguably set a boundary, based on the staple article of commerce doctrine, to the ambit of copyright.

The *Sony* Court's analysis did not separate contributory liability from vicarious liability, stating that the lines between the two were not clearly drawn.<sup>28</sup> This conflation has posed problems for subsequent applications of the *Sony* rule, creating an unanswered riddle that remains at the center of current debates.

## B. Application of *Sony* to Peer-to-Peer Technologies

Until recently, courts applied *Sony* doctrine to a variety of new technologies with little controversy.<sup>29</sup> Applying *Sony* and other traditional copyright principles to P2P, however, has proven to be more contentious. The problem stems in part from the special nature of P2P, which provides a decentralized, user-driven distribution platform that eradicates an important mechanism in copyright enforcement: copying and distribution control.<sup>30</sup>

Peer-to-peer technology involves individual computers communicating over the Internet on custom networks that route search requests and conduct direct file transfers among the network's users. Unlike the centralized architecture of a client-server relationship—such as a website, where many users visit a single location to use the resources stored there—a P2P network directly connects many individual computers without any centralized server. To join a P2P network, users download software that, when launched, locates and connects to other users online at the time via an underlying network protocol.<sup>31</sup> This software searches for files the user

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27. *Id.* at 451 (internal quotations marks omitted).

28. *Id.* at 435 n.17.

29. *See, e.g.*, Recording Indus. Ass'n of Am. v. Diamond Multimedia Sys., Inc., 180 F.3d 1072, 1079 (9th Cir. 1999) (holding that MP3 players enable the fair use of space shifting under *Sony* and thus do not infringe); Lewis Galoob Toys, Inc. v. Nintendo of Am., Inc., 964 F.2d 965, 970-71 (9th Cir. 1992) (holding no "authorization" liability for a device that enabled alteration of a copyrighted video game display); Vault Corp. v. Quaid Software, Ltd., 847 F.2d 255, 262 (5th Cir. 1988) (finding no contributory liability for a computer program that defeated anti-copying software).

30. *See, e.g.*, NATIONAL ACADEMY OF SCIENCES, THE DIGITAL DILEMMA: INTELLECTUAL PROPERTY IN THE INFORMATION AGE (2000) (articulating guidelines for using new business models, technologies and law to protect digital intellectual property while maximizing public access and use), available at [http://books.nap.edu/html/digital\\_dilemma](http://books.nap.edu/html/digital_dilemma); Peter S. Menell, *Envisioning Copyright Law's Digital Future*, 46 N.Y.L. SCH. L. REV. 63, 98-103 (2002/2003) (describing how the shift from analog to digital technology has affected copyright); Tim Wu, *When Code Isn't Law*, 89 VA. L. REV. 679, 711-12 (2003) (describing the pivotal role of gatekeepers in enforcing pre-digital copyright law).

31. Wu, *supra* note 30, at 717-18.

wants on other network members' computers, makes designated user files available to the network, and transfers files between users upon request.<sup>32</sup>

Not all P2P networks are completely decentralized. Designers consider trade-offs between the "purity" of decentralization and the performance advantages of centralized architecture.<sup>33</sup> Increasingly, coders also consider legal liability in determining how many centralizing features to build into a P2P system.

The first P2P system to be accused of copyright infringement was Napster, which employed a mix of client-server and peer-to-peer architecture.<sup>34</sup> The music files resided on peers—user's computers—while a centralized server facilitated file searches and transfers by indexing the names and locations of files available to be shared. Leaving copyrighted files on individual users' computers allowed Napster to escape liability for direct copyright infringement, which brought down the centralized music file server My.MP3.com.<sup>35</sup>

Without a central site to sue for direct infringement, the recording industry plaintiffs turned to secondary liability, alleging that Napster committed contributory and vicarious infringement by enabling the unauthorized sharing of copyrighted music.<sup>36</sup> The Ninth Circuit agreed, affirming the district court's finding of liability on both counts.<sup>37</sup> In reaching its decision, the court applied a limited interpretation of the *Sony* rule, declining to interpret the "substantial noninfringing use" test as an absolute shield against secondary liability. Instead, the court applied the rule in a much

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32. *Id.*

33. The less centralized the network the more pure the peer-to-peer model, but generally the lower the performance level in terms of speed, control, and usability. Searching for files on each individual computer on the network is inefficient, and a network with no center lacks the community features that encourage users to share and abstain from anti-social behavior such as sending around "spoofs"—fake or misnamed files. By the same token, the more centralized the network is, via specialized servers and/or peer nodes, the better the system performance (file location and transfer) and the easier it is to create a sense of network community. *Id.* at 717, 722.

34. *Id.* at 722.

35. *See* UMG Recordings, Inc. v. MP3.com, Inc., 92 F. Supp. 2d 349 (S.D.N.Y. 2000) (holding that making copies of music files onto a central Internet server violated copyright even when the files were only available to users who already owned copies of the music).

36. *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1020-21 (9th Cir. 2001), *aff'g in part and vacating in part*, 114 F. Supp. 2d 896 (N.D. Cal. 2000); *see also* Lisa M. Zepeda, Note, *A&M Records, Inc. v. Napster, Inc.*, 17 BERKELEY TECH. L. J. 71 (2002).

37. *Napster*, 239 F.3d 1004. The court began by establishing that uploading and downloading copyrighted music files constitutes direct infringement, the first requirement for finding secondary liability. *Id.* at 1013-14.

more limited context, as a test for the knowledge prong of contributory liability.<sup>38</sup> The court declared that *Sony* forbade it to “impute the requisite level of knowledge to Napster merely because peer-to-peer file sharing technology may be used to infringe plaintiffs’ copyrights,” but asserted that “Napster’s actual, specific knowledge of direct infringement renders *Sony*’s holding of limited assistance.”<sup>39</sup>

The *Napster* court essentially created a two-step *Sony* analysis for contributory liability: (1) a defendant whose product is found to have substantial noninfringing uses will not be charged with *constructive* knowledge of infringement arising from the technology’s design, but (2) the court may examine the record for evidence of defendant’s *actual* knowledge arising from the defendant’s conduct. Under this standard, the court found that the Napster service did have substantial noninfringing uses, but also found actual knowledge of infringing conduct based on Napster’s centralized file index and the notices of infringement it had received from the plaintiffs.<sup>40</sup> With the first prong of contributory infringement thus established, the court turned to the second: causation, inducement, or material involvement. Here the Ninth Circuit endorsed the district court’s application of the rule in *Fonovisa* to find that Napster provided the “site and facilities” for infringement in the form of its “integrated service” for locating and downloading files, and thus had a concomitant duty to police the premises.<sup>41</sup>

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38. *Id.* at 1020-21.

39. *Id.* Professor Goldstein has criticized this conflation of the *Sony* rule: The substantial noninfringing use doctrine serves a purpose entirely separate from the knowledge requirement, and by subordinating it to the knowledge requirement, the *Napster* court necessarily undermined the object of the doctrine: to ensure that consumers not be required to pay monopoly tribute for unpatented or otherwise unprotected goods and equipment.

2 PAUL GOLDSTEIN, COPYRIGHT § 6.1.2-1 (2d ed. 2004).

40. *Napster*, 239 F.3d at 1020-22 (citing *Religious Tech. Ctr. v. Netcom On-Line Communication Servs., Inc.*, 907 F. Supp. 1361, 1371 (N.D. Cal. 1995), suggesting that “in an online context, evidence of actual knowledge of specific acts of infringement is required to hold a computer system operator liable for contributory copyright infringement”). The actual knowledge standard the court applied was in contrast to suggestions throughout the opinion that constructive knowledge suffices outside the online context. *E.g.*, *id.* at 1020 (“Contributory liability requires that the secondary infringer ‘know or have reason to know’ of direct infringement.”).

41. *Id.* at 1022; *see also* *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 264 (9th Cir. 1996) (finding that swap meet proprietors provided the site and facilities for the sale of infringing recordings). A number of scholars have criticized the cyberspace-as-

The court next found Napster liable for vicarious copyright infringement. It did so without addressing *Sony*, asserting that the substantial non-infringing use rule applied only to contributory, not vicarious liability.<sup>42</sup> Following *Fonovisa* and other precedent, the court found that Napster had the ability to supervise and control infringing conduct through its file index, and received financial benefit from the customer draw the infringing capability supplied.<sup>43</sup>

As *Napster* and now *Aimster* have shown, the more centralized a P2P network, the more legal liability is likely to accrue to the network providers for users' copyright infringement, due to the knowledge, contribution, and control such centralization provides.<sup>44</sup> Thus in *Napster's* wake, peer-to-peer coders designed systems they hoped would satisfy the Ninth Circuit and like-minded courts.<sup>45</sup> These second-generation networks used decentralized networking protocols, such as temporary host caches of IP addresses on user "nodes"—select individual computers strategically located along the network that stored the information needed to make connections. System services supplied graphic interfaces to the network and monitored the number of users, but once the software was downloaded, the network exerted no control over its configuration or how customers used it, and collected no information regarding what users shared. Among this new generation of P2P protocols were FastTrack (utilized by Grokster and KaZaA software) and StreamCast (the protocol run by *Grokster* co-defendant Morpheus). The *Grokster* case represents the first legal challenge to this sort of network.

## II. THE GROKSTER AND AIMSTER CASES

### A. *Metro-Goldwyn-Mayer, Inc. v. Grokster, Ltd.*

In *Grokster*, numerous recording industry plaintiffs sued peer-to-peer software distributors Grokster and StreamCast Networks (also known as Morpheus) for contributory and vicarious copyright infringement.<sup>46</sup> The

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place analogy as ill-suited to legal analysis. See Mark A. Lemley, *Place and Cyberspace*, 91 CALIF. L. REV. 521 (2003).

42. *Napster*, 239 F.3d at 1022-23. This remains a question of hot contention, discussed *infra* Part III.C.

43. *Id.* at 1024.

44. See *Aimster*, 334 F.3d 643 (7th Cir. 2003); *Napster*, 239 F.3d 1004.

45. See Wu, *supra* note 30, at 734-36. *Napster* taught coders that peer-to-peer networks needed to look more like the copying technologies condoned by the *Sony* court: photocopiers and videocassette recorders. See *Sony*, 464 U.S. 417 (1984).

46. *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 259 F. Supp. 2d 1029 (C.D. Cal. 2003). The suit also named as a defendant KaZaA, which has since purchased

district court granted Grokster's motion for summary judgment and StreamCast's motions for partial summary judgment as to contributory and vicarious infringement.<sup>47</sup> The matter is currently on appeal.<sup>48</sup>

Of the P2P protocols currently under scrutiny, Morpheus runs the least centralized network. The StreamCast protocol that underlies Morpheus is based on Gnutella, an open-source, "pure" peer-to-peer network that relays search requests from one user to the next until it makes a hit.<sup>49</sup> The Grokster protocol FastTrack, on the other hand, was developed by programmers of the file sharing software KaZaA as an effort to improve upon the pure Gnutella model with "supernodes," temporary gathering spots for network information on user computers selected by the software according to network needs.<sup>50</sup> Centralized servers maintain user registration and log-ins and help users find peers upon logging on, but do not track file traffic.<sup>51</sup> FastTrack is not open source and charges a fee to access the network with other client applications; Grokster is one such subscriber.<sup>52</sup>

Relying extensively on both *Sony* and *Napster*, the district court found that the *Grokster* defendants were not liable for either contributory or vicarious infringement. In assessing contributory infringement, the *Grokster* court followed *Napster* and applied the *Sony* rule only under the knowledge inquiry.<sup>53</sup> The court found a number of current and potential future noninfringing uses for the defendants' software,<sup>54</sup> then announced its interpretation of the knowledge rule in *Napster*<sup>55</sup>: "[D]efendants are liable

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by the Australian company Sharman Networks and removed from the case by a default judgment. *Id.* at 1031 n.2.

47. *Id.* at 1046.

48. The appellate briefs are available at [http://www.eff.org/IP/P2P/MGM\\_v\\_Grokster/](http://www.eff.org/IP/P2P/MGM_v_Grokster/) (last visited Feb. 10, 2004).

49. Wu, *supra* note 30, at 731-33.

50. *Id.* at 735.

51. *Id.*

52. *Id.* at 734-35. Morpheus was also a FastTrack customer before switching to StreamCast.

53. *Grokster*, 259 F. Supp. 2d at 1035-36. This conflation of the substantial noninfringing use standard and the knowledge requirement is discussed further *infra* Part III.A.

54. These included "distributing movie trailers, free songs or other non-copyrighted works; using the software in countries where it is legal; or sharing the works of Shakespeare" as well as facilitating and searching for "public domain materials, government documents, media content for which distribution is authorized, media content as to which the rights owners do not object to distribution, and computer software for which distribution is permitted." *Id.*

55. "In order to be held liable for contributory infringement, the secondary infringer must know or have reason to know of the direct infringement. Evidence of actual knowledge of *specific acts* of infringement is required for contributory infringement liability."

for contributory infringement only if they (1) have specific knowledge of infringement at a time at which they contribute to the infringement, and (2) fail to act upon that information.”<sup>56</sup>

The court likewise followed *Napster*'s material contribution rule, echoing the site and facilities test from *Fonovisa*. Analyzing knowledge and material contribution together, the court examined the technology in detail to distinguish Grokster's and StreamCast's products and services from Napster's in that the *Grokster* defendants provided no centralized file-sharing index and received no information regarding file transfers.<sup>57</sup> Furthermore, the court found, that file sharing could continue unabated even if the defendants could in fact close the defendants' doors and deactivate their computers.<sup>58</sup> As a result, the court concluded that no ongoing legal relationship existed between the software providers and their users.<sup>59</sup>

As to vicarious infringement, the court found that the defendants did benefit financially from distribution of their products, but they did not have the requisite right or ability to supervise infringing conduct. Again evoking the *Fonovisa* swap meet, the court found that without the centralized search index and mandatory registration at issue in *Napster*, the defendants could not control access to or patrol the premises its software created, and thus could not be held vicariously liable for copyright infringement that took place there.<sup>60</sup> The court did not apply *Sony* in its analysis of this claim, nor did it state whether *Sony* provides a vicarious liability defense.

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*Id.* at 1035 (citing *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1020 (9th Cir. 2001)).

56. *Id.* at 1036 (citing *Napster*, 239 F.3d at 1021).

57. *Id.* at 1041.

58. *Id.*

Neither Streamcast nor Grokster facilitates the exchange of files between users in the way Napster did. Users connect to the respective networks, select which files to share, send and receive searches, and download files, all with no material involvement of Defendants. If either Defendants closed their doors and deactivated all computers within their control, users of their products could continue sharing files with little or no interruption.

*Id.*

59. *Id.* at 1043. “Grokster and StreamCast are not significantly different from companies that sell home video recorders or copy machines, both of which can be and are used to infringe copyrights,” and “[a]bsent evidence of active and substantial contribution to the infringement itself, Defendants cannot be liable.” *Id.*

60. *Id.* at 1045.

The *Grokster* court concluded with a call for legislative guidance on permissible designs for software susceptible to unlawful use.<sup>61</sup> Meanwhile, like the *Sony* Court, the *Grokster* court specifically declined to “expand existing copyright law beyond its well-drawn boundaries.”<sup>62</sup>

### B. *In re Aimster* Copyright Litigation

In *Aimster*, the Seventh Circuit upheld an injunction issued by the district court against the defendant Johnny Deep and his companies (including Aimster), concluding that the service was likely to be found liable for contributory infringement.<sup>63</sup> In doing so, the court destabilized a good deal more of existing *Sony* and *Napster* doctrine than did *Grokster*.

The software at issue in *Aimster* is significantly different from the systems in *Grokster*. Aimster operated on the client-server platform provided by America Online (AOL),<sup>64</sup> creating a “network” by connecting to AOL’s Instant Messaging service (“AOL IM,” the “AIM” from which Aimster took its name).<sup>65</sup> AOL IM connects users across AOL servers to send messages and files in real time. Each user downloads IM software to her own computer, which then locates other users she has designated as “buddies” when they’re online, and provides the connection for instant messaging and file transfers. The AOL IM software also allows users to designate files on their hard drives to make available for transfer to any buddy who asks.<sup>66</sup>

Over this platform, Aimster’s software used the client-server connections provided by AOL IM to search the shared files of all Aimster users for matches to the user’s request. Upon locating the file, the software sent an encrypted e-mail to the requester with the requested file attached, again over the AOL IM connection.<sup>67</sup> Aimster also offered a feature called Club Aimster, which enabled subscribers to download the network’s most shared songs for a small monthly fee. A paying club member needed only

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61. *Id.* at 1046 (“While the Court need not decide whether steps could be taken to reduce the susceptibility of such software to unlawful use, assuming such steps could be taken, additional legislative guidance may be well-counseled.”).

62. *Id.*

63. *Aimster*, 334 F.3d 643 (7th Cir. 2003).

64. AOL has no relationship with Aimster and was not party to the lawsuit. *Aimster I*, 252 F. Supp. 2d 634, 656 (N.D. Ill. 2003).

65. *Id.* at 642. Aimster changed its name to Madster following legal pressure from America Online regarding use of the AIM moniker.

66. *Id.* at 640.

67. *Id.* at 642-43.

to visit Aimster's website, view the "Aimster Top 40" list, and click on a title to initiate a search of the network to locate and transmit the file.<sup>68</sup>

In essence, Aimster added three features to the existing AOL architecture: (1) encryption, which protected the anonymity of users and what they transferred,<sup>69</sup> (2) the capability to search and transfer files between all other Aimster users (not just designated buddies),<sup>70</sup> and (3) Club Aimster, which as a centralized file index potentially similar to Napster's (albeit much smaller) may set Aimster apart from the Grokster and StreamCast systems.<sup>71</sup> As with other P2P systems, the Aimster network did not centralize files, which remained on users' computers in their shared directories.

The Seventh Circuit's analysis of Aimster's secondary liability relied less on the structure of the software than Aimster's failure to show any noninfringing uses for it. Finding no evidence of noninfringing use in the record,<sup>72</sup> the court concluded that Aimster had failed to meet its burden of production and therefore was not entitled to invoke the *Sony* defense.<sup>73</sup> The court accordingly found Aimster liable for contributory infringement under the traditional analysis. In a spin on the material contribution prong, Judge Posner called contributory infringement the (civil) counterpart to criminal aiding and abetting, and found that Aimster's software tutorial aided and abetted infringing use because it listed only copyrighted songs in its examples: "The tutorial is the invitation to infringement that the Su-

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68. *Id.* at 644-45.

69. While users can create and search personal profiles detailing their interests or the names of their files available for sharing, the Aimster software encrypts user identities and all information transferred over the network. *Id.* at 641.

70. *Id.* at 640-41. It appears that users can conduct the very same infringing file transfers with AOL IM that they can with Aimster; the advantages of the Aimster system are anonymity and the ability to connect with people the user does not personally know, thus yielding a larger pool of available files. *See id.* at 640, 656.

71. The district court declined to rule on this issue, citing insufficient evidence and stating that its decision rested on other grounds. *Id.* at 642 n.6.

72. The court, however, proposed five such potential uses of its own accord, perhaps providing a legal roadmap for future P2P providers: downloading uncopyrighted music from start-up bands or those whose copyright has expired; distributing music for promotion; exchanging information among fans; exchanging off-color information among Aimster users who desire privacy; and space shifting for CD owners who wanted to listen to the music they owned while away from their collection. *Aimster*, 334 F.3d 643, 652 (7th Cir. 2003). Judge Posner suggested that peer-to-peer technology might enable this last proposition because it obviates the need for intermediary copying. *Id.* at 652-53.

73. Whether *Sony* represents a defense or plays some other procedural role in assessing secondary liability is further addressed *infra* Part III.A.

preme Court found missing in *Sony*.<sup>74</sup> The court likewise found material contribution (or aiding and abetting) in Club Aimster. The songs listed in the Aimster Top 40 were invariably copyrighted, making each click on the Club Aimster list a quick step to infringement; as an expert testified before the district court, Club Aimster “takes the search out of searching.”<sup>75</sup> Judge Posner also pointed to the monthly fee for Club Aimster as further evidence of liability, though he did not specify the legal theory behind this point. He simply noted that since the club fee was Aimster’s sole revenue source, Club Aimster (and the alleged infringing conduct there) could not be separated from the overall system—assuming, perhaps, that without the ability to charge subscribers for Club Aimster, the service as a whole would cease to operate.<sup>76</sup>

The court also found that Aimster’s activities satisfied the knowledge prong by applying a “willful blindness” test. Though the encryption of transfers prevented actual knowledge, Judge Posner concluded that Aimster willfully blinded itself to infringing activity—conduct that the company could have observed and controlled but for an encryption process apparently designed primarily to exculpate the proprietor from the knowledge requirement.<sup>77</sup> Given contributory liability, Judge Posner deemed the question of vicarious liability “academic” and affirmed the district court without specifically addressing the latter charge in detail.<sup>78</sup>

### III. DISCUSSION: THE CURRENT STATE OF *SONY* AND THE FUTURE OF SECONDARY LIABILITY DOCTRINE

P2P technology appears to mark a point of divergence in the application of *Sony* doctrine to new technologies and fact patterns. Indeed, *Grok-*

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74. *Aimster*, 334 F.3d at 651 (analogizing Sony to a retailer who sells slinky dresses knowing his customers are prostitutes, while comparing Aimster’s conduct to that of a massage parlor owner who knows his employees sell sex).

75. *Aimster I*, 252 F. Supp. 2d at 645.

76. As stated by Judge Posner, “Because Aimster’s software is made available free of charge and Aimster does not sell paid advertising on its Web site, Club Aimster’s monthly fee is the only means by which Aimster is financed and so the club cannot be separated from the provision of the free software.” *Aimster*, 334 F.3d at 652. The opinion offers no further explanation of this point.

77. *Id.* at 654-55. The court did not discuss the Club Aimster file index Aimster maintained on its website, which presumably would have satisfied knowledge under a *Napster* analysis; the district court did not make a finding of fact on this issue.

78. *Id.* Judge Posner postulated that the *Sony* Court used vicarious and contributory infringement interchangeably and thus the legal question was a single inquiry into secondary liability. *Id.* He also expressed doubt that a court would hold Aimster vicariously liable on the merits. *Id.*

*ster* and *Aimster* represent two apparently irreconcilable outcomes<sup>79</sup>—and if the Ninth Circuit affirms *Grokster*, a circuit split is unavoidable. The following discussion tracks the *Sony* doctrine through *Napster*, *Grokster*, and *Aimster*, as well as the propositions on the table in the *Grokster* appeal, in an attempt to elucidate the evolution and current state of the rules for secondary copyright infringement. Fundamentally, the issue is to what degree producers of technology products or systems should be found secondarily liable for infringing conduct by their users, and what tests strike the proper balance between technological innovation and copyright holders' rights.

The peer-to-peer cases have applied three sets of interrelated rules: the substantial noninfringing use standard of *Sony*, and the common law doctrines of contributory, and vicarious liability. Table 1 summarizes how the courts have enunciated and applied these rules and the results they reached under each rule. The table also presents current proposals from technologists, the content industries, and public interest groups for developing the rules in the future.

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79. See Armstrong, *supra* note 4, at 16 (“The logical and legal distinctions that have been made thus far in this line of cases are sharply inconsistent and can therefore be criticized as arbitrary.”).

**TABLE 1: Current and Proposed Rules for Secondary Copyright  
Infringement Liability**

Rule/Test	Substantial noninfringing use(s)
<i>Sony</i>	Sale of staple articles of commerce capable of substantial noninfringing uses <b>“does not constitute contributory infringement.”</b> Result: Not liable, use was private, noncommercial time-shifting.
<i>Napster</i>	<b>Substantial noninfringing use</b> invokes the <i>Sony</i> defense on the knowledge prong of contributory liability but is not an absolute shield. Result: Liable. Issue was not the technology’s structure, but rather Napster’s conduct. The <i>Sony</i> defense thus did not apply.
<i>Grokster</i>	<b>Substantial noninfringing use, current or future</b> , merits the <i>Sony</i> defense; follows <i>Napster</i> in deploying the test under the knowledge prong of contributory liability. Result: Not liable.
<i>Aimster</i>	<b>A balancing test is required.</b> Where noninfringing uses are possible, the court must weigh whether “the detection and prevention of the infringing uses would be highly burdensome.” Result: Liable. Burden was on defendant to show substantial noninfringing uses, and Aimster failed to do so.
Proposed	Technologists: <i>Sony</i> doctrine represents congressional intent and fulfills the constitutional mandate <sup>80</sup> and precludes consideration of a technology’s purpose, its producer’s intent, or the proportion of noninfringing uses. <sup>81</sup> Copyright holders: The <i>Sony</i> rule does not apply to P2P because (1) defendants have knowledge of infringing conduct, and (2) P2P is not a staple article with substantial noninfringing uses. <sup>82</sup> Courts should look to (1) intent, (2) primary actual use, and (3) defendant’s ability to prevent infringing conduct. <sup>83</sup> The burden is on defendants to show the extent of noninfringing uses. <sup>84</sup>

80. See Appellee StreamCast Networks, Inc.’s Opening Brief, *Metro-Goldwyn-Mayer v. Grokster, Ltd.*, 259 F. Supp. 2d 1029 (C.D. Cal. 2003) (Nos. 03-55894 & 03-55901) [hereinafter StreamCast Brief]; Brief of Amici Curiae of 40 Intellectual Property and Technology Law Professors, *Grokster* (Nos. 03-55894 & 03-55901) [hereinafter Professors’ Brief]; Brief of Amici Curiae American Civil Liberties Union et al., *Grokster* (Nos. 03-55894 & 03-55901) [hereinafter ACLU Brief]; Bridges, *supra* note 24.

81. StreamCast Brief, *supra* note 80, at 24.

82. Brief in Support of Reversal by Amici Curiae Law Professors and Treatise Authors Neil Boorstyn et al. at 20-24, *Grokster* (Nos. 03-55894 & 03-55901) [hereinafter Boorstyn Brief] (noting the ongoing relationship and calling for a three-part test for *Sony* immunity); Lieber Plaintiffs-Appellants’ Revised Reply Brief at 2-3, 12-14, *Grokster* (Nos. 03-55894 & 03-55901) [hereinafter Lieber Brief] (calling evocation of the *Sony* shield for any non-infringing use an “extreme interpretation” that “would eviscerate the doctrine of contributory liability”; asserting that *Napster* made clear that “the *Sony-Betamax* defense does not apply if defendants have actual knowledge of the infringe-

## Contributory Liability

Rule/Test	(1) Knowledge
<i>Sony</i>	<b>Rejected constructive knowledge</b> of infringement as basis for secondary liability. Result: Not liable. No actual knowledge even though copying was “the most conspicuous” or “the major” use of the product.
<i>Napster</i>	<b>Required actual knowledge</b> —(1) specific knowledge at time of the infringement, and (2) failure to act upon that knowledge. Result: Liable. Napster’s centralized file index satisfied the knowledge test and rendered the <i>Sony</i> rule irrelevant.
<i>Grokster</i>	<b>Required actual knowledge</b> of specific infringement when defendant materially contributed to and could prevent such infringement (echoing <i>Napster</i> test). Result: Not liable. Network’s structure did not provide actual, specific knowledge.
<i>Aimster</i>	Rejected <i>Napster</i> ’s holding that actual knowledge establishes secondary liability. <b>Still, willful blindness is knowledge.</b> Result: Liable. Encryption designed to shield Aimster from infringing activity did not also shield it from liability.

ments taking place”; and proposing that defendants do not purvey staple articles of commerce but rather instructions for creating specialized piracy networks, generating ongoing revenues and thus constituting a relationship); MGM Plaintiffs-Appellants’ Opening Brief at 24, 39-40, *Grokster* (Nos. 03-55894 & 03-55901) [hereinafter MGM Brief] (citing *Napster*’s reasoning that actual knowledge of infringement eliminates *Sony* immunity, and distinguishing the ongoing relationship created by defendants’ networks from the one-time sale of a Betamax). Plaintiffs also contend that the policy concerns for technological innovation present in *Sony* are absent here because a finding of liability would not make P2P technology illegal, but merely its infringing uses. MGM Brief, *supra*, at 43.

83. Boorstyn Brief, *supra* note 82, at 21-24. Plaintiffs’ amici in the *Grokster* case contend defendants fail all three parts of this test. *Id.*

84. Lieber Brief, *supra* note 82, at 15. This assessment should address magnitude, substantiality, and commercial significance, *id.*, and mere capability does not suffice. *Id.* at 17 (“To accept that contention effectively reads the word “substantial” out of the *Sony-Betamax* defense . . . . Such a radical view simply cannot be reconciled with the plain language of *Sony-Betamax*.”).

Rule/Test	(2) Material involvement/control
<i>Sony</i>	<p><b>Required control and authorization</b> of infringing conduct to impose liability.</p> <p>Result: Not liable because the only contact between Sony and users was at the moment of sale.</p>
<i>Napster</i>	<p><b>Site and facilities</b> test from <i>Fonovisa</i>.</p> <p>Result: Liable. Napster's integrated service provided site and facilities for infringement; duty to police.</p>
<i>Grokster</i>	<p>A <b>close-the-doors</b> test for providing the site and facilities.</p> <p>Result: Not liable. Users could continue to infringe after defendants ceased operations.</p>
<i>Aimster</i>	<p><b>Aiding and abetting</b> test borrowed from criminal law.</p> <p>Result: Liable. Software tutorial and Club Aimster encouraged the downloading of copyrighted songs—an "invitation to infringement."</p>

Proposed	<p>Technologists:  <b>General knowledge</b> (actual or constructive) is <b>not enough</b> where the <i>Sony</i> rule applies.<sup>85</sup>          Liability should not rely on subsequent relationship between producer and user; “[t]he character of the product itself should be the touchstone.”<sup>86</sup></p> <p>Copyright holders:          Follow <i>Napster</i> with a <b>conduct</b>-based test.<sup>87</sup> Reject need for actual knowledge of specific infringement when able to prevent it; <b>constructive knowledge</b> is enough,<sup>88</sup> and to require more would encourage <b>willful blindness</b> and <b>failure to design the product to monitor users</b>.<sup>89</sup>          Intent to induce infringement implies actual knowledge.<sup>90</sup></p>
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85. StreamCast Brief, *supra* note 80, at 27. A general knowledge requirement would render Sony, Xerox, and CD burner manufacturers liable for infringements by their equipment. *Id.* at 28.

86. Bridges, *supra* note 24, at 7; *see also* StreamCast Brief, *supra* note 80, at 42-46.

87. “Regardless of the ways in which Defendants have tinkered with their peer-to-peer technology, their *conduct* has remained the same. The networks of infringing users that Defendants created would not exist and grow without Defendants’ myriad contributions.” MGM Brief, *supra* note 82, at 23.

88. Boorstyn Brief, *supra* note 82, at 13-15, 18; MGM Brief, *supra* note 82, at 23, 32-33 (citing cases in which general knowledge sufficed to establish contributory liability, and asserting that the specific knowledge and ability to prevent requirement improperly imports the control prong of vicarious liability into contributory liability). Defendants distinguish the cases the plaintiffs cite as not involving secondary liability to technology producers, or as turning on technology specifically designed for piracy. StreamCast Brief, *supra* note 80, at 30.

89. Boorstyn Brief, *supra* note 82, at 14-15; Lieber Brief, *supra* note 82, at 7-8. Defendants’ alleged efforts to encourage infringement while avoiding knowledge include using blurred titles of infringing works in marketing materials, avoiding use of a centralized file index, and encrypting communications. Lieber Brief, *supra* note 82, at 7-9. Plaintiffs contend that defendants’ changes to their services to prevent future knowledge also evidence willful blindness. *Id.* at 9-10. The plaintiffs’ amici forcefully reject the *Grokster* court’s interpretation of *Napster*’s knowledge requirement (actual knowledge of specific infringements at a time defendants can stop them), averring that this is not the law and such a requirement would obliterate secondary liability online, where transactions are instant. Boorstyn Brief, *supra* note 82, at 15-19.

90. Lieber Brief, *supra* note 82, at 7 (asserting that evidence that the defendants sought to emulate Napster “is *directly* relevant to MusicCity’s and Grokster’s actual knowledge—which is dispositive of their *Sony-Betamax* defense—because it shows they acted with *intent* to induce infringement”). Even as plaintiffs propose that intent constitutes knowledge, their amici assert that intent is not necessary to find liability, as copyright is a strict liability regime. Boorstyn Brief, *supra* note 82, at 9.

## Vicarious Liability

Rule/Test	(1) Right and ability to supervise infringing conduct (2) Direct financial interest in infringing conduct
<i>Sony</i>	Notes that “ <b>the lines between direct infringement and vicarious liability are not clearly drawn</b> ” and that the plaintiffs made no vicarious liability claim. Result: Addressed contributory infringement only and found Sony not liable.
<i>Napster</i>	<b>Sony doctrine does not shield</b> against vicarious liability. Result: Liable. Napster satisfied both prongs of the test.
<i>Grokster</i>	Implicitly <b>echoes Napster</b> : no <i>Sony</i> shield against vicarious liability. Result: Not liable. Though Grokster and StreamCast derived financial benefit from infringement, they did not have the right and ability to supervise infringing conduct.
<i>Aimster</i>	<b>Follows the Sony Court</b> in joining vicarious and contributory liability into a single question. Result: None. Held Aimster liable on the basis of contributory infringement alone.
Proposed	Technologists: <i>Sony</i> provides a shield against contributory and vicarious liability, affirmed by Congress in the DMCA’s general safe harbor against all secondary liability. <sup>91</sup> The duty to police extends only to premises as defined by current architecture. <sup>92</sup> The duty to modify design is only prospective after vicarious liability is established. <sup>93</sup> Copyright holders: The <i>Sony</i> defense does not apply. <sup>94</sup> Right and ability to control is enough to establish liability, regardless of provider’s choice to exercise such control, <sup>95</sup> contemporaneous control is not

91. Professors’ Brief, *supra* note 80, at 5 n.5.

92. StreamCast Brief, *supra* note 80, at 42. StreamCast argues that because it has no ongoing contractual or practical relationship with users, it has no such duty to police. *Id.* at 42-43 (distinguishing the case from *Napster* and *Fonovisa*).

93. *Id.* at 47. To require infringement-preventing software design would be to radically increase the scope of vicarious liability and chill technological innovation. *Id.* at 20-21, 47. Furthermore, *Sony* rejected a design requirement in favor of the noninfringing use standard, which was reiterated by *Napster*’s limitation of liability to a system’s current architecture. *Id.* at 47-48.

94. Boorstyn Brief, *supra* note 82, at 19-20 nn.8-9; Lieber Brief, *supra* note 82, at 18 n.56; MGM Brief, *supra* note 82, at 53.

95. Lieber Brief, *supra* note 82, at 18-19; MGM Brief, *supra* note 82, at 62-63. Defendants have the contractual right to ban users and/or block infringing content via their terms of service, as well as the practical ability to do so. MGM Brief, *supra* note 82, at 57. Features of a previous version of the software can evidence such right and ability even if absent in the disputed version. *Id.* at 62-63.

	required. <sup>96</sup> Technologists must control infringing use to the fullest practical extent. <sup>97</sup>
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### A. *Sony*: Substantial Noninfringing Use

*Sony* presents a fairly liberal standard for technology producers, which the Court explicitly crafted to maintain the constitutional limits on copyright exclusivity: A technology's capability for any substantial noninfringing use serves to shield its providers from contributory liability, without regard to the technology's purpose or the proportion of actual infringing use. However, the four justices who dissented in *Sony* questioned whether this patent-derived principle provided an appropriate standard for copyright liability.<sup>98</sup> The dissent expressed concern that the ability of an imaginative producer to demonstrate noninfringing uses "essentially eviscerates the concept of contributory infringement."<sup>99</sup>

This doctrinal split has become central to current debates about what role the noninfringing use inquiry should play in assessing secondary copyright infringement. *Napster* and *Grokster* closely followed *Sony*'s refusal to examine the ratio between infringing and noninfringing uses. The *Napster* court noted that a single noninfringing use activated the *Sony* shield against liability in terms of the technology's architecture. However, the court went on to say that the technology was not the issue; rather the question was of *Napster*'s conduct under the common law standards for contributory and vicarious liability. Whether *Sony* governs not only technology but conduct—services as well as products—is difficult to discern from existing precedent. Indeed, whether *Sony* should control in an era where ongoing communication over the Internet turns many software "products" into services, conduct, and relationships is the question at hand.

The *Grokster* court followed *Napster* in finding substantial noninfringing use for *Grokster* and *StreamCast* software, but nonetheless proceeded to evaluate the defendants' conduct under contributory and vicarious li-

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96. Lieber Brief, *supra* note 82, at 24-25. Defendants' ability to filter or block infringing files creates a duty to police. *Id.* at 25, 58-60.

97. Boorstyn Brief, *supra* note 82, at 27-28 (proposing that such means for Internet technologies include filtering and blocking).

98. *Sony*, 464 U.S. 417, 491 (1984) (Blackmun, J., dissenting). As Justice Blackmun stated, "I do not agree that this technical judge-made doctrine of patent law, based in part on considerations irrelevant to the field of copyright law, should be imported wholesale into copyright law." *Id.* (Blackmun, J., dissenting). Justice Blackmun appears to believe that Congress' codification of the doctrine in the Patent Act does not render it less "technical" or "judge-made."

99. *Id.* at 498 (Blackmun, J., dissenting).

ability analyses.<sup>100</sup> The court did not predicate this second step analysis on “conduct” by the defendants, but did exert considerable effort in explaining that while the products’ architecture enabled an ongoing relationship, it was at arm’s length, with no information exchange between providers and users. Furthermore, the architecture also allowed the service to shut down without impinging on product use. One reading of this analysis is that *Grokster* and *StreamCast* escaped liability by being like the *Betamax*: For legal purposes, the relationship ended upon download of the software as *Sony* found it did with sale of the VCR. Thus perhaps the *Grokster* software, unlike *Napster*’s, fell within the *Sony* rule because the programs were articles of commerce, unburdened by a continuing legal relationship.

Judge Posner’s treatment of *Sony* departed from previous case law in both procedure and substance. First, and fatally to *Aimster*, he proposed that the burden to show substantial noninfringing uses falls on the defendant.<sup>101</sup> This allocation of the burden is not articulated in *Sony*. Indeed, the *Sony* decision suggests that it is the plaintiff’s burden to show that there is no noninfringing use.<sup>102</sup> Applying such reasoning may, as a procedural matter, have precluded Judge Posner from affirming the injunction against *Aimster* without a trial on the merits.<sup>103</sup>

Perhaps the most notable aspect of the *Aimster* decision was Judge Posner’s call, in extensive dicta, for an entirely new version of the *Sony* rule. Acknowledging that *Sony* established that “the producer of a product that has substantial noninfringing uses is not a contributory infringer merely because some of the uses actually made of the product . . . are in-

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100. The *Grokster* court pointed out that the substantial noninfringing use question “turns not only on the product’s *current* uses, but also on potential *future* noninfringing uses,” thus explicitly applying the *Sony* Court’s pronouncement on this principle to the P2P context. *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 259 F. Supp. 2d 1029, 1035 (C.D. Cal. 2003).

101. *Aimster*, 334 F.3d 643, 652-53 (7th Cir. 2003).

102. [R]espondents failed to demonstrate that time-shifting would cause any likelihood of nonminimal harm to the potential market for, or the value of, the copyrighted works. The *Betamax* is, therefore, capable of substantial noninfringing uses. *Sony*’s sale of such equipment to the general public does not constitute contributory infringement of respondent’s copyrights.

*Sony*, 464 U.S. at 456; see also *Bridges*, *supra* note 24, at 3 (former *Morpheus* lawyer contending that *Sony* places the burden on the plaintiff to show that the suspect technology is not capable of substantial noninfringing use).

103. Judge Posner did not think so. He concluded that “[b]ecause *Aimster* failed to show that its service is ever used for any purpose other than to infringe the plaintiffs’ copyrights,” there was no need to balance the harms in deciding to issue the injunction. *Aimster*, 334 F.3d at 652-53.

fringing,” Judge Posner continued, “How much more the Court held is the principal issue that divides the parties; and let us try to resolve it, recognizing of course that the Court must have the last word.”<sup>104</sup> Judge Posner proceeded to propose a balancing test that focuses on infringing use and the cost of reducing it:<sup>105</sup> “If the infringing uses are substantial then to avoid liability as a contributory infringer the provider of the service must show that it would have been disproportionately costly for him to eliminate or at least reduce substantially the infringing uses.”<sup>106</sup> To posit immunity on the mere capability of noninfringing use, the court argued, was to prevent liability for a seller of a product or service used solely to facilitate copyright infringement, and “such an extreme result” was “not envisaged by the *Sony* majority.”<sup>107</sup>

It is not clear whether *Aimster* calls for technology producers to anticipate infringing use and engineer around it in advance, or for service providers to police their premises as required in *Napster*. Since the court did not apply the proposed rule to reach its decision, that question awaits adjudication. What is clear is that in the Seventh Circuit, improbable noninfringing uses do not satisfy the *Sony* rule,<sup>108</sup> a departure from the “current or future use” test set forth in *Sony* and *Grokster*.

Stakeholders in this issue are staging a lively debate on how the *Sony* rule applies and ought to apply to providers of P2P technology and ser-

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104. *Id.* at 647.

105. In this discussion, Judge Posner asserted that the Ninth Circuit erred in *Napster* “in suggesting that actual knowledge of specific infringing uses is a sufficient condition for deeming a facilitator a contributory infringer.” *Id.* at 649 (agreeing with GOLDSTEIN, *supra* note 39). Presumably Judge Posner was aware of *Napster*’s analysis of the material contribution prong, and meant to suggest that a more specific knowledge standard should apply along with the contribution requirement. See *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1022 (9th Cir. 2001). The court did not elaborate on the proper knowledge standard or further requirements for finding contributory infringement. Judge Posner’s statement on this point represented an about-face from the *Aimster* district court’s finding that the *Napster* knowledge requirement was too liberal: “[T]here is absolutely no indication in the precedential authority that *such specificity* of knowledge is required in the contributory infringement context.” *Aimster I*, 252 F. Supp. 2d 634, 651 (N.D. Ill. 2003).

106. *Aimster*, 334 F.3d at 653. The court agreed with the record industry briefs that “the ability of a service provider to prevent its customers from infringing is a factor to be considered in determining whether the provider is a contributory infringer.” *Id.* at 648.

107. *Id.* at 650.

108. See *id.* at 653 (“It is not enough . . . that a product be physically capable, as it were, of a noninfringing use.”).

vices.<sup>109</sup> The two sides are well illustrated by the *Grokster* briefs. While technologists seek to preserve *Sony's* broad ruling and, as the *Grokster* court did, apply it to all new technologies including P2P,<sup>110</sup> copyright holders argue that the *Sony* court could not have foreseen the challenges of digital media in general and P2P technology in particular.<sup>111</sup> Like Judge Posner in *Aimster*, they call for further elaboration of the test that may place affirmative duties on technology providers to prevent infringement by users.<sup>112</sup>

Technology proponents argue that the *Sony* doctrine fulfills a constitutional mandate and congressional intent. The substantial noninfringing use test prevents copyright owners from asserting control over goods and services not eligible for copyright protection, as required by the Constitution.<sup>113</sup> Congress has also implicitly blessed substantial noninfringing use doctrine through two decades of inaction. According to this argument, the substantial noninfringing use standard trumps the traditional tests for secondary liability.<sup>114</sup> Courts should look only for the technical capability for noninfringing use, leaving aside any consideration of the purpose of a product or service, the intent of its provider,<sup>115</sup> or the proportion of in-

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109. See, e.g., Jon Healey, *Betamax Legacy Plays On*, L.A. TIMES, Jan. 17, 2004, at C1 (describing how "lawyers for the entertainment and technology industries are fighting to define what the [*Sony*] ruling means in the Internet era").

110. See *supra* notes 80-81.

111. See *supra* notes 82-83.

112. See *id.*

113. See U. S. CONST. art. I, § 8, cl. 8 (granting limited monopolies "to Promote the Progress of Science and useful Arts"); Professors' Brief, *supra* note 80, at 6-7 ("The *Sony* test . . . is consistent with the contributory infringement rule of patent law . . . [and] similarly clarifies the boundary between contributory infringement and the evolving doctrine of copyright misuse, which limits the power of copyright owners to obtain an unjustified monopoly over technologies.").

114. As one brief urging affirmance of the *Grokster* district court's decision stated, "[t]o the extent the Ninth Circuit subordinated the substantial noninfringing use requirement to the knowledge requirement, the *Napster* court necessarily undermined the object of the doctrine: to ensure that consumers not be required to pay monopoly tribute for unpatented or otherwise unprotected goods or equipment." Professors' Brief, *supra* note 80, at 13 (citing GOLDSTEIN, *supra* note 39, § 6.1.2) (internal quotations omitted). Despite this view that finding substantial noninfringing uses should end the inquiry, no court considering P2P technology has completely subsumed secondary liability to the *Sony* rule.

115. See *Sony*, 464 U.S. 417, 441 (1984); Bridges, *supra* note 24, at 7. Patent law does assign liability where a product is "especially adapted" for infringing use, but the test of such special adaptation is the substantial noninfringing use capability. 35 U.S.C. § 271(c) (2000).

fringing to noninfringing uses.<sup>116</sup> In support of this contention, technologists note that providers of, for instance, e-mail and web browsing software could design their products to prevent infringing conduct, but the courts have never required them to do so.<sup>117</sup>

Librarians and archivists have also joined with civil liberties groups to urge that P2P's ability to promote information exchange and free speech not be abridged. One major Internet-based archive of public domain material already uses P2P to store and distribute materials, and libraries laud the significant cost savings and bandwidth efficiency P2P can provide.<sup>118</sup>

Copyright holders, on the other hand, have proposed a number of alterations to the *Sony* rule, claiming that the rule is in essence a technological loophole that allows coders to design products that "skirt responsibility for causing infringement" and thus defeat the purpose of secondary liability.<sup>119</sup> These alternations include a "no infringing use" standard, evaluation of a technology's primary use, and analysis of the producer's intended use for the technology.<sup>120</sup>

The no infringing use standard would require technology producers to take all possible steps to prevent infringement by users.<sup>121</sup> Such a requirement would be unprecedented in copyright law, and seemed unnecessary the last time Congress overhauled the Act, as evidenced by testimony from the Copyright Office at that time pertaining to the VCR:

[S]ooner or later there is going to be a crunch here. But that is not what this legislation is addressed to, and I do not see the crunch coming in the immediate future . . . . I do not see anybody

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116. StreamCast Brief, *supra* note 80, at 24. Advantages of such a rule include its amenability to summary judgment and settled expectations for technology developers. *Id.* The *Sony* Court reversed the Ninth Circuit in refusing to consider the proportion of infringing to noninfringing use, an approach followed in *Napster*. *Id.* at 24-25.

117. *Id.* at 14, 38.

118. ACLU Brief, *supra* note 80, at 10-11 (describing the Internet Archive and Gutenberg Project).

119. Boorstyn Brief, *supra* note 82, at 2-3, 9-11. Amici for the *Grokster* appellants assert that "[b]y misjudging the elements of contributory and vicarious liability, [the *Grokster* court] has created a gaping technological loophole that jeopardizes the ability of long-standing copyright principles to redress viral infringement online." *Id.* at 3.

120. *See supra* note 83.

121. *Id.* Andrew Bridges argues that this standard would allow copyright holders to control product architecture and thus expand the scope of copyright in the way specifically deemed impermissible by the *Sony* Court. Bridges, *supra* note 24, at 10.

. . . forcing legislation that would engineer a piece of equipment not to allow home taping.<sup>122</sup>

However, the crunch has arguably arrived, and some believe that such engineering laws are the best solution.

Another proposed approach would require that the product's primary use be noninfringing to avoid liability to producers.<sup>123</sup> This fact-finding approach has been criticized as indeterminate and chilling to technology development, as the results in each instance would depend on the time of the inquiry and how primary use is defined.<sup>124</sup> A primary use standard also arguably contradicts the *Sony* Court's holding in the face of a clear factual record showing that Sony sold Betamax for the "primary purpose" of copying protected works and that "virtually all" material copied by Betamax was copyrighted.<sup>125</sup> However, the *Sony* Court went on to find that these otherwise infringing uses were protected under the fair use defense for time-shifting, and thus it remains unclear that the *Sony* doctrine precludes any factual inquiry into technology uses. Still, the idea that Xerox could be held liable for producing photocopiers in a future trial under this test points to the problems of notice, repose, and neutral application inherent in such a rule.

The final (and arguably most extreme) approach the content industries advocate is the intent test, which would examine whether the technology producer intended for users to infringe copyright with the product. Critics

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122. *Sony*, 464 U.S. 417, 471 (1984) (citing *Hearings on S. 646 and H.R. 6927 before Subcomm. No. 3 of the House Comm. on the Judiciary*, 92d Cong. 22-23 (1971)).

123. GOLDSTEIN, *supra* note 39, § 6.1.2. As Goldstein writes:

[S]o long as the fundamental requirements of knowledge and concert of action are met, contributory infringement should be found any time the materials or equipment in issue have a substantial *infringing* use in copying the plaintiffs' work. The reason, simply, is that, to the extent that materials and equipment have a substantial noninfringing use, consumers will be willing to pay a price for them that reflects their value in copying the plaintiffs' work.

*Id.* This proposition is untested in the P2P context, as the software can generally be downloaded for free. See also Wu, *supra* note 30, at 739 ("[T]he ratio of infringing to non-infringing uses must be at the forefront of the ultimate policy judgment in this area.").

124. Professors' Brief, *supra* note 80, at 7-8 ("Uses of a technology may evolve significantly over time . . . . Peer-to-peer technologies, which promise numerous benefits, e.g. relieving network congestion and increasing security and fault tolerance . . . will not evolve over time if progress in the field is stymied by expansive secondary liability."); Bridges, *supra* note 24, at 10.

125. See *Sony*, 464 U.S. at 428.

point to the difficulty of identifying intent,<sup>126</sup> especially where the intent must lie with a corporation, and to the potential resulting due process hurdles, as well as to the fact that consumers often use technology for unintended purposes—for instance, VCRs to play prerecorded tapes.<sup>127</sup> Furthermore, this test may beg the question of what constitutes infringing use of a technology.<sup>128</sup>

These three proposed tests contravene the plain language of the *Sony* holding, in which the Court seemed to require only “one” “potential” non-infringing use of the Betamax to find it eligible for the liability shield.<sup>129</sup> Nonetheless, the Court went on to note that the primary purpose of the Betamax for “most owners” was time-shifting.<sup>130</sup> The Court found this activity to be a fair use that served First Amendment values, leaving open the question of whether the Court actually applied the rule it announced.<sup>131</sup> *Sony* is rife with explanations of how home taping with the Betamax failed to harm the content owners’ interest and furthered the public good,<sup>132</sup> perhaps suggesting that the finding of fair use overshadowed the substantial noninfringing use standard in shaping the Court’s decision.

Another concern regarding the copyright holders’ proposed tests is judicial efficiency. Such evaluations require extensive fact-finding and/or subjective inquiries into the defendant’s state of mind that would preclude deciding secondary infringement cases on summary judgment. While *Sony* required a five-week district court trial before ascending the chain of ap-

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126. Professors’ Brief, *supra* note 80, at 15-16; Bridges, *supra* note 24, at 10. This echoes the test Justice Blackmun proposed in his *Sony* dissent: “[I]f a *significant* portion of the product’s use is *noninfringing*, the manufacturers and sellers cannot be held contributorily liable for the product’s uses,” but “if no one would buy the product for noninfringing purposes alone, it is clear that the manufacturer is purposely profiting from the infringement, and that liability is appropriately imposed.” 464 U.S. at 491 (Blackmun, J., dissenting). One might question the presumption that either a majority of a product’s use would be noninfringing or it would have no takers for noninfringing use alone, and wonder how such a complex measure could be calibrated.

127. See JAMES LARDNER, FAST FORWARD: A MACHINE AND THE COMMOTION IT CAUSES 297-300 (1987) (noting that the Betamax inadvertently enabled a market for pre-recorded videos that became a leading source of revenue for the movie industry); HAROLD L. VOGEL, ENTERTAINMENT INDUSTRY ECONOMICS: A GUIDE FOR FINANCIAL ANALYSIS 62 (5th ed. 2001).

128. Fair use doctrine, ambiguous provisions of the copyright law pertaining to digital technology, and uncertainty regarding what constitutes distribution over the Internet can make it difficult to define infringing use in the first instance.

129. See *Sony*, 464 U.S. at 442 (stating “[o]ne potential use of the Betamax clearly satisfies this standard” of commercially significant infringing use).

130. *Id.* at 454-55.

131. See *id.*

132. *Id.* at 443-56.

peals to the Supreme Court, the court decided *Grokster* on a motion for summary judgment by applying the *Sony* rule.<sup>133</sup>

## B. Contributory Liability

One point on which courts interpreting *Sony* in the P2P context seem to agree is that the *Sony* rule does not provide an absolute shield against contributory liability, but does eliminate constructive knowledge as a basis for that liability. None of the P2P courts has made the basis for this interpretation explicit, leaving open the question of precisely how to proceed with the knowledge analysis where substantial noninfringing uses are present, as discussed in Part III.A.

Application of the material contribution prong of contributory infringement has also proven difficult in the P2P context. Because P2P providers are present on the Internet and thus connected to the network and its users, they may well materially contribute to copyright infringement in a way Sony, by simply selling VCRs, could not. The *Sony* Court noted that lower court cases had only applied contributory infringement to “cases involving an ongoing relationship between the direct infringer and the contributory infringer at the time the infringing conduct occurred,” and that this relationship provided the lynchpin of control and authorization required for liability.<sup>134</sup> Noting that “[t]he only contact between Sony and the users of the Betamax disclosed by this record occurred at the moment of sale,” the Court found no such relationship between Sony and its customers.<sup>135</sup>

Peer-to-peer networks arguably create the relationship absent in *Sony*. Certain behaviors within that relationship appear to establish liability: compiling information regarding infringing content, creating features that aid and speed infringement, and collecting monthly fees.<sup>136</sup> P2P developers can design around these pitfalls, as represented by the second-

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133. *Id.* at 459 (Blackmun, J., dissenting). The *Sony* Court characterized the district court trial as “lengthy,” seeming to underscore this point throughout the opinion. *See id.* (Blackmun, J., dissenting). This may have been to emphasize the thorough review of the facts underlying the decision, to portray the potential complexity of such cases, and/or to suggest that the streamlined criteria of the *Sony* rule may lead to greater judicial efficiency and consistency.

134. *Id.* at 437. “In such cases, as in other situations in which the imposition of vicarious liability is manifestly just, the ‘contributory’ infringer was in a position to control the use of copyrighted works by others and had authorized the use without permission from the copyright owner.” *Id.*

135. *Id.* at 438.

136. *See Aimster*, 334 F.3d 643 (7th Cir. 2003); *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004 (9th Cir. 2001).

generation systems defended in *Grokster*. Under its close-the-doors test, the *Grokster* court concluded that since users could continue to infringe after the defendants (hypothetically) ceased operations, the defendants did not provide the site and facilities for infringement.<sup>137</sup> The court deemed this close-the-doors quality “a seminal distinction” between the *Grokster* and Streamcast technologies and Napster, likening the *Grokster* defendants to Xerox and Sony—mere providers of products that may be used to infringe. The court continued by stating that providing “support services and refinements that indirectly support such [infringing] use” did not change the calculus; an ongoing customer service relationship does not independently establish material contribution.<sup>138</sup> Thus under current law, P2P providers may maintain relationships with users within certain bounds without contributing to copyright infringement.

The question is whether those bounds are now established or still in the making. Could distribution of pop-up ads to users or utilization of their computing resources via the P2P network constitute an impermissible relationship because such measures generate revenue to the provider?<sup>139</sup> Proponents of “pure” *Sony* doctrine argue against assessing any subsequent relationship between a provider and user when gauging liability for provision of the product: “The character of the product itself should be the touchstone.”<sup>140</sup> However, the instant cases suggest that a relationship analysis is inevitable when the product at hand is an Internet-based network.

### C. Vicarious Liability

The role of vicarious liability in secondary copyright infringement claims against technologists remains a subject of debate. Though the *Sony* Court acknowledged both contributory and vicarious liability, its analysis seems to conflate the two.<sup>141</sup> As a result, it is unclear whether the Court

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137. *Metro-Goldwyn-Mayer v. Grokster, Ltd.*, 259 F. Supp. 2d 1029, 1041 (C.D. Cal. 2003).

138. *Id.* at 1043.

139. KaZaA, which as of 2002 derived its sole income from pop-up ads, has noted that advertising does not supply adequate revenue and plans to augment its income by selling the computing resources of network users. Erick Schonfeld, *The True Cost of Free Music*, BUSINESS 2.0, May 24, 2002, at <http://www.business2.com/articles/web/print/0,1650,40816,00.html>.

140. Bridges, *supra* note 24, at 7.

141. *See Sony*, 464 U.S. 417, 434-35 (1984) (noting that “the lines between direct infringement, contributory infringement, and vicarious liability are not clearly drawn”); *see also Aimster*, 334 F.3d at 654; Professors’ Brief, *supra* note 80, at 2-3 n.2. Even the dissent in *Sony* noted that “[t]he doctrine of contributory copyright infringement . . . is not well defined,” causing the district court and Ninth Circuit to reach opposite results in

intended the substantial noninfringing use rule to apply to both types of liability or solely to contributory infringement, which was the only claim raised by the *Sony* appellants. There is good reason, however, to believe that the Court intended to apply a unified theory of secondary liability. Noting that “vicarious liability is imposed in virtually all areas of the law,” the Court continued that “the concept of contributory infringement is merely a species of a broader problem of identifying the circumstances in which it is just to hold one individual accountable for the actions of another.”<sup>142</sup>

The *Napster* court asserted that the *Sony* shield did not reach vicarious liability, but did not provide any particular rationale for its interpretation.<sup>143</sup> As a result, technology providers could be liable for vicarious infringement even where substantial noninfringing uses shield them from a contributory infringement claim. This dual inquiry is particularly troubling in predicting outcomes for Internet technologies, where providers may have certain rights and abilities to supervise conduct by virtue of their network services,<sup>144</sup> and under *Napster*, mere “customer draw” may serve to satisfy the financial interest prong.

Unlike *Napster* and *Grokster*, the *Aimster* opinion acknowledged that the *Sony* Court treated the two doctrines interchangeably<sup>145</sup> and that any attempt to hold *Aimster* vicariously liable for failing to prevent infringement through system design and policing would be “notwithstanding the outcome in *Sony*.”<sup>146</sup> However, Judge Posner also speculated that the

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applying the *Gershwin* rule to *Sony*. See 464 U.S. at 487-89 (Blackmun, J., dissenting); *Gershwin Publ'g Corp. v. Columbia Artists Mgmt. Inc.*, 445 F.2d 1159, 1162 (2d Cir. 1971). Justice Blackmun then went on to discuss contributory and vicarious liability cases interchangeably. See *Sony*, 464 U.S. at 487-89 (Blackmun, J., dissenting).

142. *Sony*, 464 U.S. at 435; see also Professors' Brief, *supra* note 80, at 2-3 n.2.

143. *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1022 (9th Cir. 2001) (citing 3 MELVILLE B. NIMMER & DAVID NIMMER, *NIMMER ON COPYRIGHT* §§ 12.04[A][2]-[A][2][b] (2000); Anne Haring, *Copyright Infringement Issues on the Internet*, 617 PLI/PAT 455, 528 (2000)). Some have criticized this conclusion as lacking support. See, e.g., Professors' Brief, *supra* note 80, at 3 n.2.

144. Requiring such supervision would, of course, raise privacy concerns.

145. “The Court, treating vicarious and contributory infringement interchangeably, held that *Sony* was not a vicarious infringer either.” *Aimster*, 334 F.3d at 654.

146. *Id.* at 654-55.

By eliminating the encryption feature and monitoring the use being made of its system, *Aimster* could like *Sony* have limited the amount of infringement. Whether failing to do so made it a vicarious infringer notwithstanding the outcome in *Sony* is academic, however; its ostrich-like refusal to discover the extent to which its system was being used to

Court could have found Sony vicariously liable for failing to reduce the likelihood of infringement,<sup>147</sup> presumably based on the right and ability to supervise prong; through design, technology producers conceivably could create the right and ability to supervise future user conduct.<sup>148</sup>

One argument that the *Sony* defense applies to claims of vicarious liability may be found in the safe harbor provision of the Digital Millennium Copyright Act (DMCA).<sup>149</sup> The DMCA, which postdates *Sony* by fourteen years, provides a safe harbor to Internet service providers against secondary liability for copyright infringement in § 512. Proponents of this view argue that Congress thus recognized contributory and vicarious liability as a single question and specifically declined to exempt vicarious liability from the *Sony* ruling.<sup>150</sup> Though § 512 does not appear to shelter P2P providers from secondary liability because of the repeating nature of the infringing conduct on their networks,<sup>151</sup> it is the congressional conflation of contributory and vicarious liability that supports the argument for placing vicarious liability beneath the *Sony* shield. Of course, Congress did not make the *Sony* rule and has never commented on it, which may attenuate the connection between the scope of *Sony* and the provisions of the DMCA.

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infringe copyright is merely another piece of evidence that it was a contributory infringer.

*Id.*

147. *Id.*

148. *Aimster* does not address the lack of technology enabling general recognition of copyrighted content.

149. 17 U.S.C. § 512 (2000).

150. See Professors' Brief, *supra* note 80, at 5 n.5; see also *Napster*, 239 F.3d 1004, 1025 (2001) ("The limitations in subsections (a) through (d) protect qualifying service providers from liability for all monetary relief for direct, vicarious, and contributory infringement.") (citing S. REP. NO. 105-190, at 40, reprinted in MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT: CONGRESSIONAL COMMITTEE REPORTS ON THE DIGITAL MILLENNIUM COPYRIGHT ACT AND CONCURRENT AMENDMENTS (2000)); Charles W. Wright, *Actual Versus Legal Control: Reading Vicarious Liability for Copyright Infringement Into the Digital Millennium Copyright Act of 1998*, 75 WASH. L. REV. 1005, 1028-31 (2000) ("The committee reports leave no doubt that Congress intended to provide some relief from vicarious liability.").

151. See 17 U.S.C. § 512(i)(1)(A) (providing a safe harbor to any Internet service provider that, inter alia, "provides for the termination in appropriate circumstances of subscribers and account holders of the service provider's system or network who are repeat infringers"); *Aimster*, 334 F.3d at 655.

#### D. Who Acts Now and How?

The *Sony* decision is nearly twenty years old, which could render its rule and principle either time-tested or outmoded. There are reasons to think *Sony* inapplicable to present realities. The VCR and P2P systems are significantly different technologies, arguably calling for different legal rules. In *Sony*, the district court found, and the Supreme Court agreed, that many copyright holders wished to allow private time-shifting and believed this use of the technology would enhance the value of the copyrighted works.<sup>152</sup> Furthermore, the Court found that time-shifting did not harm the market for television shows.<sup>153</sup> The Court's extensive findings of fair use for the VCR, though ostensibly separate from the rationale underlying the substantial noninfringing use doctrine, may have shaped the holding. No court addressing P2P today would find that the content industries similarly condone the most common use of the technology (infringing on recorded music copyrights), or that file sharing poses no threat to the market for recorded music.<sup>154</sup>

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152. *Sony*, 464 U.S. 417, 443 (1984).

153. *Id.* at 425.

154. Estimates of actual harm to music sales resulting from file sharing vary, with a number of factors confounding efforts to give such statistics meaning. CD sales have indeed been falling since 2001 (Napster launched in 1999). See Menell, *supra* note 30, at 119; Brad King, *Slagging Over Sagging CD Sales*, WIRED NEWS, Apr. 17, 2002, at <http://www.wired.com/news/mp3/0,1285,51880,00.html> (reporting a record industry trade association's announcement of a 5% decline worldwide in 2001). Yet it is unclear how courts could expect to assess the harm done to record sales from music file sharing, as other variables include economic conditions, the match between industry releases and consumer tastes, rising CD prices, consolidation in the radio industry, traditional "hard copy" piracy, and competition from other forms of entertainment. See James K. Willcox, *Where Have All the CDs Gone?*, SOUND & VISION, June 2003, at [http://www.soundandvisionmag.com/article.asp?section\\_id=2&article\\_id=453&page\\_number=1](http://www.soundandvisionmag.com/article.asp?section_id=2&article_id=453&page_number=1). The data on what percentage of file sharers purchase less or more music is conflicting. See National Record Buyers Study II, Edison Media Research, at <http://www.edisonresearch.com/R&RRecordBuyersII.htm> (last visited Feb. 11, 2004) (study sponsored by music industry trade publication finding that 41-51% of downloaders are buying less music). Cf. Noah Shachtman, *Report Refutes Anti-Trade Debate*, WIRED NEWS, May 3, 2003 (reporting a study from Jupiter Research finding that experienced file traders were 75% more likely to purchase music than average online music fans), at <http://www.wired.com/news/business/0,1367,52305,00.html>. Recent studies suggest that most Americans have few moral qualms about sharing copyrighted files online. See, e.g., Amanda Lenhart et al., *The Pew Internet & American Life Project, Downloading Free Music: Internet Music Lovers Don't Think It's Stealing 5-6* (Sept. 28, 2000) (finding that 78% of downloaders do not consider file sharing to be stealing and 61% are indifferent to copyright, and that 53% of Internet users and 40% of Americans believe it is not wrong to share music over the Net), available at <http://www.pewinternet.org/reports/toc.asp?Report=23>. Consumers

Another potentially significant difference between the VCR and P2P systems is that P2P (arguably) implicates another exclusive right under copyright law: distribution. Because *Sony* involved only unauthorized copying, its protections might not extend beyond that context. This was in fact the approach the district court took in *Aimster*—end users who made copies of copyrighted works available for download acted as distributors and thus rendered *Sony* inapplicable.

Technologists dispute this approach, arguing that it turns *Sony* on its head; the question is whether there are substantial noninfringing uses, not whether another infringing use can be found.<sup>155</sup> Furthermore, it is not clear that uploading music files violates the distribution right in the Copyright Act. Under the statute's plain language, this right is "to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending."<sup>156</sup> There is no sale, rental, lease, or loan of copies in making a file available on a P2P network. "Other transfer of ownership" is as yet a legal wild card. No court has decided whether the delivery of electronic bytes constitutes the transfer Congress contemplated in 1976.

Many commentators assert that Congress is the appropriate body to weigh the competing interests involved in regulating peer-to-peer technology—or perhaps any technology at all.<sup>157</sup> The *Sony* Court noted that the "difficult balance" between stakeholder interests in intellectual property has required numerous amendments to the patent and copyright statutes.<sup>158</sup> "From its beginning, the law of copyright has developed in response to significant changes in technology," and Congress is charged with this

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may even see using peer-to-peer technology as a form of protest over a copyright law they had no role in shaping. Wu, *supra* note 30, at 747-48 (suggesting that heavy lobbying of Congress by the content industries has stirred consumer antipathy toward the law). Indeed, such protests are evident in user postings on *Aimster* bulletin boards, such as "LET'S ALL FUCK OVER THE MUSIC INDUSTRY" and "I AM NOT GOING TO BUY CDS ANYMORE!". *Aimster I*, 252 F. Supp. 2d 634, 644 (N.D. Ill. 2003).

155. Bridges, *supra* note 24, at 7.

156. 17 U.S.C. § 106(3).

157. Professors' Brief, *supra* note 80, at 2 (stating that "[the *Grokster*] Court is not the appropriate forum in which to change the *Sony* rule . . . . Congress . . . alone has the institutional competence necessary for a broad inquiry into the benefits and detriments of these technologies"); StreamCast Brief, *supra* note 80, at 53-54; see also Wu, *supra* note 30, at 739-40 (proposing that affirmance of the *Grokster* case would be in the tradition of "settlement-forcing" decisions, from the piano roll to cable broadcasting, in which courts have prompted Congress to settle disputes raised by new technology).

158. *Sony*, 464 U.S. at 429.

task;<sup>159</sup> it has long been “settled that the protection given to copyrights is wholly statutory.”<sup>160</sup>

Congress has addressed select Internet copyright issues by enacting the No Electronic Theft Act in 1997<sup>161</sup> and the Digital Millennium Copyright Act in 1998.<sup>162</sup> However, these and other recently proposed bills<sup>163</sup> have many observers concerned that if the question is left to Congress, lobbying pressures from the content industry and essential misunderstanding of the nature of technological development will combine to reach an unbalanced result.<sup>164</sup>

For its part, Congress appears less than eager to step into the fray. A group of legislators recently issued a call to P2P providers to regulate themselves.<sup>165</sup> This effort is already underway in the form of P2P United,

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159. *Id.* at 430-31.

160. *Id.* at 431 (“The judiciary’s reluctance to expand the protections afforded by copyright without explicit legislative guidance is a recurring theme.”).

161. Pub. L. No. 105-147, 111 Stat. 2678 (1997) (codified in scattered sections of 17 and 18 U.S.C.), available at <http://www.gseis.ucla.edu/iclp/hr2265.html>. The “NET” Act provides criminal penalties for copyright infringements that yield “private financial gain,” which may include “receipt, or expectation of receipt, of anything of value, including the receipt of other copyrighted works”—potentially most music file sharing. *See* Wu, *supra* note 30, at 742.

162. 17 U.S.C. §§ 512, 1201 (2000). The anti-circumvention provision in § 1201 of the DMCA “can be understood as an effort to restore an eroding gatekeeper system” by “return[ing] content owners to the 1970s, when they were free to sit back and police the few intermediaries licensed to access the copy-protected content.” Wu, *supra* note 30, at 741.

163. *See, e.g.*, H.R. 2885, 108th Cong. (2003) (to regulate P2P software); H.R. 2752, 108th Cong. (2003) (regulating software and providing higher criminal copyright penalties for P2P file sharing); H.R. 2517, 108th Cong. (2003) (providing for increased criminal copyright enforcement and Internet education); Consumer Broadband and Digital Television Promotion Act, S. 2048, 107th Cong. (2002) (introduced by Senator Fritz Hollings and requiring copy-protection mechanisms in all digital media technology); H.R. 5211, 107th Cong. (2002) (the “Berman Bill”) (proposing legal endorsement of technological self-help measures by copyright holders to disrupt P2P networks). *Cf.* The Consumers, Schools, and Libraries Digital Rights Management (DRM) Awareness Act of 2003, S. 1621, 108th Cong. (2003) (introduced by Senator Sam Brownback to prohibit government technology mandates while protecting the identity of Internet users and certain fair uses of digital media).

164. *See, e.g.*, Robert S. Boynton, *The Tyranny of Copyright?*, N.Y. TIMES, Jan. 25, 2004, (Magazine), <http://www.nytimes.com/2004/01/25/magazine/25COPYRIGHT.html>.

165. John Borland, *Senators Ask P2P Companies to Police Themselves*, CNET NEWS.COM, Nov. 21, 2003, at [http://news.com.com/2100-1028\\_3-5110785.html](http://news.com.com/2100-1028_3-5110785.html). Lindsey Graham (R-N.C.), Dianne Feinstein (D-Calif.), and four other senators wrote a letter to the leading P2P companies (including Grokster and Streamcast) requesting that they (1) provide clear, conspicuous warning regarding the legal risks of using their products, (2) install filters in their software to help prevent the transmission of files containing copy-

an alliance of P2P providers, including Grokster and Morpheus, that has adopted a “code of conduct” requiring members to provide information regarding copyright law, protect user privacy, and prevent inadvertent file sharing.<sup>166</sup> Meanwhile, those who oppose the *Sony* rule chasten courts who apply it in defendants’ favor in the name of awaiting congressional guidance.<sup>167</sup> As the dissent in *Sony* said, even while the Court chafed under an “ill-fitting” copyright regime, “in the absence of a congressional solution, courts cannot avoid difficult problems by refusing to apply the law.”<sup>168</sup>

In response to concerns about what form congressional guidance might take, a number of legal scholars and practitioners have put forth propositions for alternative compensation schemes to make P2P music file sharing legal, following existing, new, or hybrid models for compulsory or collective licensing, levies, or subscriptions.<sup>169</sup> Proponents of this approach note parallels to solutions to previous crises arising between technology and

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righted materials or pornography, and (3) set the software’s default to share no user files with the network unless the user actively chooses to do so. *Id.*

166. Member Code of Conduct, P2P United, at <http://www.p2punitied.org/modules.php?op=modload&name=News&file=index&catid=&topic=9&allstories=1> (last updated Sept. 29, 2003).

167. *See, e.g.*, Boorstyn Brief, *supra* note 82, at 3 (saying of the *Grokster* court’s unwillingness to expand the boundaries of copyright without more legislative guidance, “[s]uch an abdication was not justified.”); MGM Brief, *supra* note 82, at 64.

168. 464 U.S. 417, 499-500 (1984) (Blackmun, J., dissenting).

It is no answer, of course, to say and stress, as the Court does, this Court’s consistent deference to Congress whenever major technological innovations appear. Perhaps a better and more accurate description is that the Court has tended to evade the hard issues when they arise in the area of copyright law.

*Id.* at 457 (Blackmun, J., dissenting) (internal quotations and citations omitted).

169. *See, e.g.*, Raymond Shih Ray Ku, *The Creative Destruction of Copyright: Napster and the New Economics of Digital Technology*, 69 U. CHI. L. REV. 263 (2002); Mark S. Nadel, *Questioning the Economic Justification For (and thus Constitutionality of) Copyright Law’s Prohibition Against Unauthorized Copying: § 106* (AEI-Brookings Joint Ctr. for Regulatory Studies Related Publ’n 03-1, 2003), available at <http://aei-brookings.org/admin/pdffiles/Nadel.pdf>; Neil Weinstock Netanel, *Impose A Noncommercial Use Levy to Allow Free Peer-to-Peer File-Sharing*, 17 HARV. J.L. & TECH. 1 (2003), <http://jolt.law.harvard.edu/articles/pdf/v17/17HarvJLTech001.pdf>; Boynton, *supra* note 164; Peter Eckersley, *The Economic Evaluation of Alternatives to Digital Copyright*, SERCIAC 2003, at <http://www.serci.org/congress/papers/eckersley.pdf>; Peter Eckersley, *Virtual Markets for Virtual Goods: Copyright through the Looking-Glass* (Dec. 5, 2003), at <http://www.cs.mu.oz.au/~pde/writing/virtualmarketsrevised.pdf>; Terry Fisher, *An Alternative Compensation System*, at <http://cyber.law.harvard.edu/people/TFisher/PTKChapter6.pdf> (last visited Sept. 14, 2003).

content, which date back to the turn of the twentieth century.<sup>170</sup> Indeed this idea was seeded in *Sony*, in which the Ninth Circuit suggested a judicially created compulsory license as a solution to the problem below,<sup>171</sup> and the plaintiffs/respondents proceeded to propose compulsories as an acceptable remedy to the Court.<sup>172</sup>

While others debate the future of secondary liability, the recording industry has returned to a primary approach. In 2003, the Recording Industry Association of America instituted a campaign to subpoena peer-to-peer user names from Internet service providers and sue those it accuses of uploading copyrighted music files for direct infringement.<sup>173</sup> As a result, many in the field expect a new round of peer-to-peer technology that masks users' identity. Indeed, P2P coders have already exhibited great ingenuity in designing around developments in the law and its enforcement.<sup>174</sup> As the gap between law and social norms drives demand for technology that enables consumers to follow the version of the law they prefer,<sup>175</sup> we surely require a much deeper solution to the digital copyright

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170. See, e.g., Making P2P Legal, Electronic Frontier Foundation, <http://www.eff.org/share/legal.php> (last visited Mar. 10, 2004).

171. *Universal City Studios, Inc. v. Sony Corp. of Am.*, 659 F.2d 963, 976 (9th Cir. 1981) [hereinafter *Sony II*].

172. 464 U.S. at 441 n.21. The *Sony* dissent also voiced approval for considering a royalty scheme or other alternative remedy, *id.* at 493 (Blackmun, J., dissenting), noting that such a solution may pose less of a threat to commerce than an injunctive standoff. *Id.* at 499 (Blackmun, J., dissenting). Professor Goldstein has also proposed that injunctions give copyright holders excessive bargaining power and that licenses may provide a better solution. GOLDSTEIN, *supra* note 39, § 6.1.2.

173. See Alice Kao, RIAA v. Verizon: *Applying the Subpoena Provision of the DMCA*, 19 BERKELEY TECH. L.J. 405 (2004) (discussing the RIAA's use of the DMCA's subpoena provision to obtain the identities of two Verizon Internet subscribers). As recently as June 2003, commentators noted that copyright owners have declined to sue consumers of infringing copyrighted works because such a move would be "costly and unpopular," especially in light of the traditionally small scale of such infringement. See, e.g., Wu, *supra* note 30, at 713. Or as Judge Posner said in *Aimster*, the recording industry opted to sue the technology producers instead, "recognizing the impracticability or futility of a copyright owner's suing a multitude of individual infringers." *Aimster*, 334 F.3d 643, 645 (7th Cir. 2003). This view became obsolete in August, 2003, when the RIAA filed its first lawsuits against music file sharers.

174. Some argue that coders shape or even make law with such efforts. See, e.g., LAWRENCE LESSIG, CODE AND OTHER LAWS OF CYBERSPACE 89 (1999); Wu, *supra* note 30, at 680-81.

175. See Wu, *supra* note 30, at 725-26. So-called "charismatic code" enables illegal activity while tapping social norms of reciprocity to create an impression of cooperative community to users. Lior Jacob Strahilevitz, *Charismatic Code, Social Norms, and the Emergence of Cooperation on the File-Swapping Networks*, 89 VA. L. REV. 505, 507-08 (2003). As digital commentator John Perry Barlow said of P2P and copyright, "No law

dilemma than the current P2P decisions provide. Some commentators predict that copyright law will never triumph over conflicting social norms, and propose that copyright holders should turn their attention from legal reform and enforcement to normative change.<sup>176</sup>

#### IV. CONCLUSION

The outcome of the *Grokster* appeal and the adjudication that shall follow will have significant effects on the legal landscape regarding secondary copyright liability for peer-to-peer and other technology providers. Whether addressed by the Supreme Court, Congress, or private actors, the fate of the *Sony* doctrine in the near future is likely to reveal much about how copyright law can and should respond to emerging technologies and the novel issues they raise.

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can be successfully imposed on a huge population that does not morally support it and possesses easy means for its invisible evasion.” John Perry Barlow, *The Next Economy of Ideas*, WIRED MAG., Oct. 2000, [http://www.wired.com/wired/archive/8.10/download\\_pr.html](http://www.wired.com/wired/archive/8.10/download_pr.html). Even now, however, there is little evidence to support Barlow’s prediction that there will be no property in cyberspace. *See id.*

176. *E.g.*, Strahilevitz, *supra* note 175, at 595 (“[A] wiser strategy for the RIAA and its allies might be to think about ways in which they could weaken the cooperative norms that have arisen among users of these networks.”).



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**LEXMARK INTERNATIONAL, INC. V. STATIC  
CONTROL COMPONENTS, INC. & CHAMBERLAIN  
GROUP, INC. V. SKYLINK TECHNOLOGIES, INC.:  
THE DMCA AND DURABLE GOODS  
AFTERMARKETS**

*By Daniel C. Higgs*

The advent of the Internet brought with it the specter of digital piracy. Infringers had at their disposal an efficient means for replicating and distributing copyrighted works. Concerned by this prospect, content industries, such as software and movie companies, began protecting their works via encryption and other digital techniques.<sup>1</sup> However, technologically savvy users could develop methods to bypass any such digital defense.<sup>2</sup> As a result, the content industries lobbied Congress to prohibit the circumvention of technological protection measures that safeguard copyrighted content.<sup>3</sup>

Congress responded by enacting the Digital Millennium Copyright Act (DMCA or “the Act”)<sup>4</sup> in 1998. The DMCA contains the so-called anti-circumvention provisions, which prohibit the acts of circumventing and trafficking in devices that circumvent technological measures designed to protect copyrighted works from unauthorized access or use.<sup>5</sup> But while these broad prohibitions function as the shield that the content industries

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1. See Peter S. Menell, *Envisioning Copyright Law's Digital Future*, 46 N.Y.L. SCH. L. REV. 63, 134 (2003).

2. See INFO. INFRASTRUCTURE TASK FORCE, U.S. DEP'T OF COMMERCE, INTELLECTUAL PROPERTY RIGHTS AND THE NATIONAL INFORMATION INFRASTRUCTURE: THE REPORT OF THE WORKING GROUP ON INTELLECTUAL PROPERTY RIGHTS 230 (Sept. 1995) [hereinafter WHITE PAPER] (“[T]echnology can be used to defeat any protection that technology may provide.”), <http://www.uspto.gov/web/offices/com/doc/ipnii/ipnii.pdf>.

3. See Menell, *supra* note 1, at 133.

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

5. 17 U.S.C. § 1201(a)–(b) (2000). For an in-depth analysis of the anti-circumvention provisions, see 3 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 12A.03 (2003).

desired, other industries not traditionally seen as “content providers” have wielded them as a sword.<sup>6</sup>

In two recent cases, durable goods manufacturers used the DMCA in an attempt to stifle competition in aftermarkets for replacement parts. In *Lexmark International, Inc. v. Static Control Components, Inc.*,<sup>7</sup> a laser printer manufacturer sued a supplier of toner cartridge refurbishing equipment under the DMCA, seeking to enjoin the manufacture and marketing of a microchip that enabled unauthorized toner cartridges to work in the plaintiff’s printers by circumventing an authentication sequence. Similarly, in *Chamberlain Group, Inc. v. Skylink Technologies, Inc.*,<sup>8</sup> a manufacturer of garage door openers invoked the DMCA in an effort to prevent a competing company from selling replacement transmitters.

This Note explores the legitimacy of these new applications of the DMCA’s anti-circumvention provisions. Part I outlines the legal and economic contexts in which these new cases arise. Part II details the *Lexmark* and *Chamberlain* cases, both of which diverge from the archetypal application of the DMCA, yet represent foreseeable efforts to extend the Act’s reach in light of the economics of aftermarkets. Part III evaluates whether the DMCA should be revised in order to prevent this unintended application of the law. This Note concludes that no such revision is necessary so long as courts interpret the anti-circumvention provisions in a manner consistent with legislative intent; the provisions should only apply to those cases where a technological measure protects an independently marketable copyrighted work. Furthermore, certain safeguards built into the DMCA, as well as the equitable defense of misuse in the anti-circumvention context, will provide other tools for preventing abuse of the Act.

## I. LEGAL AND ECONOMIC BACKGROUND

As background for understanding the complex statutory issues presented in *Lexmark* and *Chamberlain*, this Part begins by explaining the development of the DMCA’s anti-circumvention provisions and their subsequent application in the courts. From their inception, the provisions dealt almost exclusively with the interests of the content industries—namely,

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6. See Dan L. Burk, *Anticircumvention Misuse*, 50 UCLA L. REV. 1095, 1135-36 (2003).

7. 253 F. Supp. 2d 943 (E.D. Ky. 2003). The case was subsequently argued before the Court of Appeals for the Sixth Circuit. *Static Control Components, Inc. v. Lexmark Int’l, Inc.*, No. 03-5400 (6th Cir. argued Jan. 30, 2004).

8. 292 F. Supp. 2d 1040 (N.D. Ill. 2003) [hereinafter *Chamberlain II*], *appeal docketed*, No. 04-1118 (Fed. Cir. Dec. 15, 2003); 292 F. Supp. 2d 1023 (N.D. Ill. 2003) [hereinafter *Chamberlain I*].

movie studios, book publishers, software developers, and music companies. Neither durable goods manufacturers nor aftermarket industries participated in the hearings and debates that shaped these provisions. Therefore, to provide further background for understanding the implications of extending the DMCA in this unexpected direction, this Part concludes with a description of aftermarket economics.

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

In 1993, the Clinton Administration assembled the Information Infrastructure Task Force ("IITF") to contend with the effects of emerging digital technologies on intellectual property.<sup>9</sup> The Task Force conducted hearings at which content industries played a dominant role.<sup>10</sup> It then issued the White Paper—a report that proposed drastic changes to the Copyright Act.<sup>11</sup> One proposed change, which was chiefly inspired by the motion picture industry,<sup>12</sup> would have outlawed devices designed primarily to circumvent "copyright protection systems."<sup>13</sup> This proposal was prompted by the fear that piracy would dissuade content industries from marketing their products in digital form, particularly over the Internet.<sup>14</sup> Congress considered the suggestions set forth in the White Paper, but did not enact them.<sup>15</sup>

Shortly thereafter, the White Paper's proposals resurfaced in an international setting. At the 1996 diplomatic conference held by the World Intellectual Property Organization (WIPO) in Geneva, the U.S. delegation, realizing that the global reach of the Internet made digital piracy an inter-

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9. S. REP. NO. 105-190, at 2 (1998).

10. *See id.*; *see also* JESSICA LITMAN, DIGITAL COPYRIGHT 90-95 (2001).

11. *See* Pamela Samuelson, *The Copyright Grab*, WIRED, Jan. 1996, [http://www.wired.com/wired/archive/4.01/white.paper\\_pr.html](http://www.wired.com/wired/archive/4.01/white.paper_pr.html).

12. *See* Pamela Samuelson, *The U.S. Digital Agenda at WIPO*, 37 VA. J. INT'L L. 369, 410 (1997).

13. *See* WHITE PAPER, *supra* note 2, app. 1, at 6. The proposed legislation reads:

§ 1201. Circumvention of Copyright Protection Systems

No person shall import, manufacture or distribute any device, product, or component incorporated into a device or product, or offer or perform any service, the primary purpose or effect of which is to avoid, bypass, remove, deactivate, or otherwise circumvent, without the authority of the copyright owner or the law, any process, treatment, mechanism or system which prevents or inhibits the violation of any of the exclusive rights of the copyright owner under section 106.

*Id.*

14. *See* S. REP. NO. 105-190, at 7-8 (1998); WHITE PAPER, *supra* note 2, at 10.

15. S. REP. NO. 105-190, at 4. Other unresolved issues, such as the extent to which Internet service providers should be liable for the infringing activities of their subscribers, prevented Congress from adopting the proposed omnibus legislation of which the anti-circumvention provision was a part. *Id.*

national problem, proposed anti-circumvention provisions similar to those found in the White Paper.<sup>16</sup> U.S. content industries also played a significant role at this international stage.<sup>17</sup>

The U.S. measure failed as originally proposed, but it was adopted with less imposing provisions in both the WIPO Copyright Treaty and the WIPO Performances and Phonograms Treaty.<sup>18</sup> These provisions required that each participating country “provide adequate legal protection and effective legal remedies against the circumvention of effective technological measures” used to protect copyrighted works.<sup>19</sup>

Although U.S. copyright law arguably already provided sufficient protection and remedies to satisfy the standards adopted in the two WIPO treaties,<sup>20</sup> the content industries lobbied for greater protection.<sup>21</sup> Congress thus considered legislation for implementing the treaties that would include more expansive anti-circumvention provisions than those proposed in the White Paper.<sup>22</sup> Congress eventually enacted these provisions as part

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16. See Samuelson, *supra* note 12, at 410-14.

17. See David Nimmer, *Time and Space*, 38 IDEA 501, 508-10 (1998) (stating that a disproportionate number of non-governmental organizations at the WIPO convention were of U.S. origin, and that the “world of copyright is now dancing to an American tune”); see also WORLD INTELLECTUAL PROP. ORG., DIPLOMATIC CONFERENCE ON CERTAIN COPYRIGHT AND NEIGHBORING RIGHTS QUESTIONS: LIST OF PARTICIPANTS 55-66 (1996), at <http://www.wipo.int/documents/en/diplconf/distrib/pdf/inf2.pdf>.

18. See Samuelson, *supra* note 12, at 414-15.

19. WIPO Copyright Treaty art. 11, Dec. 20, 1996, <http://www.wipo.int/clea/docs/en/wo/wo033en.htm>; WIPO Performances and Phonograms Treaty art. 18, Dec. 20, 1996, <http://www.wipo.int/clea/docs/en/wo/wo034en.htm>.

20. See, e.g., Pamela Samuelson, *Intellectual Property and the Digital Economy: Why the Anti-Circumvention Regulations Need to Be Revised*, 14 BERKELEY TECH. L.J. 519, 530-34 (1999). Samuelson contends:

The [WIPO treaty’s anti-circumvention norm] was, after all, very general in character and provided treaty signatories with considerable latitude in implementation. . . . The U.S. could have pointed to a number of statutes and judicial decisions that establish anti-circumvention norms. With U.S. copyright industries thriving in the current legal environment, it would have been fair to conclude that copyright owners already were adequately protected by the law.

*Id.* at 531-32. But see 3 NIMMER & NIMMER, *supra* note 5, § 12A.01[C], at 12A-9 to 12A-10 (stating that the *Sony* standard for legalizing technologies “capable of a commercially significant noninfringing use” gave insufficient protection under the WIPO treaties, thus requiring the United States to adopt new legislation).

21. See Samuelson, *supra* note 20, at 533-34.

22. See *id.* at 531-34; see also Pamela Samuelson & Suzanne Scotchmer, *The Law and Economics of Reverse Engineering*, 111 YALE L.J. 1575, 1634 (2002).

of the DMCA, and intended them to “create[] the legal platform for launching the global digital on-line marketplace for copyrighted works.”<sup>23</sup>

### **B. The DMCA Anti-Circumvention Provisions: § 1201**

Congress crafted the DMCA anti-circumvention measures as a set of blanket prohibitions tempered by numerous narrow exceptions. These prohibitions give copyright owners rights in addition to, and independent from, those that inhere in copyright.<sup>24</sup> As a result, some have dubbed the interests protected by the anti-circumvention provisions “paracopyright.”<sup>25</sup>

The primary prohibition set forth in § 1201 is against the act of “circumvent[ing] a technological measure that effectively controls access to a work protected under [the Copyright Act].”<sup>26</sup> This prohibition thus creates a new “right of access” in certain copyrighted works.<sup>27</sup> In explaining this right, Congress adopted the analogy of breaking into a locked room to obtain a copy of a book; it is the act of breaking in, rather than the subsequent use of the book, that is prohibited.<sup>28</sup>

The copyright owner’s authority is an important aspect of the access prohibition. The statute defines “circumvent[ing] a technological measure” as the use of any means “to descramble a scrambled work, to decrypt an encrypted work, or otherwise to avoid, bypass, remove, deactivate, or impair a technological measure without the authority of the copyright owner.”<sup>29</sup> Similarly, a technological measure “effectively controls access to a work” if it “requires the application of information, or a process or a treatment, with the authority of the copyright owner, to gain access to the work.”<sup>30</sup>

The DMCA further prohibits the trafficking of tools used to circumvent two different classes of technological measures: those that control access to a copyrighted work and those that protect “a right of a copyright owner,” such as the right to reproduce or distribute a work.<sup>31</sup> The first group of prohibited tools includes software that defeats video game con-

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23. S. REP. NO. 105-190, at 2 (1998).

24. See 3 NIMMER & NIMMER, *supra* note 5, § 12A.18[B], at 12A-186.

25. *Id.*

26. 17 U.S.C. § 1201(a)(1)(A) (2000).

27. See Jane C. Ginsburg, *Copyright Legislation for the “Digital Millennium”*, 23 COLUM.-VLA J.L. & ARTS 137, 140-43 (1999).

28. See H.R. REP. NO. 105-551, pt. 1, at 17 (1998).

29. 17 U.S.C. § 1201(a)(3)(A).

30. *Id.* § 1201(a)(3)(B).

31. *Id.* § 1201(a)(2), (b)(1).

sole mechanisms which prevent access to unlicensed games;<sup>32</sup> the second group includes software that defeats the new “copy-protection” feature on some music CDs.<sup>33</sup> For either group, the Act dictates that “[n]o person shall manufacture, import, offer to the public, provide, or otherwise traffic in any technology, product, service, device, component, or part thereof” that falls into any of three categories: (1) those “primarily designed or produced for the purpose of circumventing” a technological protection measure; (2) those that have “only limited commercially significant purpose or use other than to circumvent” a protection measure; and (3) those marketed for use in such circumvention.<sup>34</sup>

Section 1201 contains seven highly specific exceptions to both the access and anti-trafficking prohibitions, and the scope of these exceptions varies between the two forms of prohibition.<sup>35</sup> In general, there are limited exceptions for libraries and law enforcement agencies, for reverse engineering, encryption research, and security testing activities, and for the protection of minors and personal privacy.<sup>36</sup> Furthermore, the DMCA instructs the Librarian of Congress to periodically conduct rulemaking proceedings to exempt legitimate activities from the § 1201(a)(1)(A) prohibition on access control circumvention, but not from liability under the anti-trafficking provisions.<sup>37</sup>

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32. See *Sony Computer Entm't Am., Inc. v. Gamemasters*, 87 F. Supp. 2d 976, 987-88 (N.D. Cal. 1999).

33. See ELEC. FRONTIER FOUND., UNINTENDED CONSEQUENCES: FIVE YEARS UNDER THE DMCA 2 (Sept. 24, 2003), at [http://www.eff.org/IP/DRM/DMCA/unintended\\_consequences.pdf](http://www.eff.org/IP/DRM/DMCA/unintended_consequences.pdf).

34. 17 U.S.C. § 1201(a)(2), (b)(1).

35. See Burk, *supra* note 6, at 1104-05.

36. 17 U.S.C. § 1201(d)-(j).

37. *Id.* § 1201(a)(1)(C)-(E). On October 28, 2003, the Librarian of Congress announced the results of the second rulemaking proceeding. See U.S. COPYRIGHT OFFICE, RULEMAKING ON EXEMPTIONS FROM PROHIBITION ON CIRCUMVENTION OF TECHNOLOGICAL MEASURES THAT CONTROL ACCESS TO COPYRIGHTED WORKS, at <http://www.copyright.gov/1201> (last visited Feb. 9, 2004). The four additional classes of works that will be subject to exemption from the prohibition in § 1201(a)(1)(A) through October 27, 2006, are:

- [1] Lists of sites blocked by commercial Internet filtering software, but not spam-fighting lists.
- [2] Computer programs protected by hardware dongles that are broken or obsolete.
- [3] Computer programs or video games that use obsolete formats or hardware.
- [4] E-books that prevent read-aloud or other handicapped access formats from functioning.

The reverse engineering exception set forth in § 1201(f) is particularly relevant to the present discussion. It provides that one who “lawfully obtain[s] the right to use a copy of a computer program” may circumvent any access controls for the “sole purpose” of achieving interoperability with an “independently created computer program.”<sup>38</sup> It further allows for the development of circumvention tools for enabling interoperability and for the distribution of those tools.<sup>39</sup> The statute defines interoperability as “the ability of computer programs to exchange information, and of such programs mutually to use the information which has been exchanged.”<sup>40</sup>

### C. Cases Interpreting § 1201

Few courts have interpreted the anti-circumvention provisions of the DMCA since its enactment in 1998. However, virtually all cases brought under § 1201 prior to Lexmark filing suit in December 2002 involved content industries,<sup>41</sup> and were thus the type of case contemplated by Congress when enacting the DMCA.<sup>42</sup> This section briefly outlines some of these pre-*Lexmark* cases.

*Sony Computer Entertainment America, Inc. v. Gamemasters*<sup>43</sup> was the first published case interpreting § 1201. Sony manufactured PlayStation video game consoles designed to operate only when encrypted data on a game CD verified that the game and console were licensed for the same

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John Borland, *Feds Grant DMCA Exceptions*, CNET NEWS.COM, Oct. 28, 2003, at <http://news.com.com/2100-1028-5098639.html>.

38. 17 U.S.C. § 1201(f)(1).

39. *Id.* § 1201(f)(2)-(3).

40. *Id.* § 1201(f)(4).

41. One of the few DMCA cases predating *Lexmark* that does not involve a content industry is *PortionPac Chemical Corp. v. Sanitech Systems, Inc.*, 210 F. Supp. 2d 1302 (M.D. Fla. 2002). In this case, the plaintiff, a food sanitation service provider, alleged that the defendant, also a food sanitation provider, had violated the DMCA anti-circumvention provisions. *Id.* at 1311-12. The opinion gives an extremely limited presentation of the facts, mainly because the court granted the defendant’s motion to dismiss the DMCA claim:

After looking at the sparse case law on the DMCA, and considering the legislative history behind the Act, the Court finds that the *Digital Millennium Copyright Act* does not allow a cause of action for Plaintiff’s claim. As the Fourth Circuit pointed out, “[t]he DMCA was enacted . . . to preserve copyright enforcement in [sic] the Internet . . .”

*Id.* at 1311-12 (quoting *ALS Scan, Inc. v. RemarQ Cmty., Inc.*, 239 F.3d 619, 625 (4th Cir. 2001)). This case lends further support to the proposition that the DMCA should not be extended beyond its intended purpose. See *infra* Part III.

42. See *infra* Part III.A.

43. 87 F. Supp. 2d 976 (N.D. Cal. 1999).

geographical region.<sup>44</sup> If this authentication procedure failed, the console would not operate the game.<sup>45</sup> The defendant's product allowed PlayStation owners to bypass the authentication procedure and play "non-territorial" games.<sup>46</sup> The court determined that this activity constituted the circumvention of a technological measure designed to control access to copyrighted works.<sup>47</sup> Because this circumvention was the primary purpose of the defendant's product, the court held that the defendant would likely be liable for trafficking in unauthorized devices under § 1201(a)(2)(A), and enjoined distribution of the defendant's product.<sup>48</sup>

In *RealNetworks, Inc. v. Streambox, Inc.*,<sup>49</sup> the plaintiff offered to consumers software that enabled Internet streaming of audio and video files encoded in a special digital format.<sup>50</sup> Defendants marketed software that bypassed a "secret handshake" authentication sequence required for accessing these files, and further permitted users to make unauthorized copies of the files.<sup>51</sup> The court determined that the plaintiff was likely to prevail under both § 1201(a)(2) and (b)(1), and issued an injunction.<sup>52</sup>

In *Universal Studios, Inc. v. Corley*,<sup>53</sup> a group of eight motion picture studios sought to enjoin Internet web site owners from posting a computer program known as DeCSS.<sup>54</sup> This program circumvented CSS, which is the encryption system that protects access to content on digital versatile disks (DVDs).<sup>55</sup> The Second Circuit upheld an injunction based on the finding that the distribution of DeCSS violated § 1201(a)(2)(A) of the DMCA.<sup>56</sup>

*United States v. Elcom Ltd.*<sup>57</sup> represents the first criminal case brought under the DMCA.<sup>58</sup> The defendant company marketed software that re-

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44. *Id.* at 980. For example, Sony licensed certain games for use exclusively in Japan and Europe. *Id.*

45. *Id.* at 981.

46. *Id.* at 987. The court referred to those games which were not licensed for a particular geographical region as "non-territorial" for that region. *Id.*

47. *Id.*

48. *Id.* at 987, 989-91.

49. No. 2:99CV02070, 2000 WL 127311 (W.D. Wash. Jan. 18, 2000).

50. *Id.* at \*1. "Streaming" refers to the distribution of an audio or video clip in a format that leaves no trace of the clip on the receiving computer, unless the content owner has additionally permitted downloading. *Id.*

51. *Id.* at \*4.

52. *Id.* at \*8, \*12.

53. 273 F.3d 429 (2d Cir. 2001).

54. *Id.* at 435-36.

55. *Id.* at 436-38. CSS is short for "Content Scramble System." *Id.* at 436.

56. *Id.* at 441, 460.

57. 203 F. Supp. 2d 1111 (N.D. Cal. 2002).

moved copying and distribution restrictions from digitally formatted books, or “ebooks.”<sup>59</sup> The government contended that the marketing of such software violated the § 1201(b) anti-trafficking provision.<sup>60</sup> Although many saw this as a prime example of the type of case for which the DMCA was enacted, the jury ultimately acquitted the defendant.<sup>61</sup>

All of these cases have the common feature of protecting content industry products—video games, music files, videos, and books are all goods whose value lies in the copyrighted content they contain. In contrast, *Lexmark* and *Chamberlain* involve durable goods—products whose value is independent of any ancillary copyrighted software. Nonetheless, manufacturers of durable goods have attempted to incorporate the anti-circumvention provisions in their business models. The following section lays the groundwork for understanding their motivations for doing so.

#### D. Economics of Durable Goods Aftermarkets

Durable goods are products that “yield a flow of services into the future” or that “can be used over and over again,” such as washing machines, automobiles, laser printers, or garage door openers.<sup>62</sup> The goods or services supplied for a durable good after its initial sale, such as replacement parts or repair visits, constitute the aftermarket for that product.<sup>63</sup> Durable goods manufacturers thus focus on the full lifecycle of a product when determining its pricing and profitability, evaluating both initial and aftermarket sales.<sup>64</sup>

Many durable goods manufacturers depend on the aftermarkets of their products to turn a profit, and are thus highly protective of them.<sup>65</sup> These

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58. Criminal liability attaches under the DMCA for willful violations of the anti-circumvention provisions done “for the purpose[] of commercial advantage or private financial gain.” 17 U.S.C. § 1204(a)(1)-(2) (2000).

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

60. *Id.* at 1119.

61. See Lisa M. Bowman, *ElcomSoft Verdict: Not Guilty*, CNET NEWS.COM, Dec. 17, 2003, at <http://news.com.com/2100-1023-978176.html> (“Some lawyers speculated that the jury might have been rendering an opinion on the law itself, as well as on the strict legality of ElcomSoft’s activities.”).

62. See Michael S. Jacobs, *Market Power Through Imperfect Information: The Staggering Implications of Eastman Kodak Co. v. Image Technical Services and a Modest Proposal for Limiting Them*, 52 MD. L. REV. 336, 364 (1993).

63. See Carl Shapiro, *Aftermarkets and Consumer Welfare: Making Sense of Kodak*, 63 ANTITRUST L.J. 483, 485-86 (1995).

64. See CARL SHAPIRO & HAL R. VARIAN, *INFORMATION RULES: A STRATEGIC GUIDE TO THE NETWORK ECONOMY* 118-21 (1999).

65. See *id.* at 118-19; Hiawatha Bray, *Time to Rethink Digital Copyright Act*, BOSTON GLOBE, Jan. 13, 2003, at C3, 2003 WL 3374778.

manufacturers sell primary products at or below cost in order to attract customers, then inflate the prices of aftermarket goods or services to make their primary sales profitable.<sup>66</sup> For example, a manufacturer may include a free laser printer with the purchase of a new computer, but sell replacement toner cartridges at a significant markup. When the aftermarket costs imposed on consumers are less than the "switching costs" required to transfer to a different primary product, consumers are "locked in" to both the original durable good and its aftermarket.<sup>67</sup> Such lock-in pricing strategies fail if aftermarket competitors drive down prices.<sup>68</sup> As a result, primary goods manufacturers seek to exclude aftermarket rivals, sometimes in violation of antitrust laws.<sup>69</sup>

Where primary goods manufacturers have intellectual property rights in aftermarket products, they may legally exercise their right to exclude in order to curtail competition.<sup>70</sup> For example, patent holders have the right to prevent others from making, using, or offering to sell their patented

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66. See Severin Borenstein et al., *Antitrust Policy in Aftermarkets*, 63 ANTITRUST L.J. 455, 459-60 (1995); *Legal Battle Could Determine Future Price of Printer Cartridges*, USA TODAY, Jan. 29, 2003, [http://www.usatoday.com/tech/news/techpolicy/2003-01-29-printer-battle\\_x.htm](http://www.usatoday.com/tech/news/techpolicy/2003-01-29-printer-battle_x.htm).

67. See SHAPIRO & VARIAN, *supra* note 64, at 103-04. Switching costs include not only the price of a new primary product, but also the inconvenience and additional expenditures required to make a switch. *Id.* Shapiro and Varian give the example of a consumer who has owned a Macintosh computer for several years; if the consumer were to buy a Unix machine, the switching costs would include the price of new software and peripherals, as well as the time and inconvenience of learning how to operate a new system. *Id.* at 104.

68. See Benjamin Klein & John Shepard Wiley Jr., *Competitive Price Discrimination as an Antitrust Justification for Intellectual Property Refusals to Deal*, 70 ANTITRUST L.J. 599, 603-06 (2003).

69. The leading antitrust case in the context of aftermarkets is *Eastman Kodak Co. v. Image Technical Servs., Inc.*, 504 U.S. 451 (1992). Kodak manufactured high-volume photocopier and micrographics equipment and also provided service and replacement parts for these machines. *Id.* at 455. In the early 1980s, independent service organizations ("ISOs") began competing with Kodak in the servicing aftermarket for these machines, often performing at prices substantially lower than Kodak's. *Id.*; see Benjamin Klein, *Market Power in Aftermarkets*, 17 MANAGERIAL & DECISION ECON. 143, 143 (1996). Kodak then limited its supply of proprietary replacement parts to the ISOs, making it difficult for these companies to compete. *Kodak*, 504 U.S. at 455. The Court ruled that such activity could violate antitrust law, even if Kodak did not have market power in the original equipment market. *Id.* at 481-82. The Ninth Circuit eventually upheld an injunction against Kodak's anticompetitive practices. *Image Technical Servs., Inc. v. Eastman Kodak Co.*, 125 F.3d 1195 (9th Cir. 1997). A flurry of aftermarket antitrust suits followed in the wake of *Kodak*. See Daniel M. Wall, *Aftermarket Monopoly Five Years After Kodak*, ANTITRUST, Summer 1997, at 32, 32.

70. See *Image Technical Servs.*, 125 F.3d at 1214-20.

products.<sup>71</sup> Some manufacturers of computer printers have successfully exerted this right to suppress third-party competition in the replacement ink and toner cartridge aftermarket.<sup>72</sup> However, in one prominent case, a printer manufacturer failed in its attempt to prevent a competitor from re-manufacturing its patented disposable ink cartridges and converting them to a reusable form.<sup>73</sup> The Federal Circuit held that the competitor's activities were "more akin to permissible 'repair' than to impermissible 'reconstruction,'" and thus not actionable under patent law.<sup>74</sup>

## II. CASES EXTENDING THE REACH OF THE DMCA

Perhaps because of their mixed results in trying to exclude aftermarket competition by enforcing patent rights, printer manufacturers were quick to see the DMCA's paracopyright as a new opportunity for controlling the printer aftermarket. However, unlike exerting rights that inhere in an ink or toner cartridge itself, a manufacturer who invokes the DMCA against aftermarket rivals leverages the paracopyright over uncopyrightable products. The manufacturer shelters its functional products in a fortress of copyrighted software protected by technological measures, a breach of which constitutes a violation of the DMCA. Although a printer manufacturer has successfully used this technique, a garage door opener manufacturer's attempt failed. Thus the legitimacy of this extension of the DMCA is still in question.

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71. 35 U.S.C. § 271 (2000).

72. *See, e.g.,* Seiko Epson Corp. v. Nu-Kote Int'l, Inc., 190 F.3d 1360 (Fed. Cir. 1999) (upholding a preliminary injunction against a third-party manufacturer of replacement ink cartridges for Epson printers and reversing findings of patent invalidity entered by a district court); Canon Computer Sys., Inc. v. Nu-Kote Int'l, Inc., 134 F.3d 1085 (Fed. Cir. 1998) (upholding a preliminary injunction against a third-party manufacturer because its replacement ink cartridges for Canon's Bubble Jet printers infringed Canon's patent).

73. Hewlett-Packard Co. v. Repeat-O-Type Stencil Mfg. Corp., 123 F.3d 1445 (Fed. Cir. 1997).

74. *Id.* at 1452. For a discussion of the possible effects of this ruling on primary product manufacturers, see Elaine Stracker, Note, Hewlett-Packard Co. v. Repeat-O-Type Stencil Manufacturing Corp., 13 BERKELEY TECH. L.J. 175 (1998).

## A. *Lexmark*

### 1. *Background*

Lexmark International, Inc. ("Lexmark") is a major competitor in the laser printer industry.<sup>75</sup> In 1997, Lexmark instituted a new marketing strategy known as the Prebate program whereby consumers could obtain an up-front rebate on laser printer toner cartridges through a shrinkwrap agreement.<sup>76</sup> The agreement required consumers to return used cartridges to Lexmark for remanufacturing.<sup>77</sup> In order to ensure compliance with the terms of this agreement, Lexmark began installing microchips on Prebate cartridges that would cause printers to malfunction when the cartridges were refurbished by someone other than Lexmark.<sup>78</sup>

In early 2001, Lexmark introduced a new line of microchips for Prebate cartridges used in its T520/522 and T620/622 printers.<sup>79</sup> Lexmark programmed these chips with copyrighted software known as the Toner Loading Program, which monitored the amount of toner remaining in a cartridge.<sup>80</sup> The printers themselves contained copyrighted software known as the Printer Engine Program, which controlled various printer operations, such as paper movement and motor control.<sup>81</sup> Neither program would function unless the printer and the microchip on a toner cartridge successfully executed an authentication sequence.<sup>82</sup>

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75. *Lexmark Int'l, Inc. v. Static Control Components, Inc.*, 253 F. Supp. 2d 943, 946 (E.D. Ky. 2003).

76. *Id.* at 947-48.

77. *Id.* The shrinkwrap agreement that Lexmark printed on each Prebate cartridge box read:

RETURN EMPTY CARTRIDGE TO LEXMARK FOR REMANUFACTURING AND RECYCLING. Please read before opening. Opening this package or using the patented cartridge inside confirms your acceptance of the following license/agreement. This all-new cartridge is sold at a special price subject to a restriction that it may be used only once. Following this initial use, you agree to return the empty cartridge to Lexmark for remanufacturing and recycling. If you don't accept these terms, return the unopened package to your point of purchase. A regular price cartridge without these terms is available.

*Id.* at 947 n.1.

78. Defendant's Memorandum in Opposition to Motion for Preliminary Injunction at 2, *Lexmark* (No. 02-571-KSF) [hereinafter SCC Opposition].

79. *See Lexmark*, 253 F. Supp. 2d at 946; SCC Opposition, *supra* note 78, at 2.

80. *Lexmark*, 253 F. Supp. 2d at 949.

81. *Id.* at 948.

82. *Id.* at 952.

Static Control Components, Inc. (“SCC”) manufactures component parts for refurbished toner cartridges.<sup>83</sup> By October 2002, SCC had developed the Smartek microchip for use with remanufactured Prebate cartridges.<sup>84</sup> This microchip mimicked the authentication sequence to allow interoperability between Lexmark printers and Prebate cartridges refurbished by unauthorized parties.<sup>85</sup> Although SCC had independently reverse engineered a means for bypassing the authentication sequence, it programmed wholesale copies of the Toner Loading Program onto its Smartek chips.<sup>86</sup>

On December 30, 2002, Lexmark brought suit and moved for a preliminary injunction against SCC.<sup>87</sup> Lexmark claimed that SCC’s Smartek chips infringed its copyright in the Toner Loading Program, and that distribution of the chips violated the § 1201(a)(2) anti-trafficking provision of the DMCA.<sup>88</sup>

## 2. Analysis

The district court first concluded that Lexmark’s claim of copyright infringement was likely to prevail on the merits.<sup>89</sup> This conclusion was based on SCC’s admission that it had made wholesale copies of the program onto its Smartek chips.<sup>90</sup> Furthermore, the court rejected all of SCC’s defenses for copying the program.<sup>91</sup> Most notably, SCC raised the defense of copyright misuse, contending that Lexmark had used its programs to secure “an exclusive right or limited monopoly not expressly granted by copyright law.”<sup>92</sup> However, the court viewed Lexmark’s actions as merely an attempt to protect the right of access—a right created by the DMCA, which is a subset of copyright law.<sup>93</sup>

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83. *Id.* at 946.

84. SCC Opposition, *supra* note 78, at 4.

85. *Lexmark*, 253 F. Supp. 2d at 955.

86. *Id.* Although the court, acting as fact finder, determined that SCC copied the Toner Loading Program in its entirety, this crucial fact apparently remains in dispute. See Marybeth Peters, Recommendation of the Register of Copyrights in RM 2002-4: Rulemaking on Exemptions from Prohibition on Circumvention of Copyright Protection Systems for Access Control Technologies 176 (Oct. 27, 2003), at <http://www.copyright.gov/1201/docs/registers-recommendation.pdf>.

87. *Lexmark*, 253 F. Supp. 2d at 947.

88. *Id.*

89. *Id.* at 957.

90. *Id.* at 955.

91. *Id.* at 958-66.

92. *Id.* at 966; see also *infra* Part III.C.

93. *Lexmark*, 253 F. Supp. 2d at 966.

The court then determined that Lexmark's DMCA claims were also likely to prevail on the merits.<sup>94</sup> The court began its interpretation of the Act by stating that the plain meaning of the statutory language is clear and unambiguous and that, therefore, any appeal to legislative history would be inappropriate.<sup>95</sup> After quoting the § 1201(a)(2) anti-trafficking provision and its accompanying definitions provided in § 1201(a)(3)(A)-(B), the court noted that the term "access" is nowhere defined in the statute and thus the customary, dictionary meaning of the term would apply: the "ability to enter, to obtain, or to make use of."<sup>96</sup>

Interpreting the statute in a strictly textual manner, the court concluded that the Smartek microchips violated each of the three alternative tests for liability under § 1201(a)(2) with respect to both the Toner Loading Program and the Printer Engine Program.<sup>97</sup> Noting the similarities between the authentication procedure in *Gamemasters* and that employed by the Lexmark printers, the court found that Lexmark's authentication sequence constituted a "technological measure" that "controls access" to a copyrighted work.<sup>98</sup> Indeed, the sequence controlled "access" to two different copyrighted works because a proper authentication sequence was necessary for a printer owner to "make use of" both the Toner Loading Program and the Printer Engine Program.<sup>99</sup> The court also noted that Lexmark, the copyright owner of the programs, did not authorize access to its programs.<sup>100</sup> Thus the Smartek chips violated § 1201(a)(2)(A)-(C) because (1) SCC specifically developed the chips to circumvent, (2) the chips had no commercial purpose other than to circumvent, and (3) SCC marketed the chips for their ability to circumvent Lexmark's authentication sequence.<sup>101</sup>

Turning to SCC's defenses, the court again remarked that the clarity of the DMCA's language prevented any consideration of the congressional

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94. *Id.* at 966-71.

95. *Id.* at 967.

96. *Id.*

97. *Id.* at 968-69.

98. *Id.* at 968-70.

99. *Id.* at 968-69.

100. *Id.* The court merely stated that "the printers access, without Lexmark's authority, the copyrighted Toner Loading Program[] . . . [and] the Printer Engine Program." *Id.* at 968. It is thus unclear whether the court considered Lexmark's consumers or SCC to be the relevant party from which Lexmark withheld its authority, although the shrinkwrap license made it clear that neither party was authorized to access Lexmark's programs. *See id.* at 947 n.1, 968. The DMCA is not explicit on this point either. *See* 17 U.S.C. § 1201(a)(3) (2000); *see also infra* note 138.

101. *Lexmark*, 253 F. Supp. 2d at 968-69.

intent behind the Act.<sup>102</sup> The court rejected SCC's assertion that the drafters of the DMCA were only concerned with preventing digital piracy and had therefore not intended such an expansive application of the statute.<sup>103</sup> According to the court, the § 1201(b) ban on tools used to circumvent use controls is sufficient to prevent digital piracy, thus SCC's restricted reading of the DMCA would render the ban on tools used for access in § 1201(a)(2) "mere surplusage."<sup>104</sup> The court further stated that, as drafted, the DMCA is not limited to copyrighted works that have independent market value, such as books, CDs, and motion pictures.<sup>105</sup> Rather, any work entitled to protection under the Copyright Act is also entitled to the DMCA's anti-circumvention provisions, including computer programs that control the operation of durable goods.<sup>106</sup>

The court concluded that the reverse engineering exception under § 1201(f) did not apply to the Smartek microchips because they contained verbatim copies of the Toner Loading Program.<sup>107</sup> Although the Smartek chips contained independently created software that mimicked the authentication sequence, the Toner Loading Program itself was copied, and therefore was not "independently created" as required by the Act.<sup>108</sup>

## B. *Chamberlain*

### 1. *Background*

Chamberlain Group, Inc. ("Chamberlain") is the leading manufacturer of garage door openers ("GDOs") in the United States,<sup>109</sup> and Skylink Technologies, Inc. ("Skylink") markets and distributes GDO components.<sup>110</sup> Chamberlain sued Skylink under the DMCA, claiming that Skylink's distribution of universal transmitters provided unauthorized access to its "Security+" line of GDOs in violation of § 1201(a)(2).<sup>111</sup> The court granted summary judgment in favor of Skylink.<sup>112</sup>

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102. *Id.* at 969.

103. *Id.* at 969-70.

104. *Id.* at 969.

105. *Id.*

106. *Id.* at 969-70.

107. *Id.* at 970-71.

108. *Id.*

109. Defendant's Opposition to Motion for Summary Judgment at 1, *Chamberlain I*, 292 F. Supp. 2d 1023 (N.D. Ill. 2003) (No. 02 C 6376).

110. *Chamberlain I*, 292 F. Supp. 2d at 1026.

111. *Id.*

112. *Chamberlain II*, 292 F. Supp. 2d 1040, 1045 (N.D. Ill. 2003).

GDOs typically consist of a garage-based receiver and a portable transmitter that emits a fixed digital signal to activate the system.<sup>113</sup> For increased security, Chamberlain created Security+ GDOs that used “rolling code” to continually alter a transmitted signal.<sup>114</sup> For these GDOs, copyrighted software within the transmitter encoded the signal with both a fixed identification number and a variable number that changed by a factor of three with each use.<sup>115</sup> Copyrighted software within the receiver determined whether the variable portion of a signal fell within an acceptable range of values, or “forward window,” before operating the door.<sup>116</sup> Signals falling within the “rear window” of previously-used values would not operate the door.<sup>117</sup>

Chamberlain included a failsafe measure to ensure that a GDO would still function if a user were to inadvertently advance the rolling code past the upper range of the forward window.<sup>118</sup> This process, called “resynchronization,” required a user to depress the transmitter button twice; the receiver software would compare the two signals and operate the GDO if the variable values were separated by a factor of three.<sup>119</sup>

Skylink sold a universal transmitter capable of operating many different GDOs, including Chamberlain’s Security+ line.<sup>120</sup> Rather than using rolling code software in its transmitter, Skylink exploited the resynchronization process to operate Chamberlain’s GDOs.<sup>121</sup> Chamberlain claimed that Skylink’s transmitters circumvented the rolling code technology, thereby gaining unauthorized access to the copyrighted software in the receivers.<sup>122</sup> The court denied Chamberlain’s motion for summary judgment

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113. *Chamberlain I*, 292 F. Supp. 2d at 1026.

114. *Id.* at 1026-27. According to Chamberlain, the Security+ system was designed to prevent burglars from gaining unauthorized entry to a house by recording a transmitted signal and retransmitting it later. *Id.*

115. *Id.* at 1027-28.

116. *Id.* at 1028.

117. *Id.*

118. *Id.* at 1028-29.

119. *Id.*

120. *Id.* at 1031.

121. *Id.* at 1032.

122. *Id.* This explanation of Chamberlain’s DMCA claim is somewhat simplified. In reality, Chamberlain programmed the receivers with only one computer program. *Id.* at 1028. In order to fit this program into the contours of § 1201(a)(2) of the DMCA, Chamberlain needed to classify one part of the program—the part that verified the rolling code—as a technological protective measure that protected the rest of the program—the part that activated the GDO motor. *Id.* In essence, Chamberlain argued that “the rolling code computer program has a protective measure that protects itself.” *Id.* This convoluted

on August 29, 2003, but invited Skylink to file for summary judgment.<sup>123</sup> The court granted Skylink's motion on November 13, 2003.<sup>124</sup>

## 2. Analysis

The court denied Chamberlain's summary judgment motion based on several disputed issues of material fact.<sup>125</sup> First, the parties disagreed as to whether Skylink's universal transmitter was designed and marketed "primarily" to circumvent the rolling code protection measure, given that the transmitter could also operate other GDOs.<sup>126</sup> The court found it unnecessary to fully address this issue since the motion could be defeated on other grounds.<sup>127</sup>

The second disputed issue was whether the computer program in Chamberlain's rolling code was in fact protected by copyright.<sup>128</sup> Because the parties disagreed on facts material to this essential element for a prima facie case under § 1201(a)(2), the court denied summary judgment.<sup>129</sup>

Finally, the court addressed the issue of whether a consumer's use of the Skylink transmitter was an "authorized" act for purposes of the DMCA.<sup>130</sup> The Act defines circumvention as an act "without the authority of the copyright owner," and thus constitutes a separate element in the prima facie case that could independently defeat a summary judgment motion.<sup>131</sup> The court concluded that Chamberlain gave its authority to consumers to use any replacement transmitter they desired.<sup>132</sup> This authority was implicit, and was based on the fact that Chamberlain did not restrict consumers' aftermarket options by shrinkwrap agreement, as well as a history in the GDO industry of consumers' use of universal replacement transmitters.<sup>133</sup> Essentially, by not explicitly denying its consumers permission to access its copyrighted software, Chamberlain had implicitly given them authority for purposes of the DMCA.<sup>134</sup>

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reasoning indicates that Chamberlain's GDOs are not the type of product the Act was intended to protect.

123. *Id.* at 1040.

124. *Chamberlain II*, 292 F. Supp. 2d 1040, 1046 (N.D. Ill. 2003).

125. *Chamberlain I*, 292 F. Supp. 2d at 1036-40.

126. *Id.* at 1036-38.

127. *Id.* at 1038.

128. *Id.*

129. *Id.*

130. *Id.* at 1038-40.

131. *Id.* at 1038.

132. *Id.* at 1038-40.

133. *Id.*

134. *See id.*

The court also noted that consumers had a reasonable expectation to access their garages if they were to lose an original transmitter.<sup>135</sup> Under Chamberlain's literal interpretation of the DMCA, a homeowner would violate the Act by accessing her garage via her GDO if she were to lose her transmitter but find some other way to bypass the rolling code software.<sup>136</sup> Although it neither explained its reasoning nor supported its finding with the text of the Act, the court concluded that "the DMCA does not require such a conclusion."<sup>137</sup>

In granting Skylink's motion for summary judgment, the court focused solely on the fact that Chamberlain had failed to prove that it had not granted authority, either to its consumers or Skylink, to access the copyrighted software in the Security+ GDO receivers.<sup>138</sup> As to the consumers' authority, the court reiterated its reasoning from its previous opinion.<sup>139</sup> The court then concluded that Skylink also had authority to access the GDO computer program based on three factors:

- (1) there is a history in the GDO industry of marketing and selling universal transmitters; (2) Chamberlain has not placed any restrictions on the use of competing transmitters to access its Security+ GDOs; and (3) in order for the Skylink transmitter to activate the Chamberlain garage door, the homeowner herself must choose to store Skylink's transmitter signal into the Chamberlain GDO's memory.<sup>140</sup>

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135. *Id.* at 1040.

136. *Id.*; see also Transcript of Proceedings: Oral Arguments and Motion Before the Honorable Rebecca R. Pallmeyer at 48-51, *Chamberlain I* (No. 02 C 6376).

137. *Chamberlain I*, 292 F. Supp. 2d at 1040. The court reiterated this point in *Chamberlain II*, but again did not base its reasoning on the statutory text. See 292 F. Supp. 2d 1040, 1045-46 (N.D. Ill. 2003).

138. *Chamberlain II*, 292 F. Supp. 2d at 1043-45. As in *Lexmark*, the *Chamberlain* court did not determine whether consumers or third parties are the relevant group in determining the question of authority. See *id.*; see also *supra* note 100. Whereas neither group had authority to access Lexmark's computer programs in *Lexmark*, the *Chamberlain* court determined that both groups had implicit authority to access Chamberlain's software. See *Chamberlain II*, 292 F. Supp. 2d at 1043-45; see also *supra* note 100. The DMCA does not distinguish between the two groups, but merely prohibits access without the copyright owner's authority. See 17 U.S.C. § 1201(a)(3) (2000). It thus remains to be seen whether third parties who have been denied authority to circumvent a technological measure may nonetheless distribute circumvention tools to consumers who have been granted that authority. One court's analysis of a similar issue indicates that the DMCA probably prohibits this practice. See *Universal City Studios, Inc. v. Reimerdes*, 111 F. Supp. 2d 294, 317 n.137 (S.D.N.Y. 2000).

139. *Chamberlain II*, 292 F. Supp. 2d at 1045-46.

140. *Id.* at 1046.

The court's conclusion that Chamberlain had implicitly authorized access to its programs defeated the company's DMCA claim.<sup>141</sup>

### III. DISCUSSION

Application of the DMCA to durable goods aftermarket raises significant concerns for the aftermarket industry as a whole.<sup>142</sup> For example, the Automotive Aftermarket Industry Association ("AAIA") fears that the *Lexmark* decision could prompt automobile manufacturers to install inexpensive microchips programmed with copyrighted software that would lock out unauthorized brake shoes, air filters, or other replacement parts, thereby jeopardizing the multi-billion dollar independent automotive aftermarket industry.<sup>143</sup> Successful attacks on aftermarket industries would also negatively affect consumers by increasing prices<sup>144</sup> and limiting selection of aftermarket products.<sup>145</sup> However, these fears need not be realized. So long as courts adhere to the language and purpose of the Act, and develop the equitable doctrine of misuse in the anti-circumvention context as needed, they can prevent use of the DMCA to stifle aftermarket competition.

#### A. Legislative Intent

Although the *Lexmark* court properly started its analysis of the DMCA anti-circumvention provisions with the text of the statute, the legislative history of the Act indicates that Congress did not intend for the result this

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141. *Id.*

142. See James E. Guyette, *Aftermarkets Urged to Challenge 'Intellectual Property' Ruling*, AFTERMARKET BUS., Oct. 14, 2003 ("[A]ftermarkets serving all types of industries are being asked to challenge the law regulating coded computer chips."), <http://www.aftermarketbusiness.com/aftermarketbusiness/article/articleDetail.jsp?id=72502>.

143. See Motion of Automotive Aftermarket Industry Association at 2, *Lexmark Int'l, Inc. v. Static Control Components, Inc.*, 253 F. Supp. 2d 943 (E.D. Ky. 2003) (No. 02-571-KSF).

144. See Brief of Amicus Curiae Consumers Union at 1, *Chamberlain I*, 292 F. Supp. 2d 1023 (N.D. Ill. 2003) (No. 02 C 6376). Some scholars argue that the economic harm to consumers is slight when durable goods manufacturers control the aftermarkets for the goods they produce. See, e.g., Shapiro, *supra* note 63, at 485. They contend that "even if aftermarket prices are supracompetitive, equipment market competition leads to offsetting low equipment prices, and thus the overall 'system' price is set competitively." Borenstein et al., *supra* note 66, at 469. However, even where this assertion proves true, consumers are still harmed: "In practice, the high aftermarket price will reduce the amount of use, and therefore value, that consumers will get out of the product." *Id.*

145. See Brief of Amicus Curiae Consumers Union, *supra* note 144, at 3; Memorandum of the Automotive Parts Rebuilders Association at 2, *Lexmark* (No. 02-571-KSF).

court reached, or at least did not consider the consequences of the language adopted in the Act.<sup>146</sup> In view of the ambiguity and complexity of the statute, courts should look beyond its wording to its legislative history in order to enforce Congress' manifest intent.

Language that appears clear on its face may actually be more nuanced when cast in the light of legislative history.<sup>147</sup> Thus, while the *Lexmark* court repeatedly referred to the statutory language as "unambiguous" and "clear,"<sup>148</sup> many copyright scholars who closely followed the protracted development and adoption of the provisions found the exact opposite to be true.<sup>149</sup>

One example of an ambiguity in the Act is the meaning of the word "access."<sup>150</sup> The *Lexmark* court used a dictionary to determine this word's "ordinary, customary meaning,"<sup>151</sup> but this basic definition could apply to either the initial act or the initial and all subsequent acts of accessing a work.<sup>152</sup> This distinction is important because the latter interpretation potentially renders part of the statute superfluous—a technological measure that prevents access to a work also prevents the copying, distribution, or other use of that work.<sup>153</sup> Under this interpretation, § 1201(a)(2) would absorb § 1201(b).<sup>154</sup> Although the *Lexmark* court adopted this latter interpretation of "access,"<sup>155</sup> it refused to consider the legislative intent behind

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146. See Brief Amicus Curiae of Law Professors at 5, *Lexmark* (No. 02-571-KSF) ("We find no suggestion anywhere in the legislative history that Congress considered, no less intended, Section 1201(a) to apply to the type of computer program at issue in the *Lexmark* complaint.").

147. See William N. Eskridge, Jr. & Philip P. Frickey, *Statutory Interpretation as Practical Reasoning*, 42 STAN. L. REV. 321, 342-43 (1990).

148. See *Lexmark*, 253 F. Supp. 2d at 967-69.

149. See, e.g., David Nimmer, *Appreciating Legislative History: The Sweet and Sour Spots of the DMCA's Commentary*, 23 CARDOZO L. REV. 909, 964 (2002) ("[W]ithout the context that legislative history furnishes, the already impenetrable language of the Digital Millennium Copyright Act would become utterly unfathomable . . ."); Samuelson, *supra* note 20, at 524 ("[T]he anti-device provisions of the DMCA are highly ambiguous . . .").

150. See LITMAN, *supra* note 10, at 144.

151. *Lexmark*, 253 F. Supp. 2d at 967.

152. See LITMAN, *supra* note 10, at 144.

153. See *id.* ("If . . . 'access' includes all subsequent actions to gain access to a work, the ban on circumvention of access-protection swallows up circumvention of copy-protection as well, since one will normally need to gain access to a work in order to engage in any use of it . . .").

154. See *id.*

155. The court determined that "[Lexmark's] authentication sequence . . . runs each time a toner cartridge is inserted into a Lexmark printer, the printer is powered on, or whenever the printer is opened and closed." *Lexmark*, 253 F. Supp. 2d at 952. The court

the Act because, ironically, it reasoned that “[i]f the DMCA were only intended to protect copyrighted works from digital piracy,” then § 1201(b) would render § 1201(a)(2) “mere surplusage.”<sup>156</sup>

Another important ambiguity arises in defining the “work” at issue in a given DMCA anti-circumvention suit. The scope of the Act extends only to those technological measures that protect a copyrighted work.<sup>157</sup> In *Lexmark*, the court defined the copyrighted works protected by the authentication sequence as the Toner Loading Program and the Printer Engine Program.<sup>158</sup> However, Lexmark designed the authentication sequence not so much to protect these programs as to prevent third parties from refurbishing its toner cartridges.<sup>159</sup> Indeed, the Toner Loading Program was not even necessary for the proper operation of a cartridge, and the Printer Engine Program was free to public use and available over the Internet.<sup>160</sup> On these facts, the court could have defined the protected “work” as the cartridge itself, rather than the programs, and dismissed the DMCA claims. The Copyright Act does not protect durable goods such as toner cartridges,<sup>161</sup> and, as a result, neither does the DMCA.<sup>162</sup>

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also found that the authentication sequence controlled “access” to both programs because neither one would work until the sequence “successfully occur[red].” *Id.* at 952-53. Finally, the court determined that SCC’s Smartek chips violated the access provision because they circumvented the startup sequence. *Id.* at 968. Thus, according to the court’s interpretation, the Smartek chips violated the access provision each and every time they circumvented the startup sequence.

156. *Id.* at 969.

157. 17 U.S.C. § 1201(a)(1)(A), (a)(2), (b)(1) (2000).

158. *Lexmark*, 253 F. Supp. 2d at 967-68.

159. See SCC Opposition, *supra* note 78, at 26; see also Burk, *supra* note 6, at 1110.

160. *Anti-Circumvention Rulemaking: Hearing Before the Library of Congress and Copyright Office* at 11-12 (May 9, 2003) [hereinafter *Hearing*] (statement of Seth Greenstein), at <http://www.copyright.gov/1201/2003/hearings/transcript-may9.pdf>. This situation contrasts sharply with the scenario contemplated by the framers of the DMCA. Whereas Lexmark made its program publicly available on the Internet because the program was of no value without an accompanying printer, Congress enacted the DMCA to inhibit the unauthorized distribution over the Internet of copyrighted materials whose value lies primarily in their copyrighted aspects. See S. REP. NO. 105-190, at 8 (1998).

161. See 17 U.S.C. §§ 101, 102(a)(5). Copyrights can inhere in “sculptural works,” and one could arguably classify a toner cartridge as such a work. See *id.* § 102(a)(5). However, when a sculptural work is also a “useful article,” as in the case of a toner cartridge, copyright law attaches special exceptions. *Id.* § 101. Only the artistic form of sculptural works are copyrightable, “not their mechanical or utilitarian aspects.” *Id.* Because toner cartridges are almost purely mechanical and utilitarian (few would argue that their aesthetic qualities render them valuable), these works are not protected by copyright. See *id.*

162. See 17 U.S.C. § 1201(a)(1)(A), (a)(2), (b)(1).

Such textual ambiguities allow courts to appeal to legislative history to determine whether Congress intended for the DMCA to apply to durable goods aftermarket.<sup>163</sup> Congress' primary purpose in enacting the anti-circumvention provisions was to curtail piracy of intellectual property, particularly over the Internet.<sup>164</sup> The House and Senate reports explicitly and repeatedly indicate that the DMCA was designed "to make digital networks safe places to disseminate and exploit copyrighted materials."<sup>165</sup> Consistent with this purpose, the anti-trafficking provisions were "drafted carefully to target 'black boxes,' and to ensure that legitimate multipurpose devices can continue to be made and sold."<sup>166</sup> Furthermore, these provisions were "designed to protect copyright owners, and simultaneously allow the development of technology."<sup>167</sup> This language highlights Congress' intent to preserve competition in the marketplace—a goal Congress reiterated in the materials describing the reverse engineering exception.<sup>168</sup>

Given these express objectives, it is unlikely that Congress intended the result reached in *Lexmark*. That case involved a scenario wholly separate from the circumstances to which Congress tailored the Act—namely, the distribution of content industry products over the Internet—and the decision will likely stifle, rather than promote, competition in the marketplace. When, as in *Lexmark*, strict adherence to the language of a statute generates results so demonstrably at odds with the purpose of that statute, appeal to an oft-stated canon of statutory interpretation becomes appropriate: "[I]nterpretations of a statute which would produce absurd results are to be avoided if alternative interpretations consistent with the legislative purpose are available."<sup>169</sup> The *Chamberlain* court adhered to this canon when it rejected Chamberlain's literal interpretation of the DMCA—regardless of what the Act indicated on its face, the court reasoned that a

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163. See *Lexmark*, 253 F. Supp. 2d at 967.

164. See, e.g., S. REP. NO. 105-190, at 8 ("Due to the ease with which digital works can be copied and distributed worldwide virtually instantaneously, copyright owners will hesitate to make their works readily available on the Internet without reasonable assurance that they will be protected against massive piracy.").

165. *Id.* at 2; see also Burk, *supra* note 6, at 1135 & n.239.

166. S. REP. NO. 105-190, at 29.

167. *Id.*

168. *Id.* at 32 ("The purpose of this section is to foster competition and innovation in the computer and software industry.").

169. *Griffin v. Oceanic Contractors, Inc.*, 458 U.S. 564, 575 (1982); see also *Haggar Co. v. Helvering*, 308 U.S. 389, 394 (1940) ("All statutes must be construed in the light of their purpose. A literal reading of them which would lead to absurd results is to be avoided when they can be given a reasonable application consistent with their words and with the legislative purpose.").

homeowner should “be able to access [his] garage even if his transmitter is misplaced or malfunctions.”<sup>170</sup> By pressing on the ambiguities inherent in the Act’s language, courts can achieve Congress’ purpose in enacting the anti-circumvention provisions: protecting the content industries from widespread piracy while preserving legitimate competition.

## B. Statutory Exceptions

Appeal to the exceptions built into the DMCA serves as an alternate means for limiting its expansion into durable goods aftermarkets. The most effective provision for this purpose is the reverse engineering exception set forth in § 1201(f).<sup>171</sup> First, § 1201(f)(1) permits an aftermarket competitor to access a technologically protected computer program in order to create software that is interoperable with that program—an act that would otherwise violate § 1201(a)(1)(A).<sup>172</sup> Second, § 1201(f)(2) allows the competitor to create tools for bypassing the protection measure to allow both programs to communicate with each other—an act otherwise prohibited by § 1201(a)(2) and (b)(1).<sup>173</sup> Finally, § 1201(f)(3) permits distribution of those tools.<sup>174</sup> Therefore, under § 1201(f), an aftermarket competitor may create and distribute circumvention devices, independent of the primary manufacturer’s authorization.<sup>175</sup> SCC would likely have prevailed on its § 1201(f) defense had it independently created a program similar to Lexmark’s Toner Loading Program, rather than making a wholesale copy of that program.<sup>176</sup> Thus, the DMCA already contains a provision that limits its application in durable goods aftermarkets.

In addition, the Act provides for the Librarian of Congress to conduct rulemaking proceedings in order to adopt additional exceptions.<sup>177</sup> However, these new exceptions only apply to the access prohibition in § 1201(a)(1)(A), and are therefore less effective than § 1201(f).<sup>178</sup> Nevertheless, SCC proposed three new exceptions during the last round of rulemaking proceedings.<sup>179</sup> The most general of these was for “[c]omputer

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170. See *Chamberlain I*, 292 F. Supp. 2d 1023, 1040 (N.D. Ill. 2003); see also *supra* Part II.B.2.

171. See Peters, *supra* note 86, at 178-83.

172. See 17 U.S.C. § 1201(a)(1)(A), (f)(1) (2000); see also Peters, *supra* note 86, at 178-79.

173. See 17 U.S.C. § 1201(a)(1)(A), (f)(1); see also Peters, *supra* note 86, at 179-80.

174. See 17 U.S.C. § 1201(f)(3); see also Peters, *supra* note 86, at 180.

175. See Peters, *supra* note 86, at 177-83.

176. See *id.* at 182-83.

177. See 3 NIMMER & NIMMER, *supra* note 5, § 12A.03[A][2].

178. See 17 U.S.C. § 1201(a)(1)(E); see also Peters, *supra* note 86, at 179-81.

179. See Peters, *supra* note 86, at 172.

programs embedded in a machine or product and that control the operation of a machine or product connected thereto, but that do not otherwise control the performance, display or reproduction of copyrighted works that have an independent economic significance.”<sup>180</sup> This proposed exception touches on the most apparent difference between the works Congress intended to protect under the DMCA and the durable goods in *Lexmark* and *Chamberlain*: the copyrighted programs used in durable goods are not independently marketable. The Librarian of Congress rejected SCC’s proposals because § 1201(f) already covers the three situations SCC delineated.<sup>181</sup> However, rulemaking proceedings may prove useful in the future as durable goods manufacturers develop new technologies.<sup>182</sup>

### C. Misuse

Even if courts determine that they are bound by the text of the anti-circumvention provisions or find § 1201(f) inapplicable to certain defendants, they may still limit the extension of the Act into durable goods aftermarket by acknowledging the defense of misuse in the paracopyright realm. Misuse is an equitable doctrine under which a court refuses to enforce the rights of a plaintiff who has violated the rights of others.<sup>183</sup> This doctrine, which is well-established in both patent and copyright law, applies where the ends to which an intellectual property right is put exceed the reasonable grant of that right.<sup>184</sup> For example, a defendant in a patent infringement suit may successfully raise the misuse defense if the plaintiff has contracted to collect royalties beyond the term of its patent.<sup>185</sup>

As seen in *Lexmark*, the copyright misuse defense will usually fail in DMCA cases; a plaintiff does not overextend its right in copyright by enforcing the anti-circumvention provisions because paracopyright is essentially a new right that inheres in copyright.<sup>186</sup> However, one legal scholar has proposed that courts should extend the misuse defense to apply directly to paracopyright.<sup>187</sup> Based on the preceding evaluation of the legis-

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180. *Id.*

181. *Id.* at 177-83.

182. *See Hearing, supra* note 160, at 44-45 (statement of Jane Ginsburg) (asserting that § 1201(f) may not apply to those situations where the copyrighted software in a durable good and an independently created computer program are not technically “interoperable” because they do not exchange information).

183. Burk, *supra* note 6, at 1115.

184. *Id.* at 1116-31, 1135.

185. *Id.* at 1118.

186. *See Lexmark Int’l, Inc. v. Static Control Components, Inc.*, 253 F. Supp. 2d 943, 965-66 (E.D. Ky. 2003).

187. *See Burk, supra* note 6, at 1095.

lative intent behind the DMCA, it is apparent that the anti-circumvention measures were intended to protect independently-marketable copyrighted works. Extending the anti-circumvention measures into the realm of durable goods, where copyrighted software is only ancillary to a product's desirability, can therefore be classified as a misuse since this constitutes extending the paracopyright beyond its intended scope.<sup>188</sup> Thus, under the misuse doctrine, courts may refuse to enforce the paracopyright of a plaintiff who has restricted the types of toner cartridges, GDO transmitters, or other aftermarket products its consumers may use.

#### IV. CONCLUSION

Congress adopted the DMCA's anti-circumvention provisions with the intent of defending copyright industries from digital piracy, and initial cases brought under the Act reflected this concern. However, manufacturers of durable goods recognized in these provisions the potential for a broader application: the exclusion of competitors from aftermarkets. If left unchecked, this troubling extension of the DMCA could have drastic effects on U.S. aftermarket industries and consumers alike. But this result is neither required nor warranted by the DMCA. Indeed, appeal to the legislative history of the Act, proper interpretation of the reverse engineering exception contained in the statute itself, and application of principles drawn from the equitable doctrine of misuse provide means for curtailing the expansion of the DMCA into durable goods aftermarkets.

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188. *See id.* at 1135-36.

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## ELDRED V. ASHCROFT: THE CONSTITUTIONALITY OF THE COPYRIGHT TERM EXTENSION ACT

By Michael Jones

On January 15, 2003, the Supreme Court upheld the constitutionality of the Copyright Term Extension Act ("CTEA"),<sup>1</sup> which extended the term of copyright protection by twenty years.<sup>2</sup> The decision has been applauded by copyright protectionists who regard the extension as an effective incentive to creators. In their view, it is a perfectly rational piece of legislation that reflects Congress's judgment as to the proper copyright term, balances the interests of copyright holders and users, and brings the United States into line with the European Union's copyright regime.<sup>3</sup> However, the CTEA has been deplored by champions of a robust public domain, who see the extension as a giveaway to powerful conglomerates, which runs contrary to the public interest.<sup>4</sup> Such activists see the CTEA as, in the words of Justice Stevens, a "gratuitous transfer of wealth" that will impoverish the public domain.<sup>5</sup> Consequently, *Eldred*, for those in agreement with Justice Stevens, is nothing less than the "Dred Scott case for culture."<sup>6</sup>

The Court in *Eldred* rejected the petitioners' claims that (1) the CTEA did not pass constitutional muster under the Copyright Clause's "limited

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1. Sonny Bono Copyright Term Extension Act, 17 U.S.C. §§ 108, 203, 301-304 (2002). The Act's four provisions consider term extensions, transfer rights, a new infringement exception, and the division of fees, respectively; this Note deals only with the first provision, that of term extensions.

2. *Eldred v. Ashcroft*, 537 U.S. 186 (2003). Justice Ginsburg wrote the opinion of the Court, in which Justices Kennedy, O'Connor, Scalia, Souter, Thomas, and Chief Justice Rehnquist joined. Justices Stevens and Breyer wrote dissenting opinions.

3. See, e.g., Scott M. Martin, *The Mythology of the Public Domain: Exploring the Myths Behind Attacks on the Duration of Copyright Protection*, 36 LOY. L.A. L. REV. 253 (2002); Edward Samuels, *The Public Domain Revisited*, 36 LOY. L.A. L. REV. 389 (2002); Paul M. Schwartz & William Michael Treanor, *Eldred and Lochner: Copyright Term Extension and Intellectual Property as Constitutional Property*, 112 YALE L.J. 2331 (2003).

4. See, e.g., Matthew Rimmer, *The Dead Poets Society: The Copyright Term and the Public Domain*, 8 FIRST MONDAY 6 (June 2003), at [http://www.firstmonday.dk/issues/issue8\\_6/rimmer/](http://www.firstmonday.dk/issues/issue8_6/rimmer/).

5. *Eldred*, 537 U.S. at 227 (Stevens, J., dissenting).

6. Siva Vaidhyanathan, *After the Copyright Smackdown: What Next?*, Salon.com (Jan. 17, 2003), at <http://www.salon.com/tech/feature/2003/01/17/copyright/print.html>.

Times” prescription; and (2) the CTEA violated the First Amendment’s free speech guarantee. The Court held that the Copyright Clause delegated to Congress the authority to determine the parameters of copyright protection, and that the Supreme Court ought to defer to Congress’s determinations.<sup>7</sup> The Court also held that Congress’s authority to extend copyright terms did not raise First Amendment concerns that could not be adequately addressed by copyright’s established safeguards, which include the idea/expression dichotomy and the concept of fair use.<sup>8</sup>

This Note provides background on copyright law and the CTEA, and argues that, since Supreme Court precedent already established, with respect to the Patent Clause, that Congress “may . . . implement the stated purpose of the Framers by selecting the policy which in its judgment best effectuates the constitutional aim,”<sup>9</sup> the Court’s deference to Congress and concomitant use of a form of rational-basis scrutiny were of no surprise. Moreover, although the kind of heightened scrutiny called for by the petitioners may be consistent with recent Commerce Clause jurisprudence,<sup>10</sup> it is at odds with longstanding notions concerning judicial competence and deference to majoritarian rule.<sup>11</sup> But while the Court was correct to rule the CTEA constitutional, this Note argues that its reasoning was far from beyond reproach, and that the particular policy preference of the petitioners—to craft a copyright regime that effectuates the goal of cultivating the public domain—was, as the Court almost seemed willing to concede, correct.<sup>12</sup> The *Eldred* decision will serve to focus attention on the policy debate and the need to reconceptualize copyright so as to take note of technological innovation, specifically the Internet and changing social forma-

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7. *Eldred*, 537 U.S. at 222.

8. *Id.* at 221-22.

9. *Graham v. John Deere Co.*, 383 U.S. 1, 6 (1966).

10. The petitioners hoped the Court would emphasize that Congress’s Commerce Clause power is limited, as the Court had in *United States v. Morrison*, 529 U.S. 598 (2000) (striking down the Violence Against Women Act); *Kimel v. Florida Board of Regents*, 528 U.S. 62 (2000) (limiting congressional power to use commerce power to abrogate state sovereign immunity under the Eleventh Amendment); *City of Boerne v. Flores*, 521 U.S. 507 (1997) (striking down the Religious Freedom Restoration Act); *United States v. Lopez*, 514 U.S. 549 (1995) (striking down the Gun-Free School Zones Act). See Brief for Petitioners at 11-13, *Eldred v. Ashcroft*, 537 U.S. 186 (2003) (No. 01-618), available at <http://eldred.cc/legal/supremecourt.html>.

11. See Schwartz & Treanor, *supra* note 3.

12. *Eldred*, 537 U.S. at 222.

tions.<sup>13</sup> Copyright has always had trouble adapting to new technology,<sup>14</sup> but *Eldred* makes clear that it must do so once again.<sup>15</sup>

## I. BACKGROUND

### A. Competing Visions of Copyright

From the outset, the growth of the public domain has been the end toward which the means of copyright law, a statutory enactment well within Congress's purview, has been oriented.<sup>16</sup> The Supreme Court recognized this from as early as 1834,<sup>17</sup> and, as recently as 1975, Justice Stewart defined the objective of copyright as follows:

The limited scope of the copyright holder's statutory monopoly, like the limited copyright duration required by the Constitution, reflects a balance of competing claims upon the public interest: Creative work is to be encouraged and rewarded, but private motivation must ultimately serve the cause of promoting broad public availability of literature, music, and the other arts.

The immediate effect of our copyright law is to secure a fair return for an "author's" creative labor. But the ultimate aim is, by this incentive, to stimulate artistic creativity for the general public good.<sup>18</sup>

This jurisprudence runs counter to recent legislation like the Copyright Act of 1976 ("1976 Act")<sup>19</sup> and most recently, the CTEA, which have arguably de-emphasized the public domain in favor of a regime more centered on individual property rights.<sup>20</sup> Essentially, two disparate visions of

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13. For the need of copyright law to respond to the digital age, see generally JESSICA LITMAN, *DIGITAL COPYRIGHT* (2001), and Peter S. Menell, *Envisioning Copyright Law's Digital Future*, 46 N.Y.L. SCH. L. REV. 63 (2002-2003).

14. ROBERT P. MERGES ET AL., *INTELLECTUAL PROPERTY IN THE NEW TECHNOLOGICAL AGE* 347 (2d ed. 2000).

15. See LITMAN, *supra* note 13; Menell, *supra* note 13.

16. See MERGES ET AL., *supra* note 14.

17. See *Wheaton v. Peters*, 33 U.S. (8 Pet.) 591 (1834) (treating copyright as, first and foremost, a means of benefiting the public interest).

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

19. Copyright Act of 1976, Pub. L. No. 94-553, 90 Stat. 2541 (codified at 17 U.S.C. §§ 101-808 (1994 & Supp. III 1997)).

20. See Jane C. Ginsburg, *Can Copyright Become User-Friendly?* 25 COLUM.-VLA J.L. & ARTS 71 (2001) (reviewing JESSICA LITMAN, *DIGITAL COPYRIGHT* (2001)).

the public domain form the backdrop to *Eldred*.<sup>21</sup> One vision sees the public domain as a kind of wasteland. According to this vision, if works are allowed to fall into the public domain, the profit motive disappears and there is insufficient incentive to invest in the preservation or distribution of these works.<sup>22</sup> Thus, the CTEA serves as a much-needed inducement to content providers to continue to make these works available to the public. The competing vision sees the public domain as “a vast repository of raw material out of which new creations are made.”<sup>23</sup> This vision is premised on the idea that new creators are “like dwarfs on the shoulders of giants,”<sup>24</sup> able to benefit from their predecessors’ labors and make advances in the cultural field as a consequence. Proponents of this view maintain that for such advances to continue, works must be allowed to fall into the public domain once the period of copyright protection which spurred their creation has expired.<sup>25</sup>

It was these two visions that informed the heated policy debate in Congress prior to the CTEA’s passage. The extension was supported—and the dystopian vision of the public domain endorsed—by the movie and music industries, for whom the ease of copying and distribution provided

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21. See Pamela Samuelson, *The Constitutional Law of Intellectual Property After Eldred v. Ashcroft*, 50 J. COPYRIGHT SOC’Y (forthcoming 2004) (man. at 10), <http://www.sims.berkeley.edu/~pam/papers/post-Eldred.pdf>.

22. Jack Valenti, President and CEO of the Motion Picture of Association of America, referred in his testimony before Congress to works in the public domain as “orphans.” With regard to films specifically, he remarked:

Whatever work is not owned is a work that no one protects and preserve [sic]. The quality of the print is soon degraded. There is no one who will invest the funds for enhancement because there is no longer an incentive to rehabilitate and preserve something that anyone can offer for sale. A public domain work is an orphan.

*The Copyright Term Extension Act: Hearing on S. 483 Before the Comm. on the Judiciary*, 104th Cong. 42 (1997) (prepared statement of Jack Valenti).

23. Samuelson, *supra* note 21, at 10; see also Brief of Amici Curiae The Internet Archive, Prelinger Archives, and Project Gutenberg Literary Archive Foundation at 2, *Eldred v. Ashcroft*, 537 U.S. 186 (2003) (No. 01-618) [hereinafter Brief of Amici Curiae], available at <http://cyber.law.harvard.edu/openlaw/eldredvashcroft/supct/amici/internet-archive.html>.

24. John of Salisbury quoted his teacher, Bernard of Chartres, on the relationship of authors to past creators: “We are like dwarfs on the shoulders of giants, so that we can see more than they, and things at a greater distance, not by virtue of any sharpness of sight on our part, or any physical distinction, but because we are carried high and raised up by their giant size.” JOHN OF SALISBURY, *METALOGICON* at bk. III, ch. iv. (1159).

25. Samuelson, *supra* note 21, at 10.

by the Internet was a source of alarm.<sup>26</sup> This alarm led them to lobby Congress to institute more exacting intellectual property laws of a traditional kind. On the other side of the policy debate stood many scholars and activists led by Professor Lawrence Lessig, who argued that the Internet age demanded new forms of intellectual property laws that took account of the collaborative nature of creativity and therefore nourished the public domain.<sup>27</sup>

## B. History of Copyright Terms.

The Copyright Clause provides that “Congress shall have Power . . . to promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.”<sup>28</sup> In the early days of the Republic, most of the States passed state copyright laws based on England’s Statute of Anne.<sup>29</sup> The Statute of Anne vested in authors of books a limited monopoly of fourteen years, renewable for an additional fourteen years, and demanded compliance with a complex system of registration, notice, and deposit requirements.<sup>30</sup> Lack of uniformity between the states meant that a national law was needed. In one of its first actions, the first Congress passed the Copyright Act of 1790 which, like the Statute of Anne, granted protection for authors for fourteen years, with an additional fourteen years available upon renewal.<sup>31</sup>

This regime prevailed until 1909, when Congress extended copyright to “all writings” and lengthened the term to twenty-eight years and a further twenty-eight years upon renewal.<sup>32</sup> Dissatisfaction with the 1909 Act led Congress to enact a series of one-year term extensions, as it investigated making major changes to the law. Finally, in 1976, all written works became protected once “fixed in a tangible medium of expression,” even if unpublished.<sup>33</sup> The duration of copyright became life of the author plus fifty years, or seventy-five years in the case of corporate authors, and the formal notice and registration requirements were liberalized.<sup>34</sup>

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26. See Robert S. Boynton, *The Tyranny of Copyright?*, N.Y. TIMES, Jan. 25, 2004, (Magazine), at 40.

27. See *id.*

28. U.S. CONST. art. I, § 8, cl. 8.

29. Statute of Anne, 1710, 8 Anne, ch. 93 (Eng.); see, e.g., N.Y. Copyright Act of 1786, ¶ 1; S.C. Copyright Act of 1784, ¶ 1; Va. Copyright Act of 1785, § 1.

30. See 8 Anne, ch. 19 (1710) (Eng.).

31. Copyright Act of 1790, ch. 15, § 1, 1 Stat. 124 (1790).

32. Act of Mar. 4, 1909, ch. 320, 35 Stat. 1075 (1909).

33. Copyright Act of 1976, § 101, 17 U.S.C. §§ 101-808 (1994 & Supp. III 1997).

34. See *id.* § 203(a)(3).

The 1976 Act constituted the most substantive change in copyright law since the ratification of the Constitution, and is the foundation of copyright law today.<sup>35</sup> Some maintain that this legislation represented a shift in the governing paradigm of copyright.<sup>36</sup> By making rights flow from creation rather than publication, as had previously been the case, the Act arguably tipped the balance in favor of a conception of copyright as an incentive to create new works, rather than a bargain granting a few exclusive rights in exchange for publication.<sup>37</sup>

The CTEA is perhaps best understood as a continuation of the trend begun in 1976, a further tipping of the scales in favor of incentive over bargain, and individual rights over the larger public good. It ironically comes at a time when, due to the effect of the Internet on the availability of public domain works, we are positioned as never before to effectuate the Founders' goal of cultivating the public domain.

The 1976 Act's altering of the term of copyright to a single term of life of the author plus fifty years<sup>38</sup> was motivated in part by the desire of the United States to join the Berne Convention for the Protection of Literary and Artistic Works ("Berne Convention"), the oldest international copyright agreement.<sup>39</sup> The Berne Convention, established in 1909, sought to attain uniform international copyright protection.<sup>40</sup> Specifically, it sought, by way of a policy of reciprocity, to provide the same protection to an author in other member countries as he enjoyed at home.<sup>41</sup> The Berne Convention requires that all signatories provide a minimum term of copyright protection of life of the author plus fifty years.<sup>42</sup> The desiderata of international trade and uniformity were sufficiently compelling for the United States to join the Berne Convention in 1988.

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35. See Christina N. Gifford, Note, *The Sonny Bono Copyright Term Extension Act*, 30 U. MEM. L. REV. 363, 370 (2000).

36. See LITMAN, *supra* note 13, at 78.

37. See *id.*

38. 17 U.S.C. § 302(a) (1994). The statute states that "[c]opyright in a work created on or after January 1, 1978, subsists from its creation and, except as provided by the following subsections, endures for a term consisting of the life of the author and fifty years after the author's death." *Id.*

39. Berne Convention for the Protection of Literary and Artistic Works, Sept. 9, 1886, revised, Paris, July 24, 1971, 25 U.S.T. 1341 [hereinafter Berne Convention].

40. Gifford, *supra* note 35, at 371.

41. *Id.*

42. Berne Convention, *supra* note 39, art. 7(1).

Such was the law prior to the passage of the CTEA. The CTEA has four provisions that amend various sections of the 1976 Copyright Act.<sup>43</sup> The first provision of the CTEA, section 102—and the one of sole concern to this Note—extends the duration of copyright for the various categories of protected works by amending the copyright statutes.<sup>44</sup> The CTEA amended section 302(a) of the 1976 Act<sup>45</sup> by replacing the word “fifty” with “70,” thus extending to life of the author plus seventy years the term of all works created after 1977.<sup>46</sup> “Anonymous Works, Pseudonymous Works, and Works Made for Hire,” were originally protected for 75 years from publication, or a term of one hundred years from creation, whichever expired first.<sup>47</sup> The CTEA extended both of these alternatives by twenty years, so that they are now protected for ninety-five years from first publication or 120 years from creation, whichever is shorter.<sup>48</sup>

Significantly for *Eldred v. Ashcroft*, the CTEA did not affect works that had already fallen into the public domain at the time of its enactment.<sup>49</sup> All works that were in the public domain at the end of 1997 stayed there. Any works with protection that expired in 1998, prior to the enactment of the CTEA in October, were covered by the Act because the work did not fall into the public domain until December 31 of that year.<sup>50</sup> Thus works with a copyright term that expired between January 1 and October 27, 1998, which would have fallen into the public domain on December 31, received an added twenty years of protection.

### C. Eric Eldred and the Rediscovery of the Public Domain

The new law directly affected Eric Eldred, a New Hampshire computer administrator and proprietor of the Eldritch Press, who posted public domain books online for high school students.<sup>51</sup> Using an inexpensive computer and scanner, Eldred posted on his website books that had fallen into the public domain, thereby making HTML versions available to the public.<sup>52</sup> The CTEA’s application to those works which would have fallen

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43. Sonny Bono Copyright Term Extension Act, 17 U.S.C. §§ 108, 203, 301-304 (2000).

44. *See id.* § 102(b).

45. 17 U.S.C. § 302(a).

46. Sonny Bono Copyright Term Extension Act § 102(b)(1).

47. 17 U.S.C. § 302(c).

48. Sonny Bono Copyright Term Extension Act § 102(3)(a), (b).

49. Gifford, *supra* note 35, at 380.

50. 17 U.S.C. § 305.

51. Information about the Eldritch Press can be found at <http://209.11.144.65/eldritchpress/> (last visited Mar. 8, 2004).

52. Rimmer, *supra* note 4, at 2.

into the public domain on December 31, 1998 frustrated Eldred's plan to post a selection of works on his website. He sued to have the copyright term extension declared unconstitutional.<sup>53</sup>

Eldred represents a growing number of people who, since the advent of the Internet, have given real substance to the notion of the public domain. By taking advantage of the low cost of reproduction and distribution that are signature features of the Internet,<sup>54</sup> they make available to the general public works that are of low commercial value but possibly high cultural value. These works would otherwise languish in out-of-print limbo, fail to find a publisher, and therefore be lost to those creators who would build on them and create new works. In performing such a service, people like Eldred have delineated a hitherto unappreciated public interest in the availability of such materials, and countered those who view the public domain as a "wasteland."

Such enterprises may seem quixotic if judged by the coordinates of traditional intellectual property models. Under such models, copyright protection provides incentive for creation. The more stringent the copyright protection, the more authors are protected against imitation and copying that will dilute the financial return on their investment. Underpinning this model is a view of creativity that is Romantic in its reliance upon the image of a sole creator plucking new works out of the ether. Such an image of creativity conflicts with the reality that no one creates *ex nihilo* but rather by building on what has come before.<sup>55</sup>

The Internet underscores this fact by providing a forum for interactive communication and collaboration, and what has been called "sequential

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53. Eldred v. Reno, 74 F. Supp. 2d 1, 1-2 (D.D.C. 1999).

54. The most important features of the digital platform have been designated as follows:

- (1) dramatic advances in microprocessor speed, memory storage, and data compression;
- (2) achievement of high sampling rates in capturing digital content;
- (3) development of improved technologies for perceiving (listening to and viewing) digital content;
- (4) essentially flawless, inexpensive, and rapid reproduction capabilities;
- (5) precise manipulability of digital content;
- (6) archive management and searchability;
- (7) portability;
- (8) development of digital networks for distributing content (including broadband); and
- (9) convergence of distribution platforms.

Menell, *supra* note 13, at 110.

55. See Mark A. Lemley, *Romantic Authorship and the Rhetoric of Property*, 75 Tex. L. Rev. 873, 877 (1996) (book review) (defining a "romantic author" as "a mythical, idealized figure who creates 'original' works from whole cloth").

improvement.”<sup>56</sup> In so doing, it also undercuts the “broadcast model” by which content providers distribute their works to passive consumers.<sup>57</sup> The Internet—along with the World Wide Web and peer-to-peer technology—offer a means of active engagement with cultural content at odds with the philosophical and business models of the traditional content providers. For those championing these new models, such examples as the free software movement and peer-to-peer technology point the way to an economic measure that takes account of our need and our capability to produce and share ideas. Traditional content providers must contrive new business models to adjust to this new world of digital information, and not seek to force new technology into an ill-fitting copyright regime.<sup>58</sup>

The plaintiffs<sup>59</sup> filed a complaint in federal district court against then-Attorney General Janet Reno. The district court ruled that the CTEA did not violate the Constitution.<sup>60</sup> The Court of Appeals for the District of Columbia Circuit affirmed.<sup>61</sup> The Supreme Court then granted certiorari to address two questions: “whether the CTEA’s extension of existing copyrights exceeds Congress’ power under the Copyright Clause; and whether the CTEA’s extension of existing and future copyrights violates the First Amendment.”<sup>62</sup>

## II. ELDRED V. ASHCROFT

### A. The Copyright Clause Challenge

The petitioners in *Eldred* called for a bright-line rule that the Copyright Clause does not allow Congress to extend the copyright protection for works already in existence.<sup>63</sup> Alternatively, they called for a kind of heightened review to guarantee a tight fit between means and ends.<sup>64</sup> The petitioners maintained (a) that the CTEA extension is not “limited” in the sense required by the Copyright Clause; (b) that the CTEA is not a rational

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56. Jim Bessen & Eric Massen, *Intellectual Property on the Internet: What’s Wrong with Conventional Wisdom?* 2 (1997) (unpublished manuscript), available at <http://www.researchoninnovation.org/iippap2.pdf>.

57. See Boynton, *supra* note 26, at 44.

58. *Id.*

59. Eldred was joined in the suit by Dover Publications, which publishes public domain works by publishers of historical works, and by a non-profit film-preservation group.

60. *Eldred v. Reno*, 74 F. Supp. 2d 1, 3 (D.D.C. 1999).

61. *Eldred v. Reno*, 239 F.3d 372 (D.C. Cir. 2001).

62. *Eldred v. Ashcroft*, 537 U.S. 186, 197-98 (2003).

63. See Brief for Petitioners, *supra* note 10, at 28.

64. See *id.* at 31.

means of effectuating a copyright scheme; and (c) that the CTEA does not “promote the progress of science and the useful arts.”<sup>65</sup>

1. *Is the Extension “Limited?”*

The Court held that, contrary to the petitioners’ argument, the CTEA’s baseline term of life plus seventy years, qualified as a “limited Time.”<sup>66</sup> The majority stated that “[t]ext, history, and precedent . . . confirm that the Copyright Clause empowers Congress to prescribe “limited Times” for copyright protection and to secure the same level and duration of protection for all copyright holders, present and future.”<sup>67</sup>

The Court spent very little time on text, and relied mostly on history and precedent. The main textual argument concerned the definition of “limited” in the “limited Times” provision of the clause. As there was no case law on the matter before the Court, the Court used contemporaneous dictionaries and appealed to the plain meaning of the text to hold that “limited” does not, as the petitioners maintained, mean “fixed,”<sup>68</sup> and that Congress is free to extend the copyright term as long as it is for a circumscribed time and not in perpetuity.<sup>69</sup>

The petitioners read “limited Times” to evince “the Framers’ clear intent that copyright terms be fixed and that after a “short interval,” creative works pass into the public domain.”<sup>70</sup> This interpretation, the Court held, ran squarely against the First Congress’s extension of copyright and conferral of copyright protection on works that had already been created.<sup>71</sup> The petitioners cited no authority contemporaneous with the Framing for the meaning of “limited” they sought to advance. Also, as the government’s brief noted, the one definition of “limited” as meaning “fixed” that the petitioners found from *Webster’s Second New International Dictionary* actually contained the notation “Obs.” for “obsolete.”<sup>72</sup> The petitioners omitted the notation in their brief.<sup>73</sup>

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65. *See id.*

66. *Eldred*, 537 U.S. at 199.

67. *Id.*

68. In fact, in their brief, the petitioners slip from “limited” to “fixed” to “short” without explanation. *See* Brief for Petitioners, *supra* note 10, at 12; *see also* Brief for the Respondent at 15, *Eldred v. Ashcroft*, 123 S. Ct. 769 (2003) (No. 01-618), *available at* <http://cyber.law.harvard.edu/openlaw/eldredvashcroft/supct/government-brief.pdf>.

69. *See Eldred*, 537 U.S. at 210.

70. Brief for Petitioners, *supra* note 10, at 17.

71. *Eldred*, 537 U.S. at 196.

72. This meant that according to Webster’s the word had not been used in the sense propounded by the petitioners “in any important literary work since 1660.” Brief for the

The Court further rejected the petitioners' contention that, taken together, the string of copyright extensions constituted an extension in perpetuity, and that the CTEA should not be judged in isolation. The Court held that periodic extensions of a right were not tantamount to a perpetuity and that seventy years is literally "limited."<sup>74</sup> As to the difference between perpetual copyright and limited copyright that can be renewed infinitely, the Court offered no answer but was apparently persuaded by the government's argument that the petitioners' claims concerning the threats of perpetual copyright were alarmist,<sup>75</sup> and their distress over eleven copyright term extensions in the last forty years somewhat hyperbolic.<sup>76</sup>

The Court's unwillingness or inability to provide a test for distinguishing between perpetual copyright and a "limited" copyright that can be renewed *ad infinitum* detracts from *Eldred's* persuasiveness, but not necessarily the soundness of its conclusions. The Court is arguably guilty of literal-mindedness in focusing on the matter of whether a term of seventy years is, in and of itself, "limited." Of course, seventy years does not even approach a perpetuity and is, strictly speaking, "limited," but the rationale for the term can be perpetually repeated—is, in effect, unlimited. As one critic observed, "the proper analysis is whether the *rationale* used by Congress to justify a statute is unlimited, not whether the exercise of such power in a specific instance is itself unlimited."<sup>77</sup>

The Court then turned to history to determine whether Congress was permitted to extend existing copyrights, quoting Justice Holmes' famous dictum that "a page of history is worth a volume of logic."<sup>78</sup> According to the Court, "history reveals an unbroken congressional practice of granting to authors of works with existing copyrights the benefit of term extensions so that all under copyright protection will be governed evenhandedly under the same regime."<sup>79</sup> The majority added that the Court has upheld leg-

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Respondent, *supra* note 68, at 11 n.4 (citing WEBSTER'S SECOND NEW INTERNATIONAL DICTIONARY 1434 (1950)).

73. *Id.*

74. See *Eldred*, 537 U.S. at 199.

75. The Court held that "there is no cause to suspect that a purpose to evade the 'limited Times' prescription prompted Congress to adopt the CTEA." *Id.*

76. One has to count the short-term limited extensions while Congress debated major substantive changes to the law to put the number of extensions at eleven. Brief for the Respondent, *supra* note 68, at 9.

77. Erik S. Jaffe, *A Page of Logic: Eldred v. Ashcroft and the Logic of a Written Constitution*, 2002-03 CATO SUP. CT. REV. 131, 145 (2003), available at <http://www.cato.org/pubs/scr2003/logic.pdf> (emphasis original).

78. *N.Y. Trust Co. v. Eisner*, 256 U.S. 345, 349 (1921).

79. *Eldred*, 537 U.S. at 199.

islative expansion of existing patents as commensurate with the Constitution. The Court saw no reason why it ought not to do the same with copyright extension.<sup>80</sup> Once again, the Court's preference for history and precedent over any kind of systematic textual analysis was in evidence. As Justice Stevens observed in his dissent, the fact that Congress has repeatedly acted in a certain way in the past, does not necessarily absolve the Court of its duty to adjudicate the constitutionality of those actions.<sup>81</sup>

## 2. *Was the CTEA a Rational Enactment?*

The Court held that the CTEA "is a rational exercise of the legislative authority conferred by the Copyright Clause."<sup>82</sup> It showed considerable deference to Congress, holding that the extension was well within the province of the legislature to make,<sup>83</sup> as was the intent to respond to "demographic, economic, and technological changes" and to bring the United States into line with the terms of an EU Council Directive.<sup>84</sup>

The demographic changes to which the Court referred were that people are living longer today and thus authors require longer terms of protection to support two generations of their descendants.<sup>85</sup> Technological innovations have also resulted in older works "living" longer through iterations in, for example, video and DVD.<sup>86</sup> Extracting the full economic benefits of these changes requires that creators receive longer terms of copyright protection.<sup>87</sup>

More generally, the Court may have been influenced by the fact that intellectual property is now one of the most important sectors of the United States economy.<sup>88</sup> In 1996, intellectual property accounted for "5.7 percent of the total gross domestic product."<sup>89</sup> If Congress looked to

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80. *See id.* at 204.

81. *See id.* at 236 (Stevens, J., dissenting).

82. *Id.* at 205.

83. *Id.*

84. *See id.* at 205-06.

85. *See* Senator Orrin G. Hatch, *Toward a Principled Approach to Copyright Legislation at the Turn of the Millennium*, 59 U. PITT. L. REV. 719, 732 (1998).

86. *See Eldred*, 537 U.S. at 207 n.14.

87. *See The Copyright Term Extension Act, Hearings on H.R. 989 Before the Subcomm. on Courts & Intell. Prop. of the House Comm. on the Judiciary*, 104th Cong. 272 (1995) (statement of Mary Ellin Barrett, daughter of Irving Berlin).

88. *See Eldred*, 537 U.S. at 205-08. *See generally* STEPHEN E. SIWEK, COPYRIGHT INDUSTRIES IN THE U.S. ECONOMY: THE 2002 REPORT (2002).

89. *See* 144 Cong. Rec. S12377-01 (daily ed. Oct. 12, 1998) (statement of Sen. Hatch).

longer copyright terms to maintain the United States' position in the world economy, the Court declared such a decision within its bounds.<sup>90</sup>

Similarly, as a significant portion of U.S. intellectual property exports are to European nations, the Court held that conforming to the copyright term adopted by the European Community in order to maintain our chief position in the global intellectual property arena was well within the purview of Congress.<sup>91</sup> In 1993, the European Union issued a Directive to its member countries requiring that they adopt the life plus seventy year term by July 1, 1995; all have complied.<sup>92</sup> The EU Directive requires member countries to measure copyrights of foreign works by "the rule of the shorter term."<sup>93</sup> Thus, works created in countries that have copyright terms shorter than that of the EU will only be protected in the EU for the time that they are protected in their country of origin. United States copyright owners, not surprisingly, supported passage of the CTEA so that the United States copyright term would match that of the European Community. Without passage of the CTEA, the owners argued, American authors would be at a disadvantage in European countries because they have twenty years less protection than Europeans.<sup>94</sup>

Leaving aside the questions raised by Justice Breyer in his dissent as to whether these measures would have the desired effect of bringing about uniformity, and indeed whether the desired effect justifies both prospective and retrospective extension of copyrights,<sup>95</sup> the larger question, which the Court did not address, is whether the European and American copyright regimes are compatible at all, given their vastly different philosophical underpinnings. The former is more historically rooted in a conception of copyright as an individual right. An author is held to have a natural right to his work (*droit d'auteur*), and certain moral rights like the right of attribution and the right against any distortion or modification of the work that would damage his reputation.<sup>96</sup> In such a conception, very long copyrights, even perpetuities, are not anathema as they are under the U.S. sys-

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90. *Eldred*, 537 U.S. at 209.

91. *Id.* at 205-06.

92. Hatch, *supra* note 85.

93. Council Directive 93/98, 1993 O.J. (L 290).

94. 141 CONG. REC. E379 (daily ed. Feb. 16, 1995) (statement of Rep. Moorhead).

95. See *Eldred*, 537 U.S. at 258 (Breyer, J., dissenting).

96. The United States and the European Union diverge on a number of other copyright issues like database protection, fair use, and works-made-for-hire, among others. See Peter K. Yu, *The Escalating Copyright Wars*, 32 HOFSTRA L. REV. (forthcoming 2004) (manuscript at 15), available at [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=436693](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=436693).

tem, which has treated copyright law as a means for promoting the enrichment of the public domain.

3. *Does the CTEA Promote Progress of Science and the Useful Arts?*

The Court rejected the petitioners' contention that the CTEA does not "promote the Progress of Science," and that "the preambular language [of the Copyright Clause] identifies the sole end to which Congress may legislate."<sup>97</sup> It held that Congress could "promote the progress of science and useful Arts" in more than the single way envisioned by the petitioners.<sup>98</sup>

For some of the same reasons that the Court found the CTEA rational, it found that it promotes the progress of science and the useful arts. Public benefit can be obtained from the production and dissemination of original work, and although the incentive model that informs the CTEA arguably does not promote a robust public domain, it undoubtedly promotes progress by providing incentives for creation and restoration. By helping American copyright holders seeking protection in EU countries, the CTEA also plausibly promotes progress of science and the useful arts.

To the petitioners' argument that the CTEA merely adds value to already existing works rather than engenders the creation of new works, the Court once again deferred to the legislative branch: "[I]t is generally for Congress, not the courts, to decide how best to pursue the Copyright Clause's objectives."<sup>99</sup> The Court again noted "Congress' unbroken practice since the founding generation," and declared that this "overwhelms petitioners' argument."<sup>100</sup> Rather than viewing retroactive extension as, in the words of the petitioners a "windfall,"<sup>101</sup> the majority evidently saw it once again as an unproblematic continuation of time-honored congressional practice begun in 1790.<sup>102</sup> What the Court failed to acknowledge is

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97. *Eldred*, 537 U.S. at 211.

98. The Court was evidently persuaded by the Solicitor General, who pointed out that by extending copyright prospectively and retroactively Congress arguably promotes the progress of science and the useful arts in the following ways:

It assures authors that they will not be unfairly penalized for creating or publishing earlier rather than later; it gives owners of subsisting copyrights greater incentives to preserve, restore, disseminate, and publicly exploit works that would otherwise be lost forever; and it secures appropriate international protection for the United States copyright holders' works, thereby also fostering international harmonization.

Brief for the Respondent, *supra* note 68, at 8-9.

99. *Eldred*, 537 U.S. at 212.

100. *Id.* at 212-13.

101. Brief for Petitioners, *supra* note 10, at 23.

102. *Eldred*, 537 U.S. at 213-14.

that the Act of 1790, the very inception of federal copyrights, replaced state copyrights that, in many cases, provided longer protection.<sup>103</sup> Thus instead of resulting in increased protection for authors, the 1790 Act expedited the public availability of existing works—the exact opposite of the effect of the CTEA.<sup>104</sup>

## B. First Amendment Challenge

To counter petitioners' contention that the CTEA runs afoul of the First Amendment, specifically, that "it is a content-neutral regulation of speech that fails heightened judicial review under the First Amendment,"<sup>105</sup> the Court again looked to history. The Court maintained that the Copyright Clause and First Amendment were virtually coeval, and that "in the Framers' view, copyright's limited monopolies are compatible with free speech principles. Indeed, copyright's purpose is to promote the creation and publication of free expression."<sup>106</sup> There is thus, according to the Court, no tension between the Copyright Clause and the First Amendment. In fact, First Amendment concessions inhere in the copyright law: specifically, the idea/expression dichotomy, which ensures that only the latter is taken from the public domain; and the fair use provision, which gives the public access to facts, ideas and, in some circumstances, expression itself.<sup>107</sup>

Once again, the Court's reliance on history betrays a dearth of analysis. It is left unexplained just how the proximity of adoption of the First Amendment and the Copyright Clause means that the latter is automatically compatible with the former in almost, if not all, instances. Furthermore, the idea/expression dichotomy upon which the Court relies may not sufficiently accommodate the First Amendment interests at stake. The CTEA's twenty-year copyright extension deprives the public not only of access to an author's ideas but his expression as well.<sup>108</sup> Similarly, "fair use" is a limited defense and falls far short of the Founders' ideal of full free use.<sup>109</sup> Creators could make valuable use of many copyrighted materials, but because of the limited nature of the fair use defense, the possibility of liability for infringement remains distinct.<sup>110</sup> Given the equally distinct

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103. *Id.* at 232 (Stevens, J., dissenting).

104. *See* Jaffe, *supra* note 77, at 154.

105. Brief for Petitioners, *supra* note 10, at 23.

106. *Eldred*, 537 U.S. at 219.

107. *See id.* at 218-19.

108. Brief for Petitioners, *supra* note 10, at 36.

109. *See* Jaffe, *supra* note 77, at 156-57 ("The fair use defense . . . does not eliminate the substantial burden on uses not subject to the defense.").

110. *See id.*

possibility that the CTEA may have a chilling effect on speech without offering a “countervailing benefit”<sup>111</sup> to the public, one might have expected the Court to have subjected it to more rigorous scrutiny. The Court concluded with a reference to the petitioners’ “inventive constitutional interpretation,” and appeared to concede that the CTEA’s term extension may be bad policy—just not bad enough for the Court to overturn.<sup>112</sup>

Both Justice Stevens and Justice Breyer wrote dissenting opinions. Justice Stevens contended that Congress may no sooner extend copyright beyond its allotted time than it may extend the scope of a patent monopoly.<sup>113</sup> As already noted, he rejected the Court’s reliance on past congressional practice, remarking that “the fact that Congress has repeatedly acted on a mistaken interpretation of the Constitution does not qualify our duty to invalidate an unconstitutional practice when it is finally challenged in an appropriate case.”<sup>114</sup> He argued further that it was for the Court to determine the scope of Congress’s power under the Constitution, and that this determination was a judicial rather than a legislative matter.<sup>115</sup> Finally, he noted that the Court’s ruling meant there was nothing to stop Congress from extending copyrights *ad infinitum*.<sup>116</sup>

Justice Breyer was even more vigorous in his dissent. He argued that the extension added virtually no economic value, meant that copyright was, to all intents and purposes, perpetual, and that it did not promote but rather impeded the progress of Science.<sup>117</sup> Justice Breyer argued that the prospective and retrospective extensions implicated First Amendment interests and therefore warranted a level of scrutiny higher than that applied by the Court.<sup>118</sup> He further argued that uniformity with EU copyright terms did not justify both prospective and retrospective extensions to copyright, and rejected as “constitutionally perverse” the argument advanced by publishers that extension would expedite the dissemination of existing works.<sup>119</sup>

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111. *Sony Corp. v. Universal City Studios*, 464 U.S. 417, 450-51 (1984).

112. *Eldred*, 537 U.S. at 222. Justice Breyer argued that, contrary to the majority’s opinion, the statute is so unwise as to be unconstitutional. *See id.* at 242 (Breyer, J., dissenting).

113. *Id.* at 222-23 (Stevens, J., dissenting).

114. *Id.* at 235 (Stevens, J., dissenting).

115. *Id.* (Stevens, J., dissenting).

116. *Id.* at 241-42 (Stevens, J., dissenting).

117. *See id.* at 242-67 (Breyer, J., dissenting).

118. *Id.* at 244 (Breyer, J., dissenting).

119. *Id.* at 261 (Breyer, J., dissenting).

### III. THE LEGISLATIVE AFTERMATH

#### A. The Public Domain as Social Movement

Although the Petitioners' constitutional arguments were unavailing, their effort underscored the need to create a copyright regime more commensurate with the Internet age. The Internet is an electronic infrastructure with unique information storage capability. As a result, it affords society the opportunity to effectuate one of the original goals of copyright law that has been deemphasized, at least since the 1976 Act, in the effort to secure individual intellectual property rights.<sup>120</sup> That goal is to gather information and facilitate public access to it. In the words of an amicus brief filed with the Court:

Digital technology allows us the opportunity to build a "universal" library out of these materials—a library that dwarfs the collections of the Alexandria and even our modern Library of Congress. This library will expand our understanding of "public access." It will make information accessible in formats that uniquely support and promote creativity in the arts and sciences—allowing individuals to clip and sample millions of public domain words, films, and sound recordings with ease.<sup>121</sup>

With the Internet, an extraordinary amount of knowledge and culture can be provided free to schools, to libraries, and to other creators. The public policy goal of creating a vast repository of information first evident in copyright's deposit requirement is now within our grasp. And there is reason to think it can be attained without threatening the profits of copyright holders.

While it was not declared unconstitutional, the CTEA's effect is nevertheless to tip the balance in favor of the individual author and away from the larger public good. The CTEA also increases rewards to individuals at the expense of secondary creativity or public dissemination, a distributive effect that may be out of step with the complex demands of the current age.<sup>122</sup> The 1990s saw the emergence of a social movement centered on the public domain.<sup>123</sup> Professor Lessig has become a spokesperson of a movement variously dubbed the "CopyLeft" or the "free culture movement."<sup>124</sup> This movement, comprised of lawyers, scholars, and grassroots

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120. LITMAN, *DIGITAL COPYRIGHT*, *supra* note 13, at 78.

121. Brief of Amici Curiae, *supra* note 23, at 2.

122. *See generally* LITMAN, *supra* note 13.

123. *See generally* Boynton, *supra* note 26.

124. *See id.*

activists, objects to what it sees as a kind of land grab in cyberspace on the part of major content industries. Indeed, some have compared what is taking place today to the fencing off of the commons in pre-industrial England,<sup>125</sup> and the activism on behalf of the public domain and the Internet has been likened to the Environmental movement of the 1960s.<sup>126</sup>

What unites this disparate group is an urgent sense that the public must be educated as to what is happening to copyright law before important freedoms are lost forever, and the culture which depends on a vital public domain is permanently impoverished. In the words of one commentator, “[w]e are at a moment in our history at which the terms of freedom and justice are up for grabs.”<sup>127</sup> The ultimate success of the movement and final determinant of the question whether copyright may be infinitely renewed, may well depend on the cultural capital that an organization like Professor Lessig’s Creative Commons can acquire.<sup>128</sup> Founded in 2001, Creative Commons not only collects public domain information but allows creators to exercise control over the scope of copyright protection of their works. Its software application for the Web permits a copyright holder to commit his work to the public domain or to license it on terms that allow copying and reuse.<sup>129</sup> Thus, if a writer or musician wants to make his work available for use without charge, or an artist seeks raw materials which can be altered or sampled without infringement, Creative Commons provides an invaluable forum. How well such communitarian ventures fare will play a large part in future Courts’ treatments of Congressional extensions of copyright, and perhaps an even larger part in Congress’s deliberations over future term extensions.

## B. A Proposed Alternative to the CTEA

The Internet’s facilitation of distributed storage and reproduction marks a dramatic change from the context in which the 1976 Copyright Act was passed. At that time, the idea of a universally accessible reposi-

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125. See James Boyle, *Fencing Off Ideas: Enclosure and the Disappearance of the Public Domain*, DAEDALUS, Spring 2002, at 13, available at <http://www.wcl.american.edu/pub/faculty/boyle/intprop.htm>. Cf. Yochai Benkler, *Free as the Air to Common Use: First Amendment Constraints on Enclosure of the Public Domain*, 74 N.Y.U. L. REV. 354 (1999) (arguing that the enclosure movement threatens to impede information flow and abridge free speech).

126. See JAMES BOYLE, *A POLITICS OF INTELLECTUAL PROPERTY: ENVIRONMENTALISM FOR THE NET?* (1997).

127. See Boynton, *supra* note 26, at 43.

128. Information about Creative Commons can be found at <http://creativecommons.org/> (last visited Mar. 8, 2004).

129. See Boynton, *supra* note 26, at 44.

tory of free works might very well have seemed far-fetched. It is unsurprising, therefore, that the 1976 Act liberalized renewal requirements without fully contemplating the significant social and cultural benefit of letting work pass into the public domain. But times have changed, and there are those like Eldred who seek, for example, to make available books that are out of print but under copyright. Moreover, they are able to do so with relative ease thanks to the emergence of the Internet.<sup>130</sup>

Such people are impeded, however, by a copyright law blind to the need to encourage investment in so-called lower-value areas of content for the good of the public domain. Soon after arguing before the Court, Professor Lessig began a legislative initiative designed to remedy this situation.<sup>131</sup> He launched an online petition in the hopes of persuading Congress to require copyright holders to pay a one dollar fee every fifty years in order to extend their copyrights.<sup>132</sup> This petition lent some support to the bill introduced before Congress by Representative Zoe Lofgren entitled the Public Domain Enhancement Act (“PDEA”), an effort to create a “mechanism by which abandoned American copyrights can enter the public domain.”<sup>133</sup>

Essentially, the PDEA calls for an end to automatic copyright renewal, and for the return of the formality of the payment of a maintenance fee.<sup>134</sup>

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130. Menell, *supra* note 13, at 118-19, describes the change in these terms: “The digital platform has untethered content from the inherent limitations on reproduction and distribution that ensured a steady flow of revenue to content publishers and creators—the traditional basis for funding and raising capital for the creation of new content.”

131. The battle is being fought on other fronts. William Fisher of the Berkman Center at Harvard has sought ways for technologies like peer-to-peer to develop while still providing a reward to copyright holders. Under Fisher’s plan, all online works would be registered with a central office which would monitor how often the work is used and then compensate the creator accordingly. The money to pay the artists would come from a tax imposed on content-related devices like CD burners and DVD recorders. The Berkman Center can be found at <http://cyber.law.harvard.edu/home> (last visited Mar. 8, 2004). See also Neil Weinstock Netanel, *Impose a Noncommercial Use Levy to Allow Free Peer-to-Peer File Sharing*, 17 HARVARD J.L. & TECH. 2 (2003); William Fisher, *An Alternative Compensation System*, available at <http://cyber.law.harvard.edu/people/tfisher/PTKChap6.pdf>.

132. See Paul Festa, *Lessig Mobilizes Copyright Reform*, ZdNet (June 6, 2003), at [http://zdnet.com.com/2100-1104\\_2-1013939.html](http://zdnet.com.com/2100-1104_2-1013939.html).

133. H.R. 2601, 108th Cong. (2003).

134. Formalities are government-imposed requirements on authors that “are necessary to obtain copyright protection but that do not relate to the substance of the copyright.” MERGES ET AL., *supra* note 14, at 368. The renewal requirement proposed in the PDEA would create a system similar to that which obtains under patent law. See U.S. Pat. & Trademark Office, *Patent Maintenance Fees*, at <http://www.uspto.gov/web/offices/pac/maintfee/> (last modified Nov. 15, 2003) (requiring payment of fees at regular inter-

One hurdle standing in the way of this return to formalities is that the United States is a signatory to the Berne Convention, which states that the enjoyment and exercise of the right to protection of literary and artistic work “shall not be subject to any formality.”<sup>135</sup> Indeed, it was the decision to join the Berne Convention that accounted for the change to the more permissive copyright regime, under which compliance with the formalities is largely voluntary.<sup>136</sup> The formalities of the pre-1976, pre-Berne copyright regime were responsible for the entry into the public domain of thousands of works;<sup>137</sup> but, unfortunately, conditioning copyright protection on formalities would be inconsistent with U.S. obligations under the Berne Convention. It is an irony of the age that an international treaty whose mission was to promote uniformity and globalization may be out of step with the most boundary-erasing medium yet devised—the Internet.

It is not clear whether the PDEA’s proposed renewal requirements would violate the Berne Convention, but the full context of *Eldred* underlines the need to reassess whether the overall benefit of eradicating formalities outweighs the harm. The current lack of formalities that are strictly enforced arguably makes it more difficult to differentiate between protected and unprotected works, including those in the public domain and those in which the author does not wish to claim copyright. The lack of registration, for example, makes it more difficult to identify the copyright owner in order to seek permission or license to republish a work.<sup>138</sup> Under the regime proposed in the PDEA to make registration a requirement for copyright protection, the term of protection would no longer vest in a single, uniform term applicable to all works.<sup>139</sup> Rather, it would require that copyright holders take an affirmative step to retain their copyrights, after the initial term has expired.<sup>140</sup> As the proposed legislation shows, registra-

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vals to “maintain the patent in force” and providing grace period for payments after deadlines).

135. The Berne Convention provides:

The enjoyment and the exercise of these rights shall not be subject to any formality; such enjoyment and such exercise shall be independent of the existence of protection in the country of origin of the work. Consequently, apart from the provisions of this Convention, the extent of protection, as well as the means of redress afforded to the author to protect his rights, shall be governed exclusively by the laws of the country where protection is claimed.

Berne Convention, *supra* note 39, art. 5, cl. 2.

136. See *id.*

137. See Brief of Amici Curiae, *supra* note 23, at 4-5.

138. See Boynton, *supra* note 26, at 45.

139. H.R. 2601 § 306(a) (2003).

140. *Id.*

tion would require little more than paying a small maintenance fee and, presumably, filing a form with the Register of Copyrights.<sup>141</sup> This would not seem overly burdensome to a party seeking the full benefit of the law. Indeed, the Internet itself would make filing a simple matter and could create a centralized resource for parties seeking to clarify the status of a work. The consequence of failing to perform these minimal actions would be for the work to move into the public domain.

The idea of conditioning copyright protection upon renewal is not new. Indeed, this proposal would effectively return us to the situation that obtained prior to the 1976 Copyright Act. Under earlier copyright law, works automatically received twenty-eight years of protection and could be renewed for another twenty-eight years. The benefit to the public was that the vast majority of copyrights were not renewed, and the public domain was thereby enriched.<sup>142</sup>

Congress's implementation of automatic renewal, on the other hand, has had a deleterious effect on the public domain.<sup>143</sup> Internet information repositories are prohibited from including vast amounts of information that could benefit the public and yet are of no value to the copyright holders. As a result of the CTEA, no copyrights will pass into the public domain in the next twenty years, although a million patents will expire in the same period.<sup>144</sup> Absent the CTEA, untold numbers of works would enter the public domain, including some that are still being commercially exploited.<sup>145</sup>

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141. H.R. 2601, 108th Cong. § 306(a) provides:

Maintenance fee for published United States works,

(a) FEE.—The Register of Copyrights shall charge a fee of \$1 for maintaining in force the copyright in any published United States work. The fee shall be due 50 years after the date of first publication or on December 31, 2004, whichever occurs later, and every 10 years thereafter until the end of the copyright term. Unless payment of the applicable maintenance fee is received in the Copyright Office on or before the date the fee is due or within a grace period of 6 months thereafter, the copyright shall expire as of the end of that grace period.

142. See Brief of Amici Curiae, *supra* note 23, at 4-5.

143. Justice Breyer's dissent in *Eldred*, specifically his economic analysis showing that "only about 2% of copyrights can be expected to retain commercial value at the end of 55 to 75 years," provides support for the position that the CTEA does not facilitate the public policy goals of free flow of information and the cultivation of the public domain. See *Eldred v. Ashcroft*, 537 U.S. 186, 248 (2003) (Breyer, J., dissenting).

144. Russell Roberts, *An Interview with Lawrence Lessig on Copyrights*, The Library of Economics and Liberty (April 7, 2003), at <http://www.econlib.org/library/Columns/y2003/Lessigcopyright.html>.

145. *Id.*

The PDEA could reach a middle ground. If the PDEA's maintenance fee scheme were in place, a mass of unrenewed content would fall into the public domain, and, as *Eldred* showed, there is now no shortage of individuals and organizations willing to make use of this content. They would now be in a position to do so because they would not have to pay costs associated with identifying and clearing copyrights, nor would they have to abandon their efforts altogether because of legal uncertainty.<sup>146</sup> This change would result in the commercial and noncommercial exploitation of the liberated content, making it widely available to other creators and to libraries, schools, museums and other teaching institutions.<sup>147</sup> Still, this new activity in the public domain would not interfere with the exploitation of commercially valuable copyrights; the PDEA would allow the owners of those copyrights to renew them and to continue to take advantage of their exclusive rights.<sup>148</sup>

#### IV. CONCLUSION

The Supreme Court has ruled that it was constitutional for Congress to grant a twenty-year extension to existing and future copyrights. And it is difficult to imagine a different outcome at present. The Court tellingly echoed the judgment and, in some instances, the language of the Solicitor General<sup>149</sup> when it characterized the petitioners' arguments as variously "novel," "bold," and "inventive."<sup>150</sup> It was thus not surprising that the petitioners failed to persuade the Court that their constitutional theory was worth unsettling over two hundred years of copyright law or, in the words of Solicitor General Olson, was compelling enough "to repudiate two centuries of settled practice as resting on a 'mistaken' understanding that James Madison, Thomas Jefferson, and Justices Washington and Story all apparently shared."<sup>151</sup> However, the Court's reasoning *en route* to this outcome was less than airtight, and the movement surrounding the public domain is gathering momentum. The Court's rejection will have—indeed already has had—the beneficial effect of focusing attention on the petitioners' worthy public policy arguments.

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146. *Id.*

147. Brief of Amici Curiae, *supra* note 23, at 2.

148. See H.R. 2601, 108th Cong. § 306(a) (2003).

149. See Brief for the Respondent, *supra* note 68, at 45.

150. *Eldred*, 537 U.S. at 208, 217, 222.

151. Brief for the Respondent, *supra* note 68, at 15-16.

## ADDITIONAL DEVELOPMENTS—COPYRIGHT

### *UNITED STATES V. ELCOM LTD.*

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

Last year, the district court denied Elcomsoft's motions to dismiss its indictment for violations of the Digital Millennium Copyright Act (DMCA). A jury subsequently found Elcomsoft not guilty of violating the DMCA in the first-ever criminal application of the anti-circumvention provisions of the 1998 law.

Adobe Systems produces the Adobe Acrobat e-Book Reader, a product which allows books to be read in a digital format. The resulting Adobe e-Book format allows publishers to determine the readers' ability to loan, copy, and print the book. Defendant Elcomsoft authored the Advanced e-Book Processor, a product which allows individuals with an e-Book to strip the publisher-imposed restrictions and convert it to PDF format, thus giving the readers the ability to print, e-mail, copy, or otherwise distribute the book.

The DMCA, enacted in October 1998, has several anti-circumvention prohibitions, including both access restrictions (§ 1201(a)) and use restrictions (§ 1201(b)). Elcomsoft was indicted with four counts of violating the DMCA anti-circumvention provisions, as well as aiding and abetting circumvention offenses. Elcomsoft asserted that the DMCA is impermissibly vague and filed several motions to dismiss the indictment on constitutional grounds.

The court ruled that the DMCA anti-circumvention provisions are not unconstitutionally vague. Defendant argued that the DMCA did not ban all circumvention tools because Congress intended to protect fair use, but the DMCA did not provide adequate notice as to which tools were banned and therefore violated the Due Process Clause of the Fifth Amendment. The court found that the DMCA bans all circumvention tools, but in § 1201(c), it expressly disavows any intention to affect fair use. The court stated that the right of fair use coexists with circumvention provisions, though some fair use of digital works may be more difficult to engage in due to a lack of circumvention tools.

The court also upheld the constitutionality of the DMCA on First Amendment grounds. It found that computer software is expression that is protected under the First Amendment. The court stated that since Congress intended to ban what the computer code does and not what it says, the DMCA's restrictions on fair use is content neutral. As such, the DMCA is subject to intermediate scrutiny. The court held the DMCA's restrictions were not overbroad: they did not go beyond what was necessary to achieve the legitimate governmental interests of promoting electronic commerce and preventing electronic copyright piracy, they did not regulate spoken words or expressive conduct, nor they did not impair the First Amendment rights of third parties. Finally, the court held that Congress had the authority to enact the DMCA under the Intellectual Property Clause and the Commerce Clause.

After deciding on all grounds that the DMCA is constitutional, the court dismissed the defendant's motion to dismiss. The jury returned a not-guilty verdict on the indictment against Elcomsoft. The jury also found that the company did not meet the willfulness standard required by the Act's criminal law provisions for conviction.

***KELLY V. ARRIBA SOFT CORP.***

*336 F.3d 811 (9th Cir. 2003), superseding, 280 F.3d 934 (9th Cir. 2002)*

In the original disposition of the case, the Ninth Circuit held a firm's creation of small "thumbnails" of the photographer Kelly's copyrighted images for use in its visual search engine constituted fair use. The court further held, however, that the visual search engine's unauthorized "inline linking and framing" of images residing on the Kelly's website violated Kelly's right of public display. On July 7, 2003, the court withdrew its original opinion in the case and issued a revised opinion that supersedes the original.

While the revised opinion does not alter the court's holding that Arriba Soft's display of "thumbnail" images constitutes transformative fair use, its discussion of Arriba Soft's "inline linking and framing"—including a misinformed discussion of hyperlinking—has been wholly excised. For a full discussion of the technology and methods at issue, see Mathew C. Staples, Note, *Kelly v. Arriba Soft Corp.*, 18 BERKELEY TECH. L.J. 69 (2003). Upon consideration of supplemental briefs requested after its initial decision, the Ninth Circuit realized the district judge had impermissibly broadened the scope of the parties' cross-motions for summary judgment. Citing these two errors, the Ninth Circuit reversed the district court's grant of summary judgment to Kelly regarding the full-size images, and it remanded for further proceedings on the right of public display issues.

The excision of the former opinion's language concerning "inline linking and framing" has great significance for linking law in the Ninth Circuit. The initial decision had aroused the concern of some who thought the court's former condemnation of "inline linking and framing" might potentially be extended to all forms of hyperlinking.

The effects of the court's revisions might appear straightforward: by retracting its proscription of "inline linking and framing," the Ninth Circuit seems to have assuaged the fears of those who felt the court's prior opinion might be read to proscribe some or all forms of Internet hyperlinking. The Ninth Circuit never explicitly acknowledged its previous error in technological interpretation, however, and there is no assurance the Ninth Circuit would rule any differently if it again confronts the issue on appeal. This certainly could happen, since Kelly may still assert an infringement of his display right on remand. All told, the law of copyright infringement for hyperlinking is still unsettled in the Ninth Circuit.

### *STATE SUPER-DMCA LAWS*

As part of its ongoing attempt to protect the film industry from piracy, the Motion Picture Association of America (“MPAA”) has been encouraging states to adopt “Super-DMCA” legislation. Several states have already adopted versions of the Super-DMCA legislation, and other states are considering similar bills. These laws raise questions about the future development of many new technologies related to the communication industries. The real meaning and effect of these laws have yet to be tested in courts.

Most bills are fashioned after the MPAA’s model bill. The majority of proposed bills provide criminal penalties for the development, use, possession, and distribution of “unlawful communication and access devices.” The MPAA model bill criminalizes possession, use, development, or distribution of a communication device to steal a communication service without the consent of the service provider. Criminal penalties also apply to the use, development, or possession of a communication device capable of concealing the source or existence of electronic communication. Finally, it is unlawful to prepare or publish the plans or instructions for making a device if one knows that someone will use the device for unlawful purposes.

MPAA’s model bill also includes an “intent to defraud” provision, which some states have omitted from their own bills or included without defining the term. Opponents of these bills are concerned that the bills would make the use of common devices illegal, and would thwart the investigation of new devices. Overall, the scope of the state Super-DMCA law adoption and meaning remains unclear at this early stage.

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## ***FESTO X*: THE COMPLETE BAR BY ANOTHER NAME?**

*By Marc D. Sharp*

The Court of Appeals for the Federal Circuit has recently added yet another chapter to the seemingly unending saga of *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*<sup>1</sup> (“*Festo X*”). In this iteration, the Federal Circuit clarified the application of the three tests articulated by the Supreme Court for rebutting the presumption of prosecution history estoppel: unforeseeability, tangential relationship, and reasonable description.<sup>2</sup> The Federal Circuit also ruled that rebuttal is a question of law to be resolved by the court rather than a jury,<sup>3</sup> similar to the court’s holding in *Markman v. Westview Instruments, Inc.* (“*Markman I*”) concerning claim construction.<sup>4</sup> After setting out this analytical framework, the court determined that *Festo* failed to rebut the presumption of prosecution history estoppel under either the tangential relationship or reasonable description tests.<sup>5</sup> However, the court ruled that there were still open questions regarding the foreseeability of the accused equivalent elements, and remanded this issue to the district court for resolution.<sup>6</sup>

Part I of this Note discusses the origin of the doctrine of equivalents and the concept of prosecution history estoppel. Part II outlines the history and significance of the *Festo* decisions, particularly emphasizing their impact on prosecution history estoppel. Part III presents a detailed analysis of the latest *Festo* decision. Finally, Part IV explores the impact the Federal Circuit’s holding in the latest *Festo* decision will have on the scope of equivalents available to an inventor and some ramifications for patent litigation and prosecution.

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1. 344 F.3d 1359 (Fed. Cir. 2003) [hereinafter *Festo X*].

2. See *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, 535 U.S. 722, 740-41 (2002) [hereinafter *Festo VIII*]. See *infra* Part II for a discussion of these three tests.

3. See *Festo X*, 344 F.3d at 1367-68, 1369 n.3.

4. *Markman v. Westview Instruments, Inc.*, 52 F.3d 967, 980-81 (Fed. Cir. 1995) (en banc) [hereinafter *Markman I*], *aff’d*, 517 U.S. 370 (1996) [hereinafter *Markman II*].

5. *Festo X*, 344 F.3d at 1373-74.

6. *Id.*

## I. BACKGROUND

The patent bargain, as set forth in the Constitution and implemented by Congress, grants inventors a limited monopoly on their inventions in exchange for full disclosure of how to make and use those inventions.<sup>7</sup> The extent of the exclusive right granted by a patent is defined by the language of its claims. However, if protection were limited to the literal scope of a patent's claims, copyists could avoid infringement by incorporating trivial modifications, a practice that would greatly limit a patent's value.<sup>8</sup> As a result, inventors would have little incentive to disclose their inventions, compromising the purpose of the patent bargain. In order to address this problem, judges created the doctrine of equivalents, which extends a patent's protection beyond the literal scope of its claims.

### A. The Doctrine of Equivalents

The Supreme Court articulated an early form of the doctrine of equivalents in *Winans v. Denmead* by holding that a patentee implicitly claims insubstantially different versions of an invention when claiming a specific embodiment.<sup>9</sup> In so holding, the Court prevented infringers from avoiding liability by making minor changes to a patented device.<sup>10</sup> The Court revisited the doctrine of equivalents almost a century later in *Graver Tank & Manufacturing Co. v. Linde Air Products, Co.*,<sup>11</sup> where it held that if an accused device performed substantially the same function in substantially the same way to achieve the same result as a patented invention it infringed the patent under the doctrine of equivalents.<sup>12</sup> This articulation of the doctrine, known as the "function-way-result" test, is frequently used to judge equivalence today.<sup>13</sup>

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7. See U.S. CONST. art. I, § 8, cl. 8; see also ROBERT P. MERGES & JOHN F. DUFFY, PATENT LAW AND POLICY: CASES AND MATERIALS 259 (3d ed. 2002).

8. See *Festo VIII*, 535 U.S. 722, 731 (2002).

9. 56 U.S. 330, 342 (1854). The Court noted:

[W]hen a patentee describes a machine, and then claims it as described, . . . he is understood to intend to claim, and does by law actually cover, not only the precise forms he has described, but all other forms which embody his invention; it being a familiar rule that, to copy the principle or mode of operation described is an infringement, although such copy should be totally unlike the original in form or proportions.

*Id.*

10. *Id.* at 343.

11. 339 U.S. 605 (1950).

12. *Id.* at 608.

13. See Alan Fu, Note, *Prosecution History Estoppel: Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, 18 BERKELEY TECH. L.J. 117 (2003); see also Jay I. Alexander, *Cabining the Doctrine of Equivalents in Festo: A Historical Perspective of the Rela-*

While the doctrine of equivalents ensures that a patentee receives the full benefit of his exclusive rights, liberal application of the doctrine can impermissibly extend the scope of those rights. If there were no limit on assertions of equivalence, an inventor might claim material through litigation that he or she could not have claimed, or had specifically disclaimed, during patent prosecution. To prevent this sort of backdoor patenting, courts established the doctrine of prosecution history estoppel.

## B. Prosecution History Estoppel

The Supreme Court first applied prosecution history estoppel in *Leggett v. Avery*<sup>14</sup> by invalidating the claims of a patent when the inventor attempted to reclaim subject matter he gave up during prosecution of the patent.<sup>15</sup> This idea, that subject matter surrendered during patent prosecution cannot be regained through application of the doctrine of equivalents, has become an axiom of patent law.<sup>16</sup> At its core, prosecution history estoppel ensures that a patentee honors representations made to the Patent and Trademark Office (PTO) during patent prosecution.

By narrowing the scope of a claim during prosecution, the patentee acknowledges that *some* material included in the original claim is unpatentable, but exactly what material is surrendered is often unclear. In *Hughes Aircraft Co. v. United States*,<sup>17</sup> the Federal Circuit described prosecution history estoppel as a flexible bar to assertions of equivalence, and advocated a subjective inquiry into the nature of the amendment and the scope of material surrendered.<sup>18</sup> This case-by-case analysis was the standard prior to the *Festo* line of cases.

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*tionship between the Doctrine of Equivalents and Prosecution History Estoppel*, 51 AM. U. L. REV. 553 (2002) (providing a detailed history of the doctrine of equivalents).

14. 101 U.S. 256, 258-60 (1879).

15. See Fu, *supra* note 13, at 118-24 (discussing the history of prosecution history estoppel and its interaction with the doctrine of equivalents).

16. See, e.g., *Weber Elec. Co. v. Freeman Elec. Co.*, 256 U.S. 668, 677 (1921) (noting that “the patentee may not by construction, or by resort to the doctrine of equivalents, give to the claim the larger scope which it might have had without the amendments”); see also *Warner-Jenkinson Co. v. Hilton Davis Chem. Co.*, 520 U.S. 17, 30-31 (1997) (observing that prosecution history estoppel applies to amendments made to avoid prior art or specific objections by the patent examiner).

17. 717 F.2d 1351 (Fed. Cir. 1983).

18. *Id.* at 1362-63.

## II. THE *FESTO* DECISIONS

The *Festo* line of cases began in 1988 with a relatively simple patent infringement dispute in the Federal District Court of Massachusetts.<sup>19</sup> The two patents in suit, United States Patent 4,354,125 (“the Stoll patent”) and 3,779,401 (“the Carroll patent”) related to magnetic rodless cylinders composed of a piston, a cylinder, and a sleeve.<sup>20</sup> Like many patents, these were amended during prosecution: both patents incorporated a new limitation requiring “a pair of resilient sealing rings.” In addition, the Stoll patent was amended to include a limitation that the sleeve be “magnetizable.”<sup>21</sup>

*Festo* Corporation (“Festo”), the assignee of both patents, alleged that Shoketsu Kinzoku Kogyo Kabushiki Company and SMC Pneumatics Incorporated (collectively “SMC”) had produced a device that infringed the Stoll and Carroll patents. The district court granted partial summary judgment of infringement under the doctrine of equivalents of the Carroll patent, and a jury found infringement under the doctrine of equivalents of the Stoll patent.<sup>22</sup> On appeal, the Federal Circuit affirmed these decisions.<sup>23</sup> The Supreme Court vacated the Federal Circuit’s decision and remanded the case in light of its intervening *Warner-Jenkinson* decision.<sup>24</sup> The Federal Circuit heard the case en banc and reversed the district court’s decision, radically altering the interaction between prosecution history estoppel and the doctrine of equivalents.<sup>25</sup>

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19. *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, No. 88-1814-MA, 1993 U.S. Dist. Lexis 21434, at \*81-82 (D. Mass. Apr. 27, 1993) [hereinafter *Festo I*].

20. *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, 234 F.3d 558, 579 (Fed. Cir. 2000) [hereinafter *Festo VII*]; see also Fu, *supra* note 13, at 124-29 (discussing the procedural history of the *Festo* cases).

21. *Festo VII*, 234 F.3d at 583-84.

22. *Festo I*, 1993 U.S. Dist. Lexis 21434, at \*81-82.

23. *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, 72 F.3d 857 (Fed. Cir. 1995) [hereinafter *Festo II*].

24. *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, 520 U.S. 1111 (1997) [hereinafter *Festo IV*]; *Warner-Jenkinson Co. v. Hilton Davis Chem. Co.*, 520 U.S. 17 (1997). In *Warner-Jenkinson* the Supreme Court held that an accused device infringes a patent claim only if it literally or equivalently infringes every element in that claim. Furthermore, unless the patentee proves otherwise, it should be presumed that claim amendments were made to achieve patentability, and should trigger prosecution history estoppel. *Warner-Jenkinson*, 520 U.S. at 33. The amendments at issue in *Warner-Jenkinson* were made to avoid rejections based on prior art. It was unclear from that context if amendments made for other reasons would also invoke the presumption of prosecution history estoppel.

25. *Festo VII*, 234 F.3d at 591.

The Federal Circuit made two critical holdings in *Festo VII*. First, it held that any narrowing amendment, even a voluntary one, is presumably made to achieve patentability, and triggers prosecution history estoppel.<sup>26</sup> Second, and more significantly, the court held that prosecution history estoppel bars *any* application of the doctrine of equivalents to amended claim elements (the “complete bar”).<sup>27</sup> Under this ruling, a patentee was precluded from arguing that he had not surrendered all material outside the literal scope of the amended claim.

The Federal Circuit’s decision in *Festo VII* was appealed to the Supreme Court, which granted *certiorari* and reversed the complete bar (“*Festo VIII*”).<sup>28</sup> The Supreme Court agreed that amendments which narrowed the scope of a patent claim, whether voluntary or made in response to a rejection by a patent examiner, were presumably made for a reason related to patentability and triggered prosecution history estoppel.<sup>29</sup> However, the Court held that rather than creating a complete bar, prosecution history estoppel should lead to a rebuttable presumption of surrender of a given equivalent.<sup>30</sup> The Court then presented three tests for determining if a patentee rebutted this presumption. First, if an equivalent was unforeseeable, the patentee did not surrender it. Second, if the accused equivalent bore only a tangential relationship to the amendment the patentee should not be estopped from arguing equivalence. Finally, if the patentee could not reasonably have been expected to describe the accused equivalent at the time of amendment then he did not surrender it.<sup>31</sup> While the Supreme Court’s ruling reversed the complete bar imposed by the Federal Circuit in *Festo VII*, it gave no clear guidance about how to apply these tests. The Federal Circuit addressed this issue in its latest *Festo* decision.

### III. *FESTO X*

After restoring a flexible estoppel analysis, the Supreme Court remanded the case to the Federal Circuit to determine what territory *Festo*

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26. *Id.* at 564.

27. *Id.* at 574.

28. *Festo VIII*, 535 U.S. 722 (2002); *see also* Fu, *supra* note 13 (presenting a detailed analysis of the Supreme Court’s decision).

29. *Festo VIII*, 535 U.S. at 736-38.

30. *Id.* at 741 (noting that “the patentee still might rebut the presumption that estoppel bars a claim of equivalence. The patentee must show that at the time of the amendment one skilled in the art could not reasonably be expected to have drafted a claim that would have literally encompassed the alleged equivalent”).

31. *Id.* at 740-41.

had surrendered during prosecution of the Stoll and Carroll patents.<sup>32</sup> The Federal Circuit asked the parties to brief several questions arising out of the Supreme Court's decision in *Festo VIII*, including whether rebuttal of the presumption of prosecution history estoppel should be a question of law or fact, what sorts of evidence should be considered in the inquiry, and whether *Festo* had rebutted the presumption.<sup>33</sup> In its *Festo X* opinion, the Federal Circuit held that rebuttal of the presumption of prosecution history estoppel is a question of law for the court to resolve,<sup>34</sup> and that when making this determination the court should largely, though not exclusively, rely on intrinsic evidence, particularly the prosecution history of the patent.<sup>35</sup>

The Federal Circuit began its opinion by reaffirming that any amendment which narrows a claim's literal scope is presumptively made for a "substantial reason related to patentability" and gives rise to prosecution history estoppel.<sup>36</sup> The court held that the accused infringer bears the burden of showing that a patentee's amendment narrowed a claim's scope.<sup>37</sup> If the accused infringer succeeds, the court shifts the burden of proof to the patentee to show that the amendment was not made for a reason substantially related to patentability.<sup>38</sup> A patentee may rely only on evidence present in the prosecution history to make such a showing.<sup>39</sup> Should the patentee fail to show that an amendment was made for a reason unrelated to patentability, prosecution history estoppel applies, and the court must determine the amount of material surrendered.<sup>40</sup> Initially, the patentee is presumed to have surrendered all territory outside the literal scope of the amended claim;<sup>41</sup> however, the patentee may prove, by satisfying one of the three tests from *Festo VIII*, that the amendment did not surrender the

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32. *Id.* at 741.

33. *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, 304 F.3d 1289, 1290-91 (Fed. Cir. 2002) [hereinafter *Festo IX*].

34. *Festo X*, 344 F.3d 1359, 1367-68 (Fed. Cir. 2003).

35. *Id.* at 1369-70.

36. *Id.* at 1366.

37. *Id.*

38. *Id.* at 1366-67. Under *Warner-Jenkinson*, any amendment is presumed to have been made for some reason substantially related to patentability. *Warner-Jenkinson Co. v. Hilton Davis Chem. Co.*, 520 U.S. 17, 33 (1997).

39. *Festo X*, 344 F.3d at 1367. The court noted that restricting the inquiry to the information contained in the prosecution history helps to fulfill the public notice function of the patent and ensure that others will know the scope of a given patent. *Id.*

40. *Id.*

41. *Id.*

equivalent in question.<sup>42</sup> As noted above, the *Festo X* court held that issues related to these three tests are questions of law for the court to decide.<sup>43</sup>

The court then discussed how to apply the three rebuttal tests. According to the court, the critical question in the foreseeability inquiry is whether the accused equivalent would have been unforeseeable to a person having ordinary skill in the art at the time the amendment was made.<sup>44</sup> This test looks at objective unforeseeability and inherently requires resolution of underlying factual issues.<sup>45</sup> To evaluate these issues, the court suggested that judges not only look at the prosecution history of the patent, but also hear expert testimony and consider other extrinsic evidence related to the field.<sup>46</sup> However, the court stated that technology known in the prior art is usually foreseeable, while after-arising technology, or technology unknown in the art, is very likely, though not necessarily, unforeseeable.<sup>47</sup>

The court held that when considering tangentialness, the inquiry should focus on the relationship between the language in the amended claim and the accused equivalent.<sup>48</sup> Again, the judge is charged with determining the objective meaning of the amendment, and whether the amendment has some bearing on the equivalent in question.<sup>49</sup> Specifically, to help preserve the public notice function of patents, the Federal Circuit cautioned judges to focus their attention on the prosecution history and avoid consulting extrinsic evidence, except for clarification about the

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42. *Id.*

43. *Id.* at 1367-68, 1369 n.3 (noting that prosecution history estoppel is an equitable remedy imposed by the court and that the rebuttal of the presumption of estoppel should also be evaluated by the court). Interestingly, the court cited *Markman I* as support for the assertion that a judge may properly resolve underlying issues of fact which relate to a question of law. *Markman I*, 52 F.3d 967, 980-81 (Fed. Cir. 1995) (determining the proper legal standard for claim construction). However, as will be discussed in greater detail in Part IV, the court in *Markman I* took great care to clarify that the factual issues involved in claim construction only relate to educating the judge about the underlying technology, and do not affect the meaning of claims. *Id.* at 981. Therefore, the judge is not resolving factual issues but is instead gathering factual information to come to an educated conclusion about the meaning of claim terms. In contrast, when determining if a patentee has rebutted the presumption of prosecution history estoppel, the court will likely have to hear testimony and weigh the credibility of experts, a fundamentally different analysis. See *infra* Part IV.

44. *Festo X*, 344 F.3d at 1369.

45. *Id.*

46. *Id.*

47. *Id.*

48. *Id.*

49. *Id.*

technology in question.<sup>50</sup> The court noted that any amendment made to avoid specific prior art is inherently non-tangential if the accused equivalent embodies that prior art.<sup>51</sup> However, the court gave no guidance about what kinds of amendments *would* be considered only tangentially related to an accused equivalent.

While acknowledging that the reasonable description test is intended to allow a patentee to present reasons, other than foreseeability and tangentialness, why he was unable to claim an accused equivalent at the time of claim amendment,<sup>52</sup> the Federal Circuit expressed concern that it might become an over-expansive exception to prosecution history estoppel, and advocated limited application of the test.<sup>53</sup> Echoing the concerns of the Supreme Court about the vagueness of language as a means to describe technological innovation,<sup>54</sup> the Federal Circuit suggested that shortcomings in language might be a reason to invoke the reasonable description test.<sup>55</sup> The court gave little guidance about appropriate evidence for the judge to consider, noting that “[w]e need not decide now what evidence outside the prosecution history record, if any, should be considered in determining if a patentee has met its burden under this third rebuttal criterion.”<sup>56</sup> However, the court did note that if an amendment was made to avoid specific prior art, and the accused equivalent embodied that art, the patentee cannot rely on the reasonable description test to avoid prosecution history estoppel.<sup>57</sup>

After discussing these three tests, the court applied them to the patents in suit. The court first determined that there was insufficient evidence in the record to decide if the accused equivalents (a non-magnetizable aluminum sleeve and a single sealing ring) were unforeseeable when the “magnetizable sleeve” and “dual sealing ring” limitations were added to the Stoll and Carroll patents.<sup>58</sup> The court therefore remanded these issues to the district court for resolution.<sup>59</sup>

As to the two remaining tests, “tangentialness” and “reasonable description,” the court found sufficient evidence in the record to determine that Festo failed both tests for both patents. Festo argued that the “mag-

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50. *Id.* at 1369-70.

51. *Id.*

52. *Id.* at 1370.

53. *Id.*

54. *Festo VIII*, 535 U.S. 722, 731-32 (2002).

55. *Festo X*, 344 F.3d at 1370.

56. *Id.*

57. *Id.*

58. *Id.* at 1371-74.

59. *Id.* at 1373-74.

netizable sleeve” amendment was not required to avoid rejection by the patent examiner and therefore was inherently tangential to the claim.<sup>60</sup> However, according to the court, this was the wrong inquiry. The issue was not whether the amendment was tangential to the reason for amending the claim, but rather, whether the amendment was only tangentially related to the accused equivalent, the non-magnetizable aluminum sleeve.<sup>61</sup> Since the amendment was clearly relevant to the accused equivalent, the court held that Festo failed to rebut the presumption of prosecution history estoppel under the tangentialness test.<sup>62</sup> Similarly, the court held that the “sealing ring” amendment was made to avoid prior art references discussing sealing rings and was therefore directly related to the accused equivalent.<sup>63</sup>

For both patents, Festo argued that the accused product embodied inferior design elements that the patentees could not reasonably be expected to have described in their claims.<sup>64</sup> The court responded that the reasonable description test focuses on the ability of the patentee to describe an accused equivalent, not its merit.<sup>65</sup> The knowledge that the accused design elements were inferior suggests that, rather than being unable to describe them, the patentees specifically chose to exclude them from the scope of the patents.<sup>66</sup> Therefore, Festo failed to demonstrate that it would be unreasonable to expect the inventors to have described these elements when amending the Stoll and Carroll patents.

Judge Rader, joined in part by Judge Newman, filed a concurring opinion, which agreed with the majority’s holding, but discussed some issues not addressed in that opinion. Judge Rader noted that while rebuttal of the presumption of prosecution history estoppel “presents some exceptions to an exception to an exception to the standard rule of infringement,” it will likely be an important issue due to the common practice of claim amendment.<sup>67</sup> He expressed concern about how frequently patent law has been changing recently and how such changes may undermine the Federal Circuit’s mandate to bring predictability and uniformity to the patent system.<sup>68</sup> However, the bulk of his concurrence focused on the question of

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60. *Id.* at 1371.

61. *Id.* at 1371-72.

62. *Id.* at 1371.

63. *Id.* at 1373.

64. *Id.* at 1372-73.

65. *Id.*

66. *Id.*

67. *Id.* at 1374 (Rader, J., concurring).

68. *Id.* at 1375-76 (Rader, J., concurring).

foreseeability and its central role in controlling the doctrine of equivalents.<sup>69</sup> According to Judge Rader, by focusing on whether an equivalent was foreseeable, courts can give force both to the reasonable expectations of the patentee, and the patent's public notice function.<sup>70</sup> Judge Rader further suggested that foreseeability should serve as a limiting factor on *all* applications of the doctrine of equivalents, not simply to claim elements that were amended during prosecution.<sup>71</sup>

In addition to joining Judge Rader's concurrence, Judge Newman filed a dissenting opinion, joined by Judge Mayer. Although she agreed with some of the holdings of the majority, she found flaws with its analysis of the claims at issue. Judge Newman agreed that rebuttal of the presumption of prosecution history estoppel is properly a question of law to be evaluated by the court.<sup>72</sup> However, she argued that the majority disposed of the issues of tangential relationship and reasonable description too quickly. She pointed to substantial evidence in the record indicating that Festo might have been able to rebut the presumption of estoppel if given the chance to present additional evidence. Judge Newman believed that Festo should have been given this opportunity before the Federal Circuit ruled on the issues.<sup>73</sup> She also expressed concern that all three tests, unforeseeability, tangentialness, and reasonable description, would require resolution of substantial factual issues outside the prosecution history, and questioned the majority's focus on the prosecution history as a primary source of information.<sup>74</sup> Her dissent concluded by noting that the combination of a liberal application of estoppel coupled with a rigorous rebuttal standard would likely act as a complete bar to application of the doctrine of equivalents.<sup>75</sup>

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69. *Id.* at 1377 (Rader, J., concurring).

70. *Id.* (Rader, J., concurring). This echoes Judge Rader's views in previous rulings involving the doctrine of equivalents. *See, e.g.,* Johnson & Johnston Assoc. v. R.E. Serv. Co., 285 F.3d 1046 (Fed. Cir. 2002) (Rader, J., concurring); Sage Prods. Inc. v. Devon Indus., 126 F.3d 1420 (Fed. Cir. 1997) (Rader, J.).

71. *Festo X*, 344 F.3d at 1377 (Rader, J., concurring); *see also* Fu, *supra* note 13, at 133-34 (arguing that *Graver Tank* should be overturned and that foreseeability should be used to limit all assertions of the doctrine of equivalents).

72. *Festo X*, 344 F.3d at 1378-79 (Newman, J., dissenting).

73. *Id.* at 1379-83 (Newman, J., dissenting).

74. *Id.* at 1384-85 (Newman, J., dissenting).

75. *Id.* (Newman, J., dissenting).

#### IV. IMPLICATIONS OF *FESTO X*

##### A. Benefits and Pitfalls of Rebuttal as a Question of Law

While juries play an enormously important role in resolving legal disputes, the rebuttal of the presumption of prosecution history estoppel is an issue better suited for resolution by a judge. As Judge Rader noted in his dissenting opinion in *Cybor Corp. v. FAS Technologies, Inc.*:

Trial judges can spend hundreds of hours reading and rereading all kinds of source material, receiving tutorials on technology from leading scientists, formally questioning technical experts and testing their understanding against that of various experts, examining on site the operation of the principles of the claimed invention, and deliberating over the meaning of the claim language. If district courts are not satisfied with the proofs proffered by the parties, they are not bound to a prepared record, but may compel additional presentations or even employ their own court-appointed expert.<sup>76</sup>

These advantages are denied to juries.

The rebuttal of the presumption of prosecution history estoppel is likely to be a complex question requiring mastery of intricate technology. Juries play a passive part in trials in that they are allowed to hear and evaluate testimony, but not to interrogate witnesses or seek clarification of complex points. In contrast, judges can take an active role in informing themselves about the relevant legal or technological issues. Therefore, the Federal Circuit's choice that judges should resolve the issues involved in the rebuttal of prosecution history estoppel is appropriate.

This choice by the Federal Circuit is not unprecedented: the court made a similar decision in *Markman I* when defining the role of judge and jury during claim construction.<sup>77</sup> In *Markman I* the Federal Circuit emphasized that judges, when construing claims, should focus their inquiry on the intrinsic record, and consult extrinsic evidence only as a means to educate themselves about the technology involved.<sup>78</sup> By focusing on the pat-

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76. 138 F.3d 1448, 1477 (Fed. Cir. 1998) (Rader, J., dissenting) (arguing that district courts have a much greater ability to investigate claim meaning at trial than does the Federal Circuit during appeal, and therefore should be shown greater deference). Although Judge Rader was discussing the district court's role during claim construction, his observation is equally applicable to the rebuttal inquiry.

77. *Markman I*, 52 F.3d 967, 971 (Fed. Cir. 1995).

78. *Id.* at 981. The court stated that:

Through this process of construing claims by, among other things, using certain extrinsic evidence that the court finds helpful and rejecting

ent and the prosecution history, the “undisputed public record,”<sup>79</sup> judges perform their traditional role of determining the objective meaning of a written document.<sup>80</sup> Since extrinsic evidence is only used to educate the judge, and is not a significant part of claim interpretation, there is no need to involve a jury.<sup>81</sup>

The Supreme Court affirmed the way the Federal Circuit allocated power between the judge and jury, and its evaluation of the separate roles of extrinsic and intrinsic evidence.<sup>82</sup> Although the Court noted that experts might legitimately dispute the meaning of claim terms, it agreed that judges are best suited to perform claim analysis and resolve such disputes.<sup>83</sup> Based on this determination, the Court justified taking the resolution of claim construction away from the jury.<sup>84</sup>

The analogy between claim construction and rebuttal of the presumption of prosecution history estoppel, however, has limits. In both the Federal Circuit and Supreme Court *Markman* opinions, the courts focused on the intrinsic record as the source for information to resolve claim meaning.<sup>85</sup> In contrast, in *Festo X*, the Federal Circuit contemplates consulting extrinsic evidence as a routine part of the rebuttal inquiry, particularly in regard to the foreseeability test.<sup>86</sup> In the rebuttal analysis, judges do not

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other evidence as unhelpful, and resolving disputes en route to pronouncing the meaning of claim language as a matter of law based on the patent documents themselves, the court is not crediting certain evidence over other evidence or making factual evidentiary findings.

*Id.*; see also *Cybor Corp. v. FAS Tech., Inc.*, 138 F.3d 1448, 1454 (Fed. Cir. 1998).

79. *Markman I*, 52 F.3d at 978-79.

80. *Id.* at 978.

81. *Id.* at 981.

82. *Markman II*, 517 U.S. 370, 389-90 (1996).

83. *Id.* at 388-89.

84. For discussion of the Seventh Amendment implications of *Markman*, see Margaret L. Moses, *What the Jury Must Hear: The Supreme Court's Evolving Seventh Amendment Jurisprudence*, 68 GEO. WASH. L. REV. 183 (2000), and Greg J. Michelson, *Did the Markman Court Ignore Fact, Substance, and the Spirit of the Constitution in its Rush Toward Uniformity?*, 30 LOY. L.A. L. REV. 1749 (1997).

85. See *Markman II*, 517 U.S. at 380-85 (taking a historical perspective and noting that construction of the meaning of patent claims has always been the duty of judges); *Markman I*, 52 F.3d at 981.

86. *Festo X*, 344 F.3d 1359, 1369 (Fed. Cir. 2003). The court in *Festo X* held that: [O]bjective unforeseeability depends on underlying factual issues relating to, for example, the state of the art and the understanding of a hypothetical person of ordinary skill in the art at the time of the amendment. Therefore, in determining whether an alleged equivalent would have been unforeseeable, a district court may hear expert testimony and consider other extrinsic evidence relating to the relevant factual inquiries.

simply interpret written documents; they decide what the state of the art was at the time of claim amendment, and what a patentee should have been able to claim at that time. This requires resolution of factual issues never contemplated in the *Markman* inquiry. Nevertheless, in *Festo X*, the Federal Circuit relied on *Markman I* as support for the assertion that the court may properly resolve factual issues underlying a legal question by consulting extrinsic evidence.<sup>87</sup> This reliance extends the scope of the reasoning in *Markman I*, and may indicate a shift in the court's view of the roles of intrinsic and extrinsic evidence.

## B. Uncertainty and the New Rebuttal Standard

The *Festo X* court's treatment of rebuttal of the presumption of prosecution history estoppel as a question of law probably stems, at least partly, from the standard of review such a decision will receive at the appellate level. On appeal, the Federal Circuit, or any appellate court, typically analyzes a question of law under a *de novo* standard, giving the decision of the trial court little or no deference.<sup>88</sup> While this standard of review grants the Federal Circuit tremendous control over doctrinal development, it can lead to significant uncertainty about the finality of judgments at trial. Recent studies indicate that, on appeal, the Federal Circuit reverses approximately one third of claim construction decisions.<sup>89</sup> The uncertainty this reversal rate brings to infringement actions is only exacerbated by the Federal Circuit's reluctance to grant interlocutory appeals.<sup>90</sup> A similar uncertainty problem looms on the horizon in the *Festo* inquiry. We might ultimately see reversal rates in the *Festo* analysis comparable to those for claim construction. To avoid this problem, the Federal Circuit should provide clear guidance on how district courts should perform the rebuttal analysis. Furthermore, the Federal Circuit should give significant deference to factual decisions made by the district court during the rebuttal inquiry, thus promoting predictability and allowing the district court to take

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*Id.*

87. *Id.* at 1368, 1369 n.3.

88. See e.g., *Cybor Corp. v. FAS Tech., Inc.*, 138 F.3d 1448, 1455 (Fed. Cir. 1998) (holding that the court should use a *de novo* standard when reviewing claim interpretations from the district court).

89. Arti K. Rai, *Engaging Facts and Policy: A Multi-Institutional Approach to Patent System Reform*, 103 COLUM. L. REV. 1035, 1058 (2003).

90. Andrew T. Zidel, Comment, *Patent Claim Construction in the Trial Courts: A Study Showing the Need for Clear Guidance From the Federal Circuit*, 33 SETON HALL L. REV. 711, 729 (2003).

full advantage of its unique ability to evaluate the relevant technology.<sup>91</sup> Finally, although it is likely impractical due to limitations on judicial resources, a more lenient policy towards interlocutory appeals could help reduce the costs and length of litigation. If the policy towards interlocutory appeals on claim construction also applies to the rebuttal inquiry, parties will have to litigate an infringement action to a final judgment before they are able to appeal it to the Federal Circuit and determine if the district court's decision about rebuttal is valid. An early resolution of this issue could save all parties involved a significant amount of time and money.

### C. Implications of the Foreseeability Standard

Even before the Supreme Court articulated the three tests for the rebuttal of prosecution history estoppel in *Festo VIII*, Conigliaro, Greenberg, and Lemley had suggested the application of foreseeability as a means to rein in the doctrine of equivalents.<sup>92</sup> They argued that neither the complete bar nor the flexible bar offered the proper incentive to patent holders and that instead a bar based on foreseeability would be most appropriate.<sup>93</sup> While the goal of their foreseeability test was to create an adaptable bar to assertions of equivalence,<sup>94</sup> as discussed below, the formulation of the foreseeability test adopted by the Federal Circuit may make it almost impossible for litigants to rebut the presumption of estoppel.

#### 1. *Foreseeability and the Person Having Ordinary Skill in The Art*

When describing the application of the foreseeability test, the Federal Circuit observed that “[t]his criterion presents an objective inquiry, asking whether the alleged equivalent would have been unforeseeable to *one of ordinary skill in the art at the time of the amendment*.”<sup>95</sup> Presumably, the court is referring to the fictitious individual responsible for analyzing the obviousness of a patent, the person having ordinary skill in the art, or PHOSITA.<sup>96</sup> There is no strict definition of who the PHOSITA is; the determination typically requires a technology and invention specific analy-

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91. Judge Rader suggests this sort of deference in his concurring opinion in *Festo X*, 344 F.3d 1359, 1377 (Fed. Cir. 2003).

92. See Matthew J. Conigliaro et al., *Foreseeability in Patent Law*, 16 BERKELEY TECH. L.J. 1045 (2001).

93. *Id.* at 1060-64.

94. *Id.* at 1069.

95. *Festo X*, 344 F.3d 1359, 1369 (Fed. Cir. 2003) (emphasis added).

96. 35 U.S.C. § 103(a) (2000).

sis.<sup>97</sup> However, during the obviousness analysis, one thing remains constant for all PHOSITAs—they have knowledge of, and access to, all prior art in the field of the invention, although defining the scope of that field is frequently difficult.<sup>98</sup> During the obviousness analysis, the court, or the PTO, in the guise of the PHOSITA, consults the prior art for the claimed elements, and the motivation to combine them to achieve the patented invention.<sup>99</sup> If, at the time of *invention*, all claimed elements existed in the prior art, and there was a reason to combine them, then the invention is typically viewed as obvious and the patent is either denied or rendered invalid.<sup>100</sup>

While the Federal Circuit invoked the person having ordinary skill in the art as the standard for evaluating foreseeability, there are two principal differences between the foreseeability analysis and the obviousness bar to patentability. The first is timing. As mentioned above, the obviousness inquiry takes place at the time of invention. Therefore, the PHOSITA has access only to technology available while the patentee was developing the invention. This helps to ensure that the patentee is not denied a patent due to hindsight bias.<sup>101</sup> In contrast, the foreseeability analysis takes place at the time of claim amendment.<sup>102</sup> Therefore, the PHOSITA may consult all of the art in the relevant field, including art developed between the creation of the invention and the time of the amendment, which could, potentially, be years apart.

The second difference between the foreseeability and obviousness inquiries is the type of prior art available. During the obviousness analysis, the PHOSITA can consult any relevant references *except* the patent at issue.<sup>103</sup> Therefore, the PHOSITA cannot use the patent as a guide for assembling pieces of prior art to re-create the invention.<sup>104</sup> In contrast, during the foreseeability analysis, the PHOSITA may be encouraged to use

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97. Joseph P. Meara, Note, *Just Who is the Person Having Ordinary Skill in the Art? Patent Law's Mysterious Personage*, 77 WASH. L. REV. 267, 276-77 (2002).

98. *Id.* at 276.

99. *Id.* at 275; see also Joshua McGuire, Note, *Nonobviousness: Limitations on Evidentiary Support*, 18 BERKELEY TECH. L.J. 175, 175 (2003).

100. See McGuire, *supra* note 99, at 178-182 (discussing the different standards used by the Federal Circuit to determine when references should properly be combined).

101. *Id.* at 276-77.

102. *Festo X*, 344 F.3d 1359, 1369 (Fed. Cir. 2003). The Federal Circuit was careful to clearly articulate this standard since there had previously been some confusion about the timing of this analysis. See *id.* at 1365 n.2.

103. Meara, *supra* note 97, at 277.

104. *Id.*

the patent as a blue-print to assemble diverse pieces of technology to create the complete invention.

Unlike the obviousness analysis, which is concerned with whether the invention is trivial based on the prior art, the foreseeability test looks at whether the patentee could have claimed other embodiments of her invention. The Federal Circuit's articulation of the foreseeability test focuses on whether the PHOSITA could foresee that an accused equivalent could function as a substitute for an element of the invention at the time of amendment.<sup>105</sup> This means that the PHOSITA understands the invention embodied in the patent, and can accurately identify substitute technologies. Therefore the PHOSITA in the rebuttal analysis may essentially have a higher level of skill than the PHOSITA during the obviousness analysis. This could expand the scope of relevant prior art since, a PHOSITA could use his or her understanding to consult tangentially related art for substitutes, and use those substitutes to create new embodiments of the invention. A patentee could not simply argue that because a substitute was outside the field of the invention it was unforeseeable. By employing the PHOSITA, the Federal Circuit severely limits the use of unforeseeability to rebut the presumption of prosecution history estoppel because the PHOSITA can foresee such a broad array of embodiments of an invention. However, because the PHOSITA is not omniscient, there still must be some showing that an accused equivalent was known in a relevant field before the foreseeability test fails.<sup>106</sup> With this expansive definition, the Federal Circuit seems to intend to use the foreseeability test as a means to ensure that patentees fulfill their obligation to provide notice about the full scope of their patent claims.

a) After-arising Technologies and Foreseeability

The abilities of the PHOSITA bring up an interesting question: does foreseeability necessarily end at the moment of claim amendment? Many technologies predict the next step of their own development. The micro-processor industry has followed Moore's law for more than thirty years,<sup>107</sup> assuming that there will always be a new processor that is both faster and cheaper. Similarly, sharing of text and graphics files over the Internet ar-

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105. *Festo X*, 344 F.3d at 1369.

106. *Id.* (arguing that old technology is often, though not always, foreseeable to the PHOSITA).

107. See *Moore's Law*, Intel Corp., at <http://www.intel.com/research/silicon/mooreslaw.htm> (last visited Mar. 5, 2004) (discussing Moore's law, which predicts that the number of transistors on a silicon chip will roughly double every 18-24 months, thus increasing microprocessor speed on a regular basis).

guably presaged the sharing of music and movies as internet bandwidth increased and data compression improved. Furthermore, engineers can often reliably predict and incorporate “over the horizon” technology which does not yet exist but is likely to by the time a project is complete. All of these are examples of technologies arguably foreseeable to someone having ordinary skill in the art. The question then becomes, does the fact that an innovation can be imagined also make it legally foreseeable at the time of claim amendment? Phrased in a slightly different way, should the PHOSITA in the foreseeability analysis be able to combine prior art references with predictable improvements in technology to render an accused equivalent foreseeable? I think the answer should be yes, although it may lead to some strange results.

If a new technological innovation is foreseeable to the PHOSITA, who is by definition a skilled technician, and would function in a patentee’s invention, the patentee should be forced to claim it, or lose the ability to argue that the innovation is within the scope of their patent. This requirement would give force to the Federal Circuit’s goal of requiring a patentee to put the public on notice about the full scope of his or her patent. However, it might have the perverse effect that a patentee could argue that a truly novel innovation, one unforeseeable to the PHOSITA, is an equivalent while being precluded from arguing the equivalence of a simple, inconsequentially different, substitute. This turns the application of the doctrine of equivalents on its head, allowing a patentee to employ the doctrine to cover major changes, but not giving protection for minor variations.<sup>108</sup> There may also be difficulties with enablement of after-arising technologies. If this does become an issue, the patentee can argue that it was impossible to describe the equivalent at the time of claim amendment, even though it was foreseeable. This test would ensure that patents give notice although, as a practical matter, it may be difficult to enforce, and would require judges to make extensive factual evaluations about not only where the state of the art was, but also where it was going, at the time of claim amendment. If the foreseeability test is given this wide application it may become no more predictable than the pre-*Festo* flexible bar. However, in contrast to the old flexible bar, this expansive test will weigh heavily against the patentee.

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108. *Winans v. Denmead*, 56 U.S. 330, 343 (1854) (noting that patentees claimed inconsequential substitutes when claiming a particular invention); *see also Graver Tank & Mfg. Co. v. Linde Air Prods. Co.*, 339 U.S. 605, 608 (1950) (holding that something which performs substantially the same function in substantially the same way to achieve the same result is an equivalent).

## 2. *An Alternative to the PHOSITA*

In his concurring opinion, Judge Rader suggests an attractive alternative to the PHOSITA, the “skilled patent drafter,” as the yardstick for measuring foreseeability.<sup>109</sup> Under this formulation of the foreseeability test, the doctrine of equivalents would only be available against after-arising technology because the skilled patent drafter is capable of finding, understanding, and incorporating all prior art into a claim, perhaps even more capable than the PHOSITA.<sup>110</sup> However, Judge Rader acknowledged that the skilled patent drafter is not an inventor; she can describe permutations of the prior art at the time of claim amendment, but cannot anticipate future developments.<sup>111</sup> Therefore, the skilled patent drafter would only need to include matter present in the prior art at the time of claim amendment, and would not need to include any “foreseeable” after-arising technologies. This would lead to a simple, though arguably arbitrary, bright-line rule for evaluating foreseeability based strictly on the dates of claim amendments without the need to evaluate the state of the art.

## 3. *Return of a Complete Bar?*

Whether using the PHOSITA, or a skilled patent drafter, as the standard, patentees will likely find it difficult to satisfy the foreseeability test when attempting to rebut the presumption of prosecution history estoppel, as Judge Newman noted in her dissenting opinion.<sup>112</sup> Judge Newman expressed concern that the majority impermissibly expanded the scope of surrender of equivalents, and advocated a more subjective analysis of the surrendered material. She suggested a focus on the differences between what the patentee originally claimed and what was covered by the amended claim, essentially the material truly surrendered by the patentee.<sup>113</sup> Under this view, claim amendment should only surrender equivalents present in the original claim, but placed outside the amended claim. This test would sacrifice predictability in favor of strengthening the patent grant, and would certainly effectuate the Supreme Court’s mandate not to

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109. *Festo X*, 344 F.3d at 1377 (Rader, J., concurring).

110. Judge Rader retreats from the assertion that *all* accessible prior art could have been incorporated into the claims by the skilled patent drafter and suggests that the scope of the prior art is a factual inquiry for the court. *Id.* (Rader, J., concurring).

111. *Id.* (Rader, J., concurring) (observing that “any after-arising technology or later developments or advances would not fall within the scope of what a drafter should have foreseen and claimed. After all, a skilled patent drafter is a legal technician, not an inventor”).

112. *Id.* at 1385 (Newman, J., dissenting).

113. *Id.* at 1378 (Newman, J., dissenting).

create a complete bar by another name.<sup>114</sup> However, it would frustrate the Federal Circuit's goal of giving notice about the scope of claims.

#### 4. *Making Foreseeability a Practical Test*

Of the three foreseeability standards discussed in *Festo X*, Judge Rader's is the most practical. It requires the patentee to claim all technologies that would serve in their patent at the time of amendment, but leaves open the possibility of claiming after-arising technologies under the doctrine of equivalents. This does, in effect, create a modified complete bar since the patentee is precluded from claiming any technology that was known at the time of claim amendment. However, this is not a particularly onerous burden because the patentee is in the best position to determine what technology will function in her patent, and to claim every embodiment she wishes to protect. Furthermore, this test creates a clear, bright-line rule for courts to apply when determining if an equivalent was or was not foreseeable, thus effectuating the notice function of a patent. The arbitrary nature of the test is offset by the certainty it creates. It will also help reduce the likelihood that decisions about the rebuttal of prosecution history estoppel will be overturned on appeal since courts will seldom need to make a factual determination about the scope of foreseeable technology.

As Judge Rader noted in his concurring opinion in *Festo X*, the recent changes in the application of the doctrine of equivalents and prosecution history estoppel have unsettled the expectations of patent holders about the scope of patent coverage.<sup>115</sup> The foreseeability tests proposed by the majority and Judge Rader do not provide the same scope of protection as the old flexible bar of *Hughes Aircraft*. Most patentees are burdened with a prosecution record created at a time when foreseeability was not a consideration. This will preclude many patentees from arguing that an accused equivalent was unforeseeable under either the majority's test or Judge Rader's. They may be best served by attempting to rebut the presumption of prosecution history estoppel under the tangential relationship or reasonable description tests. Judge Rader's test is attractive not because it treats current patent holders most equitably, but because it restores a level of predictability absent from the application of prosecution history estoppel since the *Festo* line began. Although this may prejudice many patent holders, the long term benefits of predictability arguably outweigh the short term costs.

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114. *Festo VIII*, 535 U.S. 722, 741 (2002).

115. *Festo X*, 344 F.3d at 1374 (Fed. Cir. 2003) (Rader, J., concurring).

#### D. Effects of *Festo X* on Litigation Procedure and Patent Prosecution

The Federal Circuit's decision in *Festo X* may have a significant impact on procedural, as well as doctrinal, aspects of patent litigation. In the wake of *Markman*, courts began to hold claim construction hearings as a distinct step in patent infringement suits. However, no uniform standard has been adopted to guide the procedure for those hearings.<sup>116</sup> Only the Northern District of California has specific rules concerning patent claim construction.<sup>117</sup> In the wake of *Festo X*, this *ad hoc* system must change. Rebuttal of the presumption of prosecution history estoppel has a critical impact on what kind of infringement actions parties will have to argue. Similarly, this has a significant impact on the scope of discovery, summary judgment motions, and trial strategy, as well as settlement negotiations. Therefore, courts should resolve rebuttal of the presumption of prosecution history estoppel as early as possible. Since resolving the meaning of claim terms is a critical first step in determining the scope of material a patentee has surrendered, the *Festo* inquiry should take place after claim construction. Because of its mandate to bring uniformity to patent law the Federal Circuit should promulgate a set of uniform rules for how and when both *Markman* and *Festo* hearings should take place.

In addition to its effect on patent litigation, *Festo X* will likely have a significant impact on patent prosecution. The *Festo* cases underscore the impact claim amendment can have on the value of patents, particularly if the Federal Circuit continues to apply a strong bar to the rebuttal of the presumption of prosecution history estoppel. Therefore, patent prosecutors will be more likely to dispute rejections, likely leading to more litigation, and increasing the cost and time required to receive a patent.

Application of the foreseeability test as suggested by Judge Rader might help to reduce this conflict since a patent drafter could avoid some of these problems by performing a rigorous prior art search. At the same time, this could avoid invalidity challenges in the future by improving the record used by the PTO examiner to evaluate a patent. If most or all of the available prior art is already part of the record then it is less likely that a patent would be rendered invalid by unknown prior art in the future. Thus, not only would Judge Rader's test help protect the scope of a patent, it could help ensure the validity of granted patents, although arguably at greater initial cost to the patentee since they would have to finance a more extensive prior art search.

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116. Zidel, *supra* note 90, at 728.

117. *Id.* at 730.

## V. CONCLUSION

In *Festo X* the Federal Circuit outlined how district courts should apply the three tests for rebuttal of the presumption of prosecution history estoppel the Supreme Court created in *Festo VIII*. The court properly held that rebuttal of the presumption of prosecution history estoppel should be treated as a question of law. However, the use of the person having ordinary skill in the art as the benchmark for determining if an equivalent was foreseeable will bar assertion of equivalence against many old technologies and possibly some future ones. A more practical foreseeability test is the one suggested by Judge Rader in his concurring opinion which uses the skilled patent drafter as a guide. This test essentially bars all assertions of equivalence against technologies known at the time of claim amendment but allows a patentee access to the doctrine of equivalents for any after-arising technologies. This test is easily applied and fulfills the notice function of patents, although it creates an arbitrary bright-line rule.

Beyond its impact on patent litigation, *Festo X* is likely to have a chilling effect on patent prosecution. Prosecutors will be unwilling to accept claim amendments because they will have a substantial limiting effect on the scope of patent claims. Rather, rejections by the PTO will be litigated, raising the price in both time and money for gaining a patent.

**BERKELEY TECHNOLOGY LAW JOURNAL**

## MOBA V. DIAMOND AUTOMATION, INC.: QUESTIONING THE SEPARATE WRITTEN DESCRIPTION REQUIREMENT

By *Stephen J. Burdick*

A basic principle of the patent system is that an inventor must contribute something of value to society in exchange for a limited monopoly on an invention.<sup>1</sup> An inventor fulfills this obligation in part through the disclosure requirements of § 112 of the Patent Act.<sup>2</sup> The most confusing and controversial of these disclosure requirements is arguably the separate written description requirement.

In *Moba v. Diamond Automation, Inc.*, the Court of Appeals for the Federal Circuit limited the scope of the written description requirement.<sup>3</sup> The court recognized that the requirement evolved over the past few decades into two separate applications: one that polices priority issues of later-filed claims and one that provides a free-standing disclosure requirement applicable to all claims.<sup>4</sup> Although the court did not explicitly overturn any prior case law, it limited previous cases to their individual facts and restricted both applications of the written description requirement.<sup>5</sup> Judge Rader, although concurring in the opinion, argued separately that the court should eliminate the second role of the written description requirement: the free-standing disclosure requirement.<sup>6</sup>

*Moba* signifies the Federal Circuit's discontent with the written description requirement as it exists today. Even though the court's careful approach avoided overturning its precedents, it implied that the existence of the requirement does more harm than good. Arguments in favor of eliminating the requirement are abundant, ranging from the redundancies of the requirement with other areas of patent law, to the harm the written description requirement inflicts on innovation. In contrast, arguments sup-

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1. See ROBERT PATRICK MERGES & JOHN FITZGERALD DUFFY, PATENT LAW AND POLICY: CASES AND MATERIALS 259-61 (3d ed. 2002).

2. 35 U.S.C. § 112 (2000).

3. 325 F.3d 1306 (Fed. Cir. 2003) (per curiam), *cert. denied*, 124 S. Ct. 464 (2003).

4. *Id.* at 1319-20.

5. See *id.* at 1321.

6. *Id.* at 1322-27 (Rader, J., concurring) (arguing that “[b]y making written description a free-standing disclosure doctrine, [the Federal Circuit] produces numerous unintended and deleterious consequences”).

porting the written description requirement are few, and are greatly outweighed by the benefits of disposing of the doctrine.

Part I of this Note provides a brief background of the written description requirement, including its statutory basis, its origin, and its evolution. Part II provides a summary of the *Moba* case. Part III argues that the patent system is best served by eliminating the separate written description requirement entirely.

## I. BACKGROUND

### A. Statutory Basis for the Written Description Requirement

In 1790, Congress used its constitutional power<sup>7</sup> to enact the first U.S. patent statute.<sup>8</sup> The original statute underwent a number of reenactments until Congress passed the 1952 Patent Act, which is still in effect today.<sup>9</sup> Under this Act, five separate requirements exist to patent an invention: 1) patentable subject matter; 2) novelty; 3) utility; 4) non-obviousness; and 5) disclosure (including written description, enablement, and best mode).<sup>10</sup>

The statutory basis for the current written description requirement stems from 35 U.S.C. § 112. Paragraph one states:

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.<sup>11</sup>

Although the statute specifically refers to a “written description,” it is unclear whether it is independent from the enablement requirement.<sup>12</sup> The statute’s reference to written description appears to only illustrate how to fulfill the enablement requirement. In fact, every Patent Act since 1790

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7. The Constitution of the United States gives Congress the power “[t]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.” U.S. CONST. art. I, § 8, cl. 8.

8. 3 DONALD S. CHISUM, CHISUM ON PATENTS § 7.02[1] (2003).

9. *See id.* § 7.02[4].

10. MERGES & DUFFY, *supra* note 1, at 65, 211, 259, 361, 643.

11. 35 U.S.C. § 112, ¶ 1 (2000).

12. *See Moba v. Diamond Automation, Inc.*, 325 F.3d 1306, 1323 (Fed. Cir. 2003) (Rader, J., concurring) (stating that a patent contains an adequate description if it enables a person skilled in the art to make and use the invention).

referred to a requirement for a description in the specification,<sup>13</sup> but only since 1967 has this been interpreted to require a written description requirement separate from an enablement requirement.<sup>14</sup>

## B. Origin of the Written Description Requirement

In 1967, the United States Court of Customs and Patent Appeals (CCPA), the predecessor to the Federal Circuit, created a written description requirement separate from the enablement requirement.<sup>15</sup> In *In re Ruschig*, the CCPA affirmed the Patent Office Board of Appeals' rejection of a later-added claim for chlorpropamide on the ground that it was not sufficiently described.<sup>16</sup> The court explained that the general disclosure of the patent application contained about half a million possible compounds and lacked the necessary guides to lead one skilled in the art to the claimed compound.<sup>17</sup>

The CCPA rejected the appellant's argument based on the enablement requirement, emphasizing that "the question is not whether he would be so enabled but whether the specification discloses the compound to him, specifically, as something appellants actually invented."<sup>18</sup> In particular, the court noted that if the patent was rejected based on § 112, "it is on the requirement thereof that '[t]he specification shall contain a written description of the invention.'"<sup>19</sup> The CCPA concluded that the test for this requirement is whether the specification conveys to someone skilled in the art that the patentee invented the item in question.<sup>20</sup>

The written description requirement was born through these few short sentences.<sup>21</sup> Since *Ruschig*, most courts have interpreted § 112 to require three separate disclosure elements: written description, enablement, and best mode.<sup>22</sup> However, the boundary of the written description requirement was not clearly defined, resulting in criticism from both courts and scholars.<sup>23</sup>

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13. See 3 CHISUM, *supra* note 8, § 7.02.

14. *Moba*, 325 F.3d at 1323-24 (Rader, J., concurring).

15. *In re Ruschig*, 379 F.2d 990, 996 (C.C.P.A. 1967).

16. *Id.*

17. *Id.* at 993-95.

18. *Id.* at 995.

19. *Id.*

20. *Id.* at 996.

21. See *id.* at 993-95.

22. See 3 CHISUM, *supra* note 8, § 7.01.

23. For a discussion of these issues and criticisms, see discussion and footnotes *infra* Part III.

## C. Evolution of the Written Description Requirement

### 1. A Priority Policing Device

After *Ruschig*, the CCPA and then the Federal Circuit applied the written description requirement in numerous situations with often inconsistent results. This new doctrine created much confusion about its application, as illustrated by one district court's comment that "[u]nfortunately, it is not so easy to tell what the law of the Federal Circuit is [concerning the written description requirement]."<sup>24</sup> This confusion prompted the Federal Circuit in *Vas-Cath Inc. v. Mahurkar* to summarize the case law development of the requirement and to provide guidelines for its correct application.<sup>25</sup>

In *Vas-Cath*, the Federal Circuit reversed and remanded a district court's ruling that two patents involving dual-lumen hemodialysis catheters were invalid.<sup>26</sup> The issue in the case was whether the appellant's previously abandoned design application provided adequate disclosure to fulfill the § 112 written description requirement.<sup>27</sup> The respondent conceded that the design application enabled one of skill in the art to practice the invention.<sup>28</sup>

The Federal Circuit explained that the written description requirement most often applies when an applicant later files claims not present in the original application.<sup>29</sup> Conceptually, the court stated that the test is whether "the applicant [conveys] 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*. The invention is, for purposes of the 'written description' inquiry, *whatever is now claimed*."<sup>30</sup> In essence, the Federal Circuit's analysis of the written description requirement in *Vas-Cath* narrowed the CCPA's broad analysis in *Ruschig*, and limited the written description requirement to cases of priority.<sup>31</sup>

The Federal Circuit again endorsed the use of the written description requirement to police priority issues in *Gentry Gallery, Inc. v. Berkline Corp.*, when the court introduced an "essential element" concept.<sup>32</sup> In

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24. *Vas-Cath Inc. v. Mahurkar*, 935 F.2d 1555, 1560 (Fed. Cir. 1991) (quoting *Vas-Cath Inc. v. Mahurkar*, 745 F. Supp. 517, 522 (N.D. Ill. 1990)).

25. *Id.* at 1560-64.

26. *Id.* at 1559, 1567.

27. *Id.* at 1559-60.

28. *Id.* at 1559.

29. *Id.* at 1560.

30. *Id.* at 1563-64.

31. *See id.* at 1560-64.

32. 134 F.3d 1473, 1479 (Fed. Cir. 1998).

1998, plaintiff Gentry Gallery appealed a district court judgment that defendant Berkline did not infringe one of its patents for reclining seats in a sectional sofa, while Berkline cross-appealed the district court's holding that the patent claims were not invalid.<sup>33</sup> Berkline argued that since the disclosure only described "a console positioned between [the reclining seats] that accommodates the controls for both of the reclining seats," claims relating to recliner controls not located on the console were invalid for lack of disclosure.<sup>34</sup>

The Federal Circuit ruled that the patent's original disclosure did not allow for later-amended claims with recliner controls not on the console.<sup>35</sup> The court stated that the "[patent's] original disclosure serves to limit the permissible breadth of [the patent's] later-drafted claims."<sup>36</sup> The court considered the location of the controls on the console to be an "essential element" of the invention.<sup>37</sup> It held that the amended claims violated the written description requirement because one of skill in the art would understand it as essential for the invention to have the controls specifically on the console.<sup>38</sup>

## 2. *A Free-Standing Disclosure Requirement*

The written description requirement would probably not be subject to such an intensive level of debate had the Federal Circuit confined the requirement strictly to priority issues. However, in the 1997 case, *Regents of the University of California v. Eli Lilly & Co.*, the Federal Circuit expanded the written description requirement to contain a free-standing disclosure requirement applicable to all claims, blurring the boundary between the enablement and written description requirements.<sup>39</sup>

In *Eli Lilly*, the Regents of the University of California appealed a district court's ruling that claims in a patent for recombinant DNA technology were invalid.<sup>40</sup> Although the patent claimed human, vertebrate, and mammalian insulin DNA, the specification only listed the nucleotide sequence of rat insulin DNA, along with a general method for obtaining the human insulin DNA.<sup>41</sup> The Federal Circuit ruled that whether or not the patent provided an enabling disclosure, its claims were invalid based on

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33. *Id.* at 1474.

34. *Id.* at 1478.

35. *Id.* at 1479.

36. *Id.*

37. *Id.* at 1479-80.

38. *Id.* at 1480.

39. 119 F.3d 1559 (Fed. Cir. 1997).

40. *Id.* at 1562.

41. *Id.* at 1562-63.

the written description requirement because the patent specification did not specifically disclose a DNA sequence for human insulin.<sup>42</sup> The court stated that “an adequate written description of a DNA requires more than a mere statement that it is part of the invention and reference to a potential method for isolating it; what is required is a description of the DNA itself.”<sup>43</sup> The Federal Circuit essentially created a new heightened standard for written description concerning biotechnological inventions.<sup>44</sup> The court transformed the earlier standard, which focused only on the priority of the invention, into a new free-standing disclosure requirement applicable to all claims.

### 3. Recent Developments

Both *Gentry Gallery*'s “essential element” concept<sup>45</sup> and *Eli Lilly*'s free-standing disclosure requirement<sup>46</sup> received an avalanche of criticisms.<sup>47</sup> Thereafter, the Federal Circuit tried to limit the expansive application of the written description requirement. First, in *Enzo Biochem, Inc. v. Gen-Probe Inc.*, the court held that the written description requirement for genetic material does not always require a DNA sequence, but may be satisfied by reference to a deposited nucleotide sequence.<sup>48</sup> Second, in *Amgen Inc. v. Hoechst Marion Roussel, Inc.*, the Federal Circuit further distanced itself from its holdings in *Gentry Gallery* and *Eli Lilly*, allowing satisfaction of the written description requirement based on correlation to a known substance.<sup>49</sup>

In *Enzo*, the assignee of a patent for selectively hybridizing nucleic acid probes for the genetic material of the bacteria that cause gonorrhea appealed a district court's invalidity holding based on the written description requirement.<sup>50</sup> The Federal Circuit originally affirmed the decision, but in 2002, after a petition for rehearing, the court vacated the prior decision, and reversed the district court's holding.<sup>51</sup> The court held that refer-

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42. *Id.* at 1575.

43. *Id.* at 1566-67.

44. *See id.*

45. *Gentry Gallery, Inc. v. Berkline Corp.*, 134 F.3d 1473, 1479 (Fed. Cir. 1998).

46. *Eli Lilly*, 119 F.3d at 1566-69.

47. For a discussion of some of these criticisms, see discussion and footnotes *infra* Part III.A.

48. 323 F.3d 956, 960 (Fed. Cir. 2002).

49. 314 F.3d 1313, 1332 (Fed. Cir. 2003).

50. *Enzo*, 323 F.3d at 960-62.

51. *Id.* at 960.

ence in the specification to a biological deposit in a public depository fulfills the written description requirement.<sup>52</sup>

The Federal Circuit acknowledged the similarities between the enablement and written description requirements, and held that the practice of depositing biological material now fulfills both requirements.<sup>53</sup> Later, the court declined to rehear the *Enzo* appeal en banc.<sup>54</sup> Judge Rader, joined by Judge Gajarsa and Judge Linn, strongly dissented from this decision and argued that both *Enzo* and *Eli Lilly* misapplied the written description requirement.<sup>55</sup>

*Amgen*, decided in early 2003, involved patents for the production of erythropoietin, a hormone that controls the production of red blood cells in bone marrow.<sup>56</sup> The Federal Circuit stated that the purpose of the written description requirement is “to prevent an applicant from later asserting that he invented that which he did not.”<sup>57</sup> In doing so, the court focused on the priority policing role of the written description requirement to the exclusion of the independent disclosure function of *Eli Lilly*.<sup>58</sup> In fact, the Federal Circuit stated that the defendant’s arguments based on a free-standing disclosure requirement were unpersuasive.<sup>59</sup>

The Federal Circuit distinguished *Eli Lilly*, holding that the written description requirement “may be satisfied if in the knowledge of the art the disclosed function is sufficiently correlated to a particular, known structure.”<sup>60</sup> The court concluded that the substances in this case were “not new or unknown biological materials that ordinarily skilled artisans would easily miscomprehend.”<sup>61</sup> Additionally, the *Amgen* court clarified *Gentry Gallery*, explaining that they did not create an “essential element” test which would only allow claims that incorporated what the inventor considered to be essential to the invention.<sup>62</sup> The court distinguished *Gentry Gallery* and described it as an application of the established rule that a broadly drafted claim must be supported by the disclosure.<sup>63</sup>

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52. *Id.* at 965.

53. *Id.*

54. *Id.* at 970.

55. *Id.* at 976-83 (Rader, J., dissenting).

56. *Amgen Inc. v. Hoechst Marion Roussel, Inc.*, 314 F.3d 1313, 1319 (Fed. Cir. 2003).

57. *Id.* at 1330.

58. *See id.* at 1330-31.

59. *See id.* at 1331.

60. *Id.* at 1332.

61. *Id.*

62. *Id.* at 1333.

63. *Id.*

Overall, the Federal Circuit retreated from the heightened written description requirement that it created in *Gentry Gallery* and *Eli Lilly*, and limited both cases to their facts.<sup>64</sup> In light of this background, the Federal Circuit decided *Moba*.<sup>65</sup>

## II. CASE SUMMARY

### A. Facts and Procedural History

Diamond Automation, Inc. (“Diamond”) produces and sells high-speed egg processing machines.<sup>66</sup> Diamond obtained a variety of patents on egg processing technology, including United States Patents 4,519,494 (“the ’494 patent”)<sup>67</sup> and 4,519,505 (“the ’505 patent”).<sup>68</sup> Moba, B.V. and Staalkat, B.V. compete with Diamond and sell their machines in the United States through FPS Food Processing (collectively “FPS”).<sup>69</sup>

FPS sued Diamond in 1995 in the United States District Court for the Eastern District of Pennsylvania, seeking a declaratory judgment that the ’494, ’505, and two other patents were invalid and not infringed by their machines. Diamond counterclaimed that the patents were valid and infringed. After claim construction, the parties tried the case before a jury. Before jury deliberation, Diamond moved for entry of Judgment as a Matter of Law (JMOL) that FPS infringed and induced infringement of the four patents. The jury found that the patents were valid and not infringed. The judge denied the JMOL motion, and affirmed the jury’s verdict. Diamond again moved for JMOL, and the judge again denied the motion.<sup>70</sup>

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64. *See id.* at 1332-34.

65. Very recently, the Federal Circuit addressed its first significant written description case since *Moba*. *Univ. of Rochester v. G.D. Searle & Co., Inc.*, No. 03-1304, 2004 WL 260813 (Fed. Cir. Feb. 13, 2004). The court affirmed a district court’s grant of summary judgment of invalidity of a patent for a method of treating inflammation. *Id.* at \*2. The Federal Circuit based its decision on the patent’s failure to fulfill the written description requirement. *Id.* This case further magnifies the confusion within the Federal Circuit concerning the written description requirement. After narrowing the application of the doctrine for a number of years, the court applied the written description requirement more broadly than ever before by applying a heightened free-standing disclosure requirement to a non-genetic material. *Id.* at \*9. This case illustrates many of the problems associated with a separate written description requirement. *See infra* Part III.

66. *Moba v. Diamond Automation, Inc.*, 325 F.3d 1306, 1309 (Fed. Cir. 2003).

67. U.S. Patent No. 4,519,494 (issued May 28, 1985).

68. U.S. Patent No. 4,519,505 (issued May 28, 1985).

69. *Moba*, 325 F.3d at 1312.

70. *Id.*

Diamond appealed to the Federal Circuit, arguing that the FPS machines infringed claim 28 of the '494 patent and claim 24 of the '505 patent. FPS cross-appealed the validity judgment of the two claims.<sup>71</sup> The Federal Circuit ruled that the jury correctly determined that FPS did not infringe claim 28 of the '494 patent, and affirmed the district court's denial of Diamond's JMOL.<sup>72</sup> Additionally, the Federal Circuit affirmed the validity of claim 24 of the '505 patent, but ruled that Moba literally and directly infringed the claim, therefore reversing the district court's denial of JMOL on the issue. The court also remanded the case for further determination as to whether FPS Food Processing induced its customers to infringe claim 24.<sup>73</sup>

### B. Per Curiam Opinion

Since FPS argued that the claims at issue were invalid for failing to meet the written description requirement, the Federal Circuit took the opportunity to reevaluate the requirement. The court acknowledged that case law contains two applications of the written description requirement: priority policing and free-standing disclosure.<sup>74</sup>

The first application of the written description requirement is the traditional use of the requirement to ensure that an inventor possessed, as of the original filing date, the subject matter of any later claims. This guarantees that an applicant does not claim more than what is found in the original invention.<sup>75</sup> The court noted that although § 132 of the patent statute prohibits the addition of new matter to the specification or claims,<sup>76</sup> both the CCPA and the Federal Circuit decided to regulate the addition of new matter to claims using § 112.<sup>77</sup> CCPA case law even indicates that a rejection under § 132 is the same as a rejection under the first paragraph of § 112.<sup>78</sup>

The Federal Circuit then ruled that the first application of the written description requirement did not apply to the facts of this case because FPS never claimed that the specification of the '505 patent did not show possession of a later-added claim.<sup>79</sup>

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71. *Id.*

72. *Id.* at 1322.

73. *Id.*

74. *Id.* at 1319-20.

75. *Id.* at 1319.

76. 35 U.S.C. § 132(a) (2000) ("No amendment shall introduce new matter into the disclosure of the invention.").

77. *Moba*, 325 F.3d at 1319.

78. *Id.*

79. *Id.* at 1320.

The second application of the written description requirement concerns situations without priority issues, and requires a heightened level of disclosure of the relevant invention, as in *Eli Lilly*.<sup>80</sup> Building on its limitation of the free-standing disclosure requirement in *Enzo and Amgen*,<sup>81</sup> the Federal Circuit stated in *Moba* that the “disclosure rule does not require a particular form of disclosure because one of skill could determine from the specification that the inventor possessed the invention at the time of filing.”<sup>82</sup> Rather than focus on specific rules, the court declared that the specification must be analyzed from the viewpoint of one of skill in the art.<sup>83</sup> The court came just short of overturning *Eli Lilly* and the second application of the written description requirement.<sup>84</sup> It stated that in previous cases, when the record convinced one of skill in the art to make and use the invention, it also convinced one of skill in the art that the inventor possessed the invention.<sup>85</sup>

Based on its new iteration of the written description requirement, the Federal Circuit held that the specification described every element of the claim in question in such a manner that one of ordinary skill in the art would recognize that the inventor was in possession of the invention at the time of filing the application.<sup>86</sup> Therefore, the court ruled that the specification satisfied the written description requirement.<sup>87</sup>

### C. Concurring Opinions

#### 1. Judge Rader

Although Judge Rader concurred in the opinion, he challenged the rationale of a separate written description requirement.<sup>88</sup> He stated that this court and previous courts applied the judge-made doctrine beyond the purpose for which it was originally created: priority protection.<sup>89</sup> Judge Rader reasoned that anytime a patentee claims anything beyond the preferred embodiment of the invention as outlined in the specification, a de-

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80. *See id.* at 1320-21.

81. *Amgen Inc. v. Hoechst Marion Roussel, Inc.*, 314 F.3d 1313, 1332 (Fed. Cir. 2003); *Enzo Biochem, Inc. v. Gen-Probe Inc.*, 323 F.3d 956, 970 (Fed. Cir. 2002).

82. *Moba*, 325 F.3d at 1321.

83. *Id.* at 1320.

84. *See id.* at 1321.

85. *Id.*

86. *Id.*

87. *Id.*

88. *Id.* at 1322-24 (Rader, J., concurring).

89. *Id.* at 1322 (Rader, J., concurring).

fendant can argue that the patent is invalid for failure to describe the entire invention.<sup>90</sup>

To illustrate the confusion created by the written description requirement, Judge Rader pointed out that “[u]nder Federal Circuit case law, [the plaintiff] asked this jury to decide that the patent’s disclosure can enable a skilled artisan to make and practice the entire invention, but still not inform that same artisan that the inventor was in possession of the invention. Puzzling.”<sup>91</sup> Judge Rader declared that there is no statutory basis for the current written description requirement and that any disclosure that enables is sufficient to show that the inventor was in possession of the invention.<sup>92</sup> He concluded that “to enable is to show possession, and to show possession is to enable.”<sup>93</sup>

Although Judge Rader recognized that the addition of new matter is already prohibited by § 132, he reasoned that using § 112 to police new claims does no harm because the CCPA ruled that a rejection of an amended claim under § 132 is equivalent to a rejection under § 112.<sup>94</sup> Additionally, Judge Rader believed that the new matter doctrine does not need to extend beyond priority issues because the enablement requirement encompasses all other issues.<sup>95</sup>

Judge Rader was especially critical of the written description requirement as it appears in *Eli Lilly*, equating it to a “super-enablement” rule.<sup>96</sup> He stressed the negative impact that this non-statutory rule has not only on future inventions, but also on all biotechnology patents since the late 1970s.<sup>97</sup> It is also a problem to impose a different disclosure standard on biotechnology than on other areas of technology, especially with the technology-neutral language of the Patent Act.<sup>98</sup>

Judge Rader concluded by noting that the Federal Circuit has an obligation to swiftly correct these kinds of errors through an en banc hearing.<sup>99</sup> He also agreed with Judge Bryson’s concurrence in that the problem may lie with the entire line of cases beginning with *Ruschig*.<sup>100</sup>

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

91. *Id.* at 1323 (Rader, J., concurring).

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

93. *Id.* at 1326 (Rader, J., concurring).

94. *Id.* at 1324 (Rader, J., concurring).

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

96. *Id.* at 1325 (Rader, J., concurring).

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

98. *Id.* at 1325-26 (Rader, J., concurring).

99. *Id.* at 1327 (Rader, J., concurring).

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

## 2. Judge Bryson

As one of the judges on the *Eli Lilly* panel, Judge Bryson stated that he did not believe that *Eli Lilly* departed from existing case law.<sup>101</sup> He stipulated that perhaps the problem is not with the *Eli Lilly* case, but rather with the whole line of cases going back to *Ruschig*.<sup>102</sup> Judge Bryson suggested that the Federal Circuit address this broader issue en banc.<sup>103</sup>

### III. DISCUSSION

*Moba* continues the Federal Circuit's restriction of the written description requirement that it began in *Enzo* and *Amgen*.<sup>104</sup> One possible next step for the Federal Circuit is to follow Judge Rader's admonishment in *Moba* and correct the errors of the *Eli Lilly* doctrine through an en banc hearing.<sup>105</sup> Although this would solve many of the problems with the written description requirement, an even better solution would be to follow Judge Bryson's suggestion to reconsider the entire line of cases since *Ruschig*.<sup>106</sup> The Federal Circuit should overturn that entire line of cases, which would not only eliminate the free-standing disclosure role of the written description requirement, but also its priority policing role. This approach would remedy all of the problems associated with the separate written description requirement.

#### A. Returning the Written Description Requirement to Its Pre-*Eli Lilly* Position Would Partially Solve the Problem

Returning the written description requirement to its pre-*Eli Lilly* status means removing the free-standing disclosure requirement created by *Eli Lilly* and returning the written description requirement to its former role of only policing priority issues. This would solve many of the problems created by the requirement.

##### 1. *The Written Description Requirement as Applied in Eli Lilly Is Redundant with the Enablement Requirement*

One of the strongest arguments against the written description requirement's *Eli Lilly* application is that it is unnecessary, because anything

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101. *Id.* (Bryson, J., concurring).

102. *Id.* (Bryson, J., concurring).

103. *Id.* (Bryson, J., concurring).

104. *See, e.g., Amgen Inc. v. Hoechst Marion Roussel, Inc.*, 314 F.3d 1313, 1332 (Fed. Cir. 2003); *Enzo Biochem, Inc. v. Gen-Probe Inc.*, 323 F.3d 956, 970 (Fed. Cir. 2002).

105. *Moba*, 325 F.3d at 1327 (Rader, J., concurring).

106. *Id.* at 1328 (Bryson, J., concurring).

that would be rejected by the free-standing disclosure role of the written description requirement could also be rejected by the § 112 enablement requirement.<sup>107</sup>

Statutory support of a written description requirement separate from the enablement requirement is quite weak.<sup>108</sup> The wording of the statute indicates that if an invention enables one skilled in the art, then it must, by definition, have an adequate written description.<sup>109</sup> Additionally, the legislative history of § 112 does not contain any indication that written description is a separate requirement from enablement.<sup>110</sup> This poses additional concerns because, as a judicially created doctrine, the written description requirement does not have the benefit of hearings or additional study and debate that usually accompany new statutes or revisions.<sup>111</sup>

In *Moba*, the Federal Circuit implied that a written description that fulfills the enablement requirement usually fulfills the written description requirement.<sup>112</sup> Without overturning *Eli Lilly*, the court distinguished it and stated that “[i]n *Enzo and Amgen*, the record showed that the specification that taught one of skill in the art to make and use an invention also convinced that artisan that the inventor possessed the invention.”<sup>113</sup> Since making and using an invention is enablement, and convincing an artisan that the inventor possessed the invention is written description, the Federal Circuit indicated that enablement is often the same as written description. In fact, except for *Eli Lilly*, in every recent case before the Federal Circuit,

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107. 35 U.S.C. § 112, ¶ 1 (2000).

108. In *In re Barker*, Chief Judge Markey heartily dissented, arguing that one cannot enable an invention without also adequately describing it. 559 F.2d 588, 594-95 (C.C.P.A. 1977) (Markey, C.J., dissenting). He stated that “[t]he attempt to create historical and current statutory support for a ‘separate description’ requirement, which was solely a judicial (and unnecessary) response . . . is mistaken.” *Id.* at 594; see Mark D. Janis, *On Courts Herding Cats: Contending with the “Written Description” Requirement (and Other Unruly Patent Disclosure Doctrines)*, 2 WASH. U. J.L. & POL’Y 55, 61 (2000) (describing the distinction between the written description and enablement requirements as artificial).

109. See *Moba*, 325 F.3d at 1323 (Rader, J., concurring); Limin Zheng, Note, *Purdue Pharma L.P. v. Faulding Inc.*, 17 BERKELEY TECH. L.J. 95, 96 (2002) (stating that “[o]n its face, the statutory purpose of the written description is to allow any person skilled in the art ‘to make and use the same’”).

110. See Laurence H. Pretty, *The Recline and Fall of Mechanical Genus Claim Scope Under “Written Description” in the Sofa Case*, 80 J. PAT. & TRADEMARK OFF. SOC’Y 469, 470 (1998) (analyzing the legislative history for § 112 and concluding that it does not distinguish between written description and enablement).

111. See *id.*

112. See *Moba*, 325 F.3d at 1321.

113. *Id.*

the court held that each patent that satisfied the enablement requirement also satisfied the free-standing disclosure requirement of written description.<sup>114</sup>

2. *The Written Description Requirement Was Unnecessary in the Cases that Used It*

The biggest problem with *Eli Lilly* is that it created an additional doctrine when an additional doctrine was not necessary. All of the cases between *Eli Lilly* and *Moba* that analyzed the free-standing disclosure requirement either distinguished *Eli Lilly*<sup>115</sup> or made an exception in order to not apply the doctrine.<sup>116</sup>

In *Enzo*, the Federal Circuit held that a nucleotide-by-nucleotide sequence was unnecessary and that publicly depositing biological material is sufficient to fulfill the written description requirement.<sup>117</sup> Similarly, in *Amgen*, the Federal Circuit held that a patentee satisfies the written description requirement if in the knowledge of the art the function is sufficiently correlated to a known structure.<sup>118</sup> It appears as though the Federal Circuit is trying to find any difference that can distinguish the later cases from *Eli Lilly*, thereby limiting the application of the free-standing disclosure requirement.

More importantly, the Federal Circuit could have come to the same conclusion in *Eli Lilly* under the enablement requirement.<sup>119</sup> A patent must enable those skilled in the art to make and use the invention without undue experimentation.<sup>120</sup> The court could have easily ruled that the patent at issue was invalid because it would require undue experimentation to obtain the human insulin DNA. Some of the undue experimentation factors that possibly support this argument are “the quantity of experimentation necessary,” “the amount of direction or guidance presented,” and “the predictability or unpredictability of the art.”<sup>121</sup> Additionally, since the enablement

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114. See, e.g., *Amgen Inc. v. Hoechst Marion Roussel, Inc.*, 314 F.3d 1313, 1332 (Fed. Cir. 2003); *Enzo Biochem, Inc. v. Gen-Probe Inc.*, 323 F.3d 956, 970 (Fed. Cir. 2002).

115. *Moba*, 325 F.3d at 1320; *Amgen*, 314 F.3d at 1332.

116. See *Enzo*, 323 F.3d at 966; see also Chandra Garry, Note, *Enzo Biochem, Inc. v. Gen-Probe, Inc.*, 18 BERKELEY TECH. L.J. 195 (2003) (providing an overview of *Enzo* and its effect on the written description requirement).

117. *Enzo*, 323 F.3d at 966. If *Enzo* is limited to its facts, then the *Eli Lilly* line of cases is further limited. See Garry, *supra* note 116, at 207.

118. *Amgen*, 314 F.3d at 1332.

119. See *Moba*, 325 F.3d at 1324 (Rader, J., concurring).

120. *In re Wands*, 858 F.2d 731, 736-37 (Fed. Cir. 1988).

121. *Id.* at 737.

requirement is a question of law, which can be reviewed de novo, as opposed to the written description requirement, which is a question of fact and must be reviewed for clear error, the Federal Circuit has much more control over the direction of the enablement requirement. This is important as the Federal Circuit attempts to create stability and uniformity in patent law.

Furthermore, even though the Federal Circuit removed much of the harm caused by *Eli Lilly* by limiting the case to its facts, it is still important to overturn the holding in *Eli Lilly* to prevent the problems discussed below.

### 3. *The Free-Standing Disclosure Requirement of the Written Description Requirement Creates Many Additional Problems*

One important problem with the written description requirement is that it makes the litigation process more difficult and confusing than it needs to be.<sup>122</sup> Any time that a patent claims more than the preferred embodiment as described in the specification, the defendant can argue that the patent is invalid for failure to describe the complete invention.<sup>123</sup> Judge Rader argued that this result makes the jury face “the cumbersome task of separating two doctrines for sufficiency of disclosure in a patent.”<sup>124</sup> These additional arguments increase the time and expense of both the trial process and the patent prosecution process.<sup>125</sup> Given these increased costs, the written description requirement threatens the balance within the patent system by reducing the incentive to invest in and patent new technologies.

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122. See *Moba*, 325 F.3d at 1322-23 (Rader, J., concurring); Janice M. Mueller, *The Evolving Application of the Written Description Requirement to Biotechnological Inventions*, 13 BERKELEY TECH. L.J. 615, 634 (1998) (maintaining that *Eli Lilly* “results in an unacceptable blurring between the written description and enablement requirements”); Mark J. Stewart, Note, *The Written Description Requirement of 35 U.S.C. § 112(1): The Standard After Regents of the University of California v. Eli Lilly & Co.*, 32 IND. L. REV. 537, 551-52 (1999) (discussing the controversy and uncertainty created by *Eli Lilly*); Zheng, *supra* note 109, at 95 (stating that the Federal Circuit failed to create a workable standard for the written description requirement).

123. See *Moba*, 325 F.3d at 1322-23 (Rader, J., concurring).

124. *Id.* at 1323.

125. See *id.* at 1325 (arguing that the new law may tax a biotechnological patent drafter beyond reasonable limits); Mueller, *supra* note 122, at 651-52 (stating that after *Eli Lilly*, inventors will delay the filing of gene inventions until after they precisely determine the corresponding DNA sequences); Michael Delmas Plimier, Note, *Genentech, Inc. v. Novo Nordisk & University of California v. Eli Lilly and Co.*, 13 BERKELEY TECH. L.J. 149, 150 (1998) (discussing a reduction in the incentive to invent because of the requirement for a large disclosure, but only narrow protection); Zheng, *supra* note 109, at 95 (arguing that the inconsistent and often over-stringent written description requirement discourages inventors to disclose and seek patent protection).

The *Eli Lilly* rule created additional problems by requiring a different level of disclosure in the biotechnology field than in other fields, even though the Patent Act does not specifically allow this difference.<sup>126</sup> This allows earlier cases to control the perception of different industries and removes any later flexibility.<sup>127</sup> Additionally, the *Eli Lilly* holding and its heightened disclosure rule present potentially severe consequences for existing biotechnology inventions.<sup>128</sup> Judge Rader reasoned that since the new rule appeared in 1997, it jeopardizes the validity of any biotechnology invention back to the late 1970s.<sup>129</sup> Although this may be somewhat of an overstatement, the uncertainty about past inventions along with the uncertainty of the disclosure required in future inventions could dramatically hinder innovation in biotechnology, arguably one of the most important and beneficial technologies to mankind.

One possible argument against eliminating the free-standing disclosure role of the written description requirement is that overturning precedent would destabilize established law. However, this argument is very weak. First, although litigants use the *Eli Lilly* argument for a heightened written description requirement more frequently, the Federal Circuit applied the requirement in only two specific cases before *Moba*, *Eli Lilly* and *Enzo*, and it eventually rejected the application in *Enzo* by creating an exception to the rule.<sup>130</sup> Second, the *Eli Lilly* case itself was a deviation from thirty years of precedent.<sup>131</sup> The case drastically altered the written description requirement as created in *Ruschig*, and therefore, overturning the case would be a return to precedent.

Although eliminating the free-standing disclosure role of the written description requirement would solve many problems, a better solution, which would remove all of the problems created by the requirement, is to eliminate the written description requirement altogether.

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126. See *Moba*, 325 F.3d at 1325-26 (Rader, J., concurring) (stating that the written description requirement creates a technology-specific requirement in a technology-neutral statute); Dan L. Burk & Mark A. Lemley, *Is Patent Law Technology-Specific?*, 17 BERKELEY TECH. L.J. 1155, 1156 (2002) (noting that the Federal Circuit "has imposed stringent enablement and written description requirements on biotechnology patents that do not show up in other disciplines").

127. See Burk & Lemley, *supra* note 126, at 1157.

128. See *Moba*, 325 F.3d at 1325 (Rader, J., concurring); Harris A. Pitlick, *The Mutation on the Description Requirement Gene*, 80 J. PAT. & TRADEMARK OFF. SOC'Y 209, 222 (1998) (arguing that "[t]he decision in Lilly is an unmitigated disaster that if followed, has the potential for causing untold havoc in the biotechnology field").

129. *Moba*, 325 F.3d at 1325 (Rader, J., concurring).

130. *Enzo Biochem, Inc. v. Gen-Probe Inc.*, 323 F.3d 956, 965 (Fed. Cir. 2002).

131. See *id.* at 980-81; Pitlick, *supra* note 128, at 223.

## **B. The Separate Written Description Requirement Should Be Eliminated Entirely**

Eliminating the written description requirement entirely would discard both the free-standing disclosure and the priority policing roles of the requirement. This would solve all of the problems created by the written description requirement. In support of this solution are the previous arguments against the free-standing disclosure requirement, combined with the following arguments against the priority policing role of the written description requirement.

### *1. The Written Description Requirement Is Redundant with the New Matter Prohibition*

Just as enablement encompasses the free-standing disclosure role of the written description requirement, the new matter prohibition encompasses the priority policing role of the written description requirement. Section 132 of the Patent Act states in part that “[n]o amendment shall introduce new matter into the disclosure of the invention.”<sup>132</sup> Anything that would be rejected by the priority policing role of the written description requirement could also be rejected by the § 132 new matter prohibition. If the patentee adds new matter, then they did not possess the invention that includes the new matter at the time of filing.

In fact, both the CCPA and the Federal Circuit specifically stated that when dealing with an amended claim, a rejection under the § 132 new matter prohibition is equivalent to a rejection under the § 112 written description requirement.<sup>133</sup> In *Vas-Cath*, the Federal Circuit acknowledged that the question of adequate support for later-filed claims had also been analyzed under the § 132 new matter doctrine.<sup>134</sup> Precedent makes it clear that the existence of the priority policing role of the written description requirement does not provide any valuable addition to patent law.

### *2. The Priority Policing Role of the Written Description Requirement Creates Additional Problems*

Even though, as Judge Rader suggested, the use of the written description requirement in priority issues by itself probably does no significant harm,<sup>135</sup> it is still important to eliminate the doctrine for other reasons. This is best illustrated by the existence of the *Eli Lilly* free-standing dis-

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132. 35 U.S.C. § 132(a) (2000).

133. *Moba*, 325 F.3d at 1319; *In re Rasmussen*, 650 F.2d 1212, 1214 (C.C.P.A. 1981).

134. *Vas-Cath Inc. v. Mahurkar*, 935 F.2d 1555, 1560 (Fed. Cir. 1991).

135. *See Moba*, 325 F.3d at 1319.

closure requirement. If a separate written description requirement had not existed in 1997, the district court and then the Federal Circuit would not have been able to spin a second application from it. The confusion and debate concerning *Eli Lilly* would never have started and the problems and concerns discussed in the previous sections would not exist. Even if the Federal Circuit now limits the written description requirement to its priority policing function, courts may find it adaptable for another use in the future, thus creating additional problems.

Another problem with using the written description requirement as a priority policing device is that courts can still misinterpret its application, as illustrated by *Gentry Gallery*.<sup>136</sup> Such a possibility introduces a level of unpredictability for practitioners that would not exist if the Federal Circuit eliminated the doctrine entirely.<sup>137</sup> This situation required the court to repeatedly clarify the holding in *Gentry Gallery*.<sup>138</sup>

The argument that eliminating the written description requirement would harm the precedent created by the *Ruschig* line of cases has some merit. However, the *Ruschig* case itself was a violation of precedent, in that it created a separate written description doctrine on its own. The Federal Circuit thus has a responsibility to correct the mistakes of its precedent court rather than further and expand the mistake.<sup>139</sup> Additionally, since all of the cases dealing with priority could be similarly analyzed under § 132, eliminating the written description requirement would not really be overturning case law. Courts would still perform a similar analysis, only under a different statutory provision.

Since both functions served by the written description requirement are redundant, the existence of the doctrine is unnecessary. Furthermore, since the doctrine creates additional problems, the Federal Circuit should eliminate the written description requirement entirely.<sup>140</sup>

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136. See Cynthia M. Lambert, Note, *Gentry Gallery and the Written Description Requirement*, 7 B.U. J. SCI. & TECH. L. 109, 131 (2001) (discussing the alarm among practitioners because of *Gentry Gallery*).

137. See Pretty, *supra* note 110, at 480 (discussing the unpredictability created by *Gentry Gallery*).

138. See, e.g., *Amgen Inc. v. Hoechst Marion Roussel, Inc.*, 314 F.3d 1313, 1333 (Fed. Cir. 2003).

139. See *Moba*, 325 F.3d at 1327 (Rader, J., concurring).

140. One scholar suggested that the Federal Circuit “resist the narcotic of the written description requirement and redirect their energies towards refining the enablement concept” as a means for fixing the problem. Janis, *supra* note 108, at 107.

#### IV. CONCLUSION

*Moba* illustrates the problems associated with the separate written description requirement. The judge-made doctrine does not contribute any additional value to the other patentability requirements. Its effects are redundant with the enablement and new matter requirements of patent law. Additionally, the written description requirement creates confusion and discourages patenting and innovation. The Federal Circuit should dispose of the separate written description requirement entirely.

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## TEXAS DIGITAL SYSTEMS V. TELEGENIX, INC.: TOWARD A MORE FORMALISTIC PATENT CLAIM CONSTRUCTION MODEL

By Ruoyu Roy Wang

Dictionaries<sup>1</sup> are many courts' favorite interpretive tools. First, they are readily available. More important, they can provide courts with the prevailing, or ordinary, understanding of a term.<sup>2</sup> This practice of determining a term's ordinary meaning is crucial in legal interpretation of any written instrument.<sup>3</sup> Thus, it is no accident that patents as a particular form of written instruments are construed according to the plain meaning of their claims.<sup>4</sup> To that end, dictionaries invariably play a central role in a patent claim construction proceeding, where courts decide the scope of disputed patent claims.

What is striking, then, is how dictionaries' importance in patent claim construction has differed from that in other interpretative contexts. In interpreting contracts and statutes, courts' reliance on dictionaries has become a routine exercise that seldom requires much doctrinal justification. In contrast, dictionaries' evidentiary weight and significance in patent claim construction had been ambiguous before *Texas Digital Systems v. Telegenix, Inc.*, where the Federal Circuit firmly ratified dictionary use in claim construction, clarified dictionaries' evidentiary categorization, and set forth new procedures for lower courts to follow.<sup>5</sup> Viewed together with a long line of precedents, *Telegenix* evinces the Federal Circuit's increasing preference toward a more formalistic interpretive model for claim construction. This Note evaluates and supports the soundness of this move

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1. In this Note, the term "dictionary" is used interchangeably with "dictionary, encyclopedia, or treatise," unless otherwise noted.

2. See, e.g., *Bayer AG v. Housey Pharms., Inc.*, 340 F.3d 1367, 1371 (Fed. Cir. 2003) ("Dictionaries of the English language provide the ordinary meaning of words used in statutes.").

3. See, e.g., *Watt v. Alaska*, 451 U.S. 259, 266 n.9 (1981) (quoting from Judge Learned Hand that "[o]f course it is true that the words used, even in their literal sense, are the primary, and ordinarily the most reliable source of interpreting the meaning of any writing: be it a statute, a contract or anything else").

4. See, e.g., *Johnson Worldwide Assocs., Inc. v. Zebco Corp.*, 175 F.3d 985, 989 (Fed. Cir. 1999).

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

toward formalism, paying special attention to unique features and prospective and retrospective functions of patent law.

Part I of this Note traces the history of dictionary use in claim construction. Part II summarizes the *Telegenix* case and examines its connection to the Federal Circuit's past teachings, concluding that the ruling is not entirely unprecedented and provides the latest landmark in the move toward formalism. Part III then analyzes and applauds the logic of formalism in claim construction through an institutional lens into patent law, arguing that it is the most sensible model from a variety of interpretive theories in analogous fields of law.

## I. BACKGROUND

### A. The Interplay Between Dictionary Meanings and Meanings Derived from the Intrinsic Record

The scope of a patent derives from the meaning of its claims. In determining the scope of patent claims, courts have long held that claims are usually given their accustomed, ordinary meanings.<sup>6</sup> The origin of this plain meaning doctrine can be traced back to cases as early as 1877.<sup>7</sup> The most recent standard of its application, the *presumption* of ordinary meaning in claim construction, appeared in *Johnson Worldwide Associates, Inc. v. Zebco Corp.*<sup>8</sup>

Courts have also acknowledged that patents are instruments that convey highly technical and innovative ideas, for which plain meaning may be inadequate: a broad generic dictionary meaning often lacks sufficient precision to describe a highly technical, specialized, or new concept.<sup>9</sup> Therefore, courts developed a second and equally venerable canon of claim construction—patentees can be their own lexicographers.<sup>10</sup> Under

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6. The ordinary meaning controls unless otherwise pointed out by patentees. *See Id.* at 1201-02 (internal citation omitted).

7. James R. Barney, *In Search of "Ordinary Meaning"*, 85 J. PAT. & TRADEMARK OFF. SOC'Y 101 (2003) (describing *Keystone Bridge Co. v. Phoenix Iron Co.*, 95 U.S. 274 (1877), as setting forth the requirement that the terms of a patent should be clear and distinct, and therefore construction should follow ordinary or clear meaning).

8. *Id.* (citing *Zebco*).

9. *See* *Autogiro Co. of Am. v. United States*, 384 F.2d 391, 397 (Ct. Cl. 1967) ("The dictionary does not always keep abreast of the inventor. It cannot. Things are not made for the sake of words, but words for things. To overcome this lag, patent law allows the inventor to be his own lexicographer.").

10. *See, e.g., id.* There are other scenarios where the presumption of ordinary meaning can be rebutted. *See, e.g., Zebco*, 175 F.3d 985, 990 (Fed. Cir. 1999) (pointing out the second rebuttal besides the aforementioned lexicographer exception occurs when a de-

this doctrine, a patentee may define words in the patent to take on different meanings than their ordinary ones. This freedom comes at a cost though, because courts cannot now limit claim construction to the claims alone but have to search the intrinsic record to ascertain whether the patentee made any lexicography.<sup>11</sup>

Together, these two canons demand a holistic treatment of claim construction, requiring examination of both the patent's claims and its intrinsic record. The former demands that courts discern a term's ordinary meaning used by persons ordinarily skilled in the art. This is where dictionaries, especially dictionaries commonly referred to in the relevant field, can be most helpful. The latter canon requires that courts inspect the specification and file history in order to ascertain whether the patentee made any customized definition that is inconsistent with the dictionary meanings.

The interplay between dictionaries and the intrinsic record is also found in two other important and related interpretative canons of patent law: (1) "one may not read a limitation into a claim from the written description"; (2) that "one may look to the written description to define a term already in a claim limitation, [and] a claim must be read in view of the specification."<sup>12</sup> The two canons make necessary a claim construction model that neither favors the written description nor completely ignores it. Just like the plain meaning and lexicographer doctrines, these two canons support the notion that ordinary meaning of claim language should normally control the scope of a patent, unless it is evident from the intrinsic record that the patentee has acted as his or her own lexicographer.

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fault literal reading would so deprive the claim of clarity that the scope of claim could not be ascertained).

11. *Zebco*, 175 F.3d at 990. The *Zebco* court stated that [a]llowing the patentee verbal license only augments the difficulty of understanding the claims. The sanction of new words or hybrids from old ones not only leaves one unsure what a rose is, but also unsure whether a rose is a rose. Thus we find that a claim cannot be interpreted without going beyond the claim itself. No matter how clear a claim appears to be, lurking in the background are documents that may completely disrupt initial views on its meaning.

*Id.*

12. *Renishaw PLC v. Marposs Societa' Per Azioni*, 158 F.3d 1243, 1248 (Fed. Cir. 1998).

## B. Dictionaries' Uncertain Place in the Claim Construction Evidentiary Hierarchy Prior to *Telegenix*

In the search of the proper scope of a patent claim, two forms of evidence are generally considered: intrinsic evidence and extrinsic evidence. Intrinsic evidence refers to the claims, the specification, and the prosecution history, or the so-called file wrapper or file history.<sup>13</sup> Extrinsic evidence generally refers to evidence external to the patent and file history, such as expert and inventor testimony.<sup>14</sup> The dichotomous division reflects a difference in their evidentiary significance. The intrinsic record is almost always admitted if it is offered into evidence and has significant weight in claim construction.<sup>15</sup> Extrinsic materials, on the other hand, are admitted into evidence at the court's discretion, and receive lesser weight.<sup>16</sup> That is, extrinsic evidence "may be used only to help the court come to the proper understanding of the claims; it may not be used to vary or contradict the claim language."<sup>17</sup> In fact, when intrinsic evidence is unambiguous, reliance on extrinsic evidence is "legally incorrect."<sup>18</sup> In addition, intrinsic and extrinsic evidence contain many subtypes that enjoy different gradations of evidentiary weight.<sup>19</sup>

Courts have long had difficulties placing dictionaries in this dichotomous categorical scheme. While dictionaries have regularly been used in claim construction,<sup>20</sup> the Federal Circuit, in *Markman v. Westview Instruments, Inc.*, listed dictionaries as part of extrinsic evidence.<sup>21</sup> Shortly after

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13. *Vitronics Corp. v. Conceptiontronic, Inc.*, 90 F.3d 1576, 1582 (Fed. Cir. 1996).

14. *Markman v. Westview Instruments, Inc.*, 52 F.3d 967, 980 (Fed. Cir. 1995), *aff'd*, 517 U.S. 370 (1996).

15. *See Autogiro*, 384 F.2d at 397 (Ct. Cl. 1967) ("In deriving the meaning of a claim, we inspect all useful documents and reach what Justice Holmes called the 'felt meaning' of the claim. In seeking this goal, we make use of three parts of the patent: the specification, the drawings, and the file wrapper."); *see also Vitronics*, 90 F.3d at 1582 ("Usually, [the specification] is dispositive; it is the single best guide to the meaning of a disputed term."); *Markman*, 52 F.3d at 980 ("[P]rosecution history can and should be used to understand the language used in the claims.").

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

17. *Id.*

18. *Id.* at 1585 ("Because the specification clearly and unambiguously defined the disputed term in the claim, reliance on this extrinsic evidence was unnecessary and, hence, legally incorrect.").

19. *See id.* at 1582-84.

20. Extrinsic evidence may "show what was then old, to distinguish what was new, and to aid the court in the construction of the patent." *Brown v. Piper*, 91 U.S. 37, 41 (1875). Extrinsic evidence includes dictionaries. *Markman*, 52 F.3d at 980.

21. *Markman*, 52 F.3d at 980 ("Extrinsic evidence consists of . . . expert and inventor testimony, dictionaries, and learned treatises.").

*Markman*, the court in *Vitronics Corp. v. Conceptronic, Inc.* again categorically placed dictionaries in the domain of extrinsic evidence with the caveat that courts may consult dictionaries at any time.<sup>22</sup> This qualified categorization is puzzling: extrinsic evidence is supposed to help courts' understanding of the underlying technologies, whereas dictionaries mainly reveal the ordinary meaning of claim terms. Moreover, extrinsic evidence should be used only after identifying an ambiguity in the intrinsic record.<sup>23</sup> This threshold restriction again conflicts with the caveat, which makes dictionary use temporally unconstrained. Additional confusion emanated from language in *Vitronics* that described the supreme importance of the specification (part of the intrinsic record) and then analogized the specification to a dictionary.<sup>24</sup>

This odd practice of labeling dictionaries extrinsic yet placing them outside the limitations of extrinsic evidence produced a strange creature in *Vitronics*'s structured hierarchy of evidence. A district court aptly summarized the aftermath of *Vitronics*: "Dictionaries are in that strange netherworld between the realms of intrinsic and extrinsic evidence."<sup>25</sup> The uncertainty surrounding dictionaries' role in claim construction has caused much uncertainty in patent litigation, where identifying the weight and admissibility of evidence derived from dictionaries became difficult. Scholars have been critical of this ambiguous placement, especially given that, unlike other extrinsic evidence, dictionaries are publicly available at the time of patent grant.<sup>26</sup>

Compounding the categorical uncertainty, the Federal Circuit also repeatedly admonished against indiscriminate use of dictionaries, further undermining the evidentiary significance of dictionaries. For example, in *Renishaw v. Marposs Socita' Per Azioni*, the court stated that "[i]ndiscriminate reliance on definitions found in dictionaries can often produce absurd results."<sup>27</sup> In *Hoechst v. BP Chemicals Ltd.*, the court

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22. *Vitronics*, 90 F.3d at 1584 n.6 ("[T]echnical treatises and dictionaries fall within the category of extrinsic evidence . . .").

23. *Id.* at 1583 ("Where the public record unambiguously describes the scope of the patented invention, reliance on extrinsic evidence is improper.").

24. *Id.* at 1582 ("The specification acts as a dictionary when it expressly defines terms used in the claims or when it defines terms by implication . . . Usually, [the specification] is dispositive; it is the single best guide to the meaning of a disputed term.").

25. *SeaChange Int'l, Inc. v. nCUBE Corp.*, 115 F. Supp. 2d 473, 480 n.4 (D. Del. 2000).

26. *See, e.g.*, 5A DONALD, CHISUM, CHISUM ON PATENTS, § 18.03[2][b][i][C] (2003).

27. *Renishaw PLC v. Marposs Societa' Per Azioni*, 158 F.3d 1243, 1250 (Fed. Cir. 1998).

stated that dictionaries sometimes could not give dispositive answers to contested technical meanings.<sup>28</sup> The *Hoechst* court was especially wary of general dictionaries, placing their definitions below meanings “used and understood” by persons in a particular technical field,<sup>29</sup> thereby disapproving of their use for terms described in a technical context.

## II. THE TELEGENIX DECISION

Despite, and perhaps in light of, the past confusion over dictionaries’ significance and exact role in claim construction, the *Telegenix* panel firmly and enthusiastically approved the use of dictionaries in claim construction.<sup>30</sup> To that end, the court explicitly placed dictionaries outside the domain of extrinsic evidence,<sup>31</sup> and invited lower courts to consult them before the intrinsic record.<sup>32</sup>

### A. Procedural History, Facts, and Holdings

In *Telegenix*, plaintiff Texas Digital Systems (“TDS”), the owner of four patents<sup>33</sup> on methods and devices for controlling color in light emitting diode (“LED”) display, sued its competitor Telegenix for patent infringement. Following a jury verdict, the district court found TDS’s patents at issue valid and ruled in TDS’s favor, holding that Telegenix willfully infringed one or more of the asserted patents.<sup>34</sup>

Telegenix appealed the lower court’s ruling to the Federal Circuit, asserting *inter alia* that the lower court (1) erroneously construed the claims

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28. *Hoechst Celanese Corp. v. BP Chems. Ltd.*, 78 F.3d 1575, 1580 (Fed. Cir. 1996) (“[G]eneral dictionary definition is secondary to the specific meaning of a technical term as it is used and understood in a particular technical field.”).

29. *Id.*

30. *Tex. Digital Sys., Inc. v. Telegenix, Inc.*, 308 F.3d 1193, 1203 (Fed. Cir. 2002).

31. *Id.* The court stated:

As resources and references to inform and aid courts and judges in the understanding of technology and terminology, it is entirely proper for both trial and appellate judges to consult these materials at any stage of a litigation, regardless of whether they have been offered by a party in evidence or not. Thus, categorizing them as “extrinsic evidence” or even a “special form of extrinsic evidence” is misplaced and does not inform the analysis.

*Id.*

32. *Id.* at 1203-05.

33. U.S. Patent No. 4,965,561 (issued Oct. 23, 1990) (“the ’561 patent”); U.S. Patent No. 4,845,481 (issued July 4, 1989) (“the ’481 patent”); U.S. Patent No. 4,804,890 (Feb. 14, 1989) (“the ’890 patent”); U.S. Patent No. 4,734,619 (Mar. 29, 1988) (“the ’619 patent”).

34. *Telegenix*, 308 F.3d at 1201.

at issue and (2) erroneously instructed the jury based on the incorrect claim interpretation.<sup>35</sup>

The Federal Circuit, reviewing the claim construction issues de novo, reaffirmed the critical importance of construing claims from their ordinary meaning.<sup>36</sup> Citing numerous precedents, the court also ratified dictionaries and technical treatises as proper ways to ascertain the customary and ordinary meaning of disputed terms.<sup>37</sup> The court reasoned that “[d]ictionaries, encyclopedias and treatises, publicly available at the time the patent is issued, are objective resources that serve as reliable sources of information on the established meaning.”<sup>38</sup> The court further held that determining ordinary meanings, such as dictionary meanings, should be the first step in claim construction, and ordinary meanings prevail unless they conflict with the intrinsic record.<sup>39</sup> That is, the “presumption in favor of a dictionary definition” can be overcome if “the patentee [acts] as his or her own lexicographer” within the intrinsic record.<sup>40</sup>

After explicating the new claim construction procedure and the new centrality of dictionaries, the court reversed eight constructions and affirmed one.<sup>41</sup> The court further held that the district court’s claim construction errors were prejudicial, and therefore vacated the decision below and remanded for a new trial of both liability and damages.<sup>42</sup>

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35. *Id.* Other contentions on appeal included that the lower court abused its discretion in denying certain evidence and admitting certain other evidence; and that the lower court erroneously relied on a precedent in awarding damages. *Id.*

36. *Id.* at 1201-02.

37. *Id.* at 1202.

38. *Id.* at 1202-03.

39. *Id.* at 1204 (“Consulting the written description and prosecution history as a threshold step in the claim construction process, before any effort is made to discern the ordinary and customary meanings attributed to the words themselves, invites a violation of our precedent counseling against importing limitations into the claims.”).

40. *Id.*

41. Five of the eight reversed claims were means-plus-function limitations. The court reversed them because the district court misidentified either the function or the corresponding structure. *Id.* at 1207-16 (reversing claims C, F, G, H, and I).

42. *Id.* at 1216. Regarding the two non-claim-construction issues, the court found no error regarding the admissibility of testimonial evidence and the lower court’s reliance on contested precedents, and therefore, affirmed the lower court’s decisions on these two issues. *Id.* at 1218-20.

## B. Reliance on Dictionaries

The *Telegenix* court began its analysis by reiterating the doctrine that a claim term is presumed to carry its ordinary meaning.<sup>43</sup> Citing numerous precedents, the court reaffirmed the notion that dictionaries “are particularly useful resources to assist the court in determining the ordinary and customary meanings of claim terms.”<sup>44</sup> The court then removed dictionaries from the category of extrinsic evidence, to which dictionaries had formerly belonged.<sup>45</sup>

Besides removing dictionaries out of the domain of extrinsic evidence, the court endowed dictionaries with a special kind of authority—they are objective sources that are free from individuals’ biases and motivations.<sup>46</sup> The court further reasoned that after applying the new rule of claim construction, consultation with dictionaries would increase the accuracy of claim construction; more specifically, it would prevent the improper importation of limitations from the written description.<sup>47</sup>

Following the unequivocal endorsement of the use of dictionaries in claim construction, the *Telegenix* court set forth explicit procedural requirements for lower courts to follow. To begin with, the court stressed that dictionaries ought to be consulted before the intrinsic record, not the other way around, as was often done before.<sup>48</sup> Still, the intrinsic record should always be checked to rebut the presumption of ordinary meanings.<sup>49</sup> While ordinary or dictionary meanings presumptively control the claim scope, the presumption is rebuttable where the intrinsic record does

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43. *See id.* at 1202 (“The terms used in the claims bear a ‘heavy presumption’ that they mean what they say and have the ordinary meaning that would be attributed to those words by persons skilled in the relevant art.”).

44. *Id.*

45. *Id.* at 1204 (holding that “categorizing them as ‘extrinsic evidence’ or even a ‘special form of extrinsic evidence’ is misplaced and does not inform the analysis”). Before *Telegenix*, dictionaries had been generally thought to be extrinsic evidence. *See Markman v. Westview Instruments, Inc.*, 52 F.3d 967, 980 (Fed. Cir. 1995), *aff’d*, 517 U.S. 370 (1996).

46. *Telegenix*, 308 F.3d at 1203 (stating that dictionaries are “unbiased reflections of common understanding not influenced by expert testimony or events subsequent to the fixing of the intrinsic record by the grant of the patent not colored by the motives of the parties, and not inspired by litigation”).

47. *Id.* at 1205 (“The full breadth of the limitations intended by the inventor will be more accurately determined and the improper importation of unintended limitations from the written description into the claims will be more easily avoided.”).

48. *See id.* at 1204.

49. *Id.* (“The intrinsic record also must be examined in every case to determine whether the presumption of ordinary and customary meaning is rebutted.”).

not agree with the ordinary meanings of a claim term,<sup>50</sup> where a patentee “clearly set forth an explicit definition of the term different from its ordinary meaning,”<sup>51</sup> and where an inventor has used words or expressions “representing a clear disavowal of claim scope.”<sup>52</sup> These rebuttal situations are consistent with the canons that “patentee can be his or her own lexicographer” and that “claims should be read in light of the specification.” Furthermore, when there are multiple dictionary definitions, a court may construe the relevant claims to encompass all dictionary meanings that are consistent with the intrinsic record.<sup>53</sup>

### C. Application of the New Claim Construction Procedure

The *Telegenix* court then applied this new method of claim construction to four of the nine disputed claims on appeal.<sup>54</sup> For example, the district court construed the phrase “repeatedly substantially simultaneously activating” to require that the lights be *on* simultaneously.<sup>55</sup> The Federal Circuit held that the district court had ignored the meaning of the term “activating.” The court relied on the *Modern Dictionary of Electronics* and found “activate” defined as “to start an operation, usually by application of an appropriate enabling signal.”<sup>56</sup> Therefore, the court narrowed the ordinary meaning of “activating” to *turning on* the lights simultaneously, rather than the broader meaning of both “turning on” and “being on,” as argued by TDS.<sup>57</sup> Following the ordinary meaning determination, the court examined the intrinsic record and found no contradiction to the narrower interpretation.<sup>58</sup>

In construing the limitation “display areas and background areas,” the court consulted the *Illustrated Dictionary of Electronics* for the meaning

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50. *Id.* (holding that “[i]n such a case, the inconsistent dictionary definition must be rejected”).

51. *Id.*

52. *Id.* (citing *Teleflex, Inc. v. Ficosa N. Am. Corp.*, 299 F.3d at 1324 (Fed. Cir. 2002)).

53. *Id.* at 1203 (“If more than one dictionary definition is consistent with the use of the words in the intrinsic record, the claim terms may be construed to encompass all such consistent meanings.”).

54. The other five claims were means-plus-function limitations. *See supra* text accompanying note 41.

55. *Telegenix*, 308 F.3d at 1205.

56. *Id.* at 1206 (citing from the MODERN DICTIONARY OF ELECTRONICS 20 (6th ed. 1984)).

57. *Id.*

58. *Id.* (“Here, the intrinsic evidence is entirely consistent with the dictionary definition, and there is nothing in the record to suggest that ‘activating’ means other than what its dictionary definition would suggest.”).

of “background” and identified its definition as “[the] context or supporting area of a picture.”<sup>59</sup> From that definition, the court determined that the display and background areas are not interchangeable. Citing evidence in the prosecution history that suggested that the author disavowed the interchangeability, the court ruled for the ordinary meanings that “display” and “background” are mutually exclusive spatial areas.<sup>60</sup> This application demonstrates that the intrinsic record can sometimes be used to support dictionary meanings.

In construing “selectively controlling the durations of time intervals of activation,” the court, without citing any dictionary source, stated that “[t]he plain meaning of ‘controlling the durations’ indicates that the claimed invention requires variation of the duration of individual time intervals, or controlling the width of pulses, during which the LEDs are activated.”<sup>61</sup> Consulting the intrinsic record, the court then concluded that the phrase is limited to changing light intensity by varying the width of the pulses alone and rejected the lower court’s construction that covered an alteration in both pulse width and the number of pulses.<sup>62</sup> This application suggests that a court may arrive at ordinary meanings entirely on its own.

Finally, regarding the limitation “display areas arranged in a pattern,” the Federal Circuit agreed with the district court’s construction of the meaning of “pattern,” as “having a systematic arrangement.”<sup>63</sup> The panel refused to limit the word “pattern” to the seven-segment display disclosed in the description, as Telegenix proposed, because there was no intrinsic evidence to suggest the limitation of the seven-segment display.

### III. DISCUSSION

#### A. *Telegenix* as Part of the Move toward Formalism

##### 1. *Telegenix’s Doctrinal Expansion is Limited*

*Telegenix’s* contribution to the court’s claim construction jurisprudence lies mainly in its clarification of claim construction procedures; on the doctrinal side, *Telegenix* is a mere extension of the court’s long march towards the emphasis on text and the reliance on dictionaries. In several passages, the court in fact referred to precedent cases, including *Vitronics*,

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59. *Id.* at 1209 (citing ILLUSTRATED DICTIONARY OF ELECTRONICS 147 (3d ed. 1985)).

60. *Id.* at 1210.

61. *Id.* at 1207.

62. *Id.*

63. *Id.* at 1211.

to justify the centrality of dictionaries in claim construction. *Telegenix*, therefore, does not overrule or abandon its precedents but only clarifies and expands the existing treatment of dictionaries.<sup>64</sup> One illustration of the limited doctrinal expansion comes from the words of Judge Schall, who joined the *Telegenix* opinion and has since written that *Telegenix* simply held that “a court may consult a dictionary, encyclopedia, or treatise to help inform the court of the ordinary meaning of a word.”<sup>65</sup>

*Telegenix* can be best viewed as a critical response to its own precedents. The case explicitly removed dictionaries from the category of extrinsic evidence, a classification that started in *Markman* and had continued until *Telegenix*.<sup>66</sup> The case also clarified *Vitronics*'s vague guidance on how district courts should use dictionaries. Whereas *Vitronics* created an impression that dictionaries are on the same level of evidentiary significance as other extrinsic evidence,<sup>67</sup> *Telegenix* explicitly labeled dictionaries as “the most meaningful sources of information” to aid judges' understanding of the technology.<sup>68</sup>

*Telegenix*'s treatment of the intrinsic record also shows its harmony with precedent. In *Vitronics*, the Federal Circuit already warned against the exclusive reliance on dictionaries—dictionary-controlled construction is valid only when the dictionary definition “does not contradict any definition found in or ascertained by a reading of the patent documents.”<sup>69</sup> In *Telegenix*, the message is the same: the examination of the intrinsic record is mandatory in every case to check for rebuttals of the presumption of ordinary meanings.<sup>70</sup>

## 2. *Dictionaries to be Consulted Before the Intrinsic Record*

The most significant change in the new claim construction procedure that *Telegenix* outlines is the priority of dictionaries over the intrinsic record. The court formulated this temporal hierarchy out of the concern that

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64. See, e.g., *Telegenix*, 308 F.3d at 1202 (citing *Victronics Corp. v. Conceptronic, Inc.*, 90 F.3d 1576, 1584 n.6 that “Dictionaries are always available to the court . . .”).

65. *Alloc, Inc. v. Int'l Trade Comm'n*, 342 F.3d 1361, 1376-77 (Fed. Cir. 2003) (Schall, J., dissenting).

66. See *Markman v. Westview Instruments, Inc.*, 52 F.3d 967, 980 (Fed. Cir. 1995), *aff'd*, 517 U.S. 370 (1996).

67. *Vitronics*, 90 F.3d at 1585 (stating that “prior art documents and dictionaries, although to a lesser extent, are more objective and reliable guides”).

68. *Telegenix*, 308 F.3d at 1203.

69. *Vitronics*, 90 F.3d at 1584.

70. *Telegenix*, 308 F.3d at 1204 (“The intrinsic record also must be examined in every case to determine whether the presumption of ordinary and customary meaning is rebutted.”).

if the written specification were read first, judges could inappropriately limit claim scope by reading in embodiments disclosed in the specification.<sup>71</sup> The danger is that once a particular embodiment registers first with a claim interpreter, he or she is likely to be influenced by it, thereby filtering out an otherwise valid and broader ordinary meaning.<sup>72</sup>

This approach of examining dictionaries before the specification and file history is thus an attempt to reconcile a purely literal reading of the claim text with a contextual reading from the intrinsic record. This approach also addresses the tension between the canons that “claims must be read in light of the specification of which they are a part,” and that “it is improper to read limitations from the written description into a claim.”<sup>73</sup> Courts had never clearly harmonized the two canons, and *Telegenix* only took a small step here—the *Telegenix* approach heeds the latter canon by ascertaining dictionary or ordinary meaning before checking the intrinsic record, and upholds the former canon by requiring an intrinsic record check in every case.<sup>74</sup> Navigating between ordinary meaning and intrinsic record is, however, not an easy task, and often produces disputed interpretations. For example, in a post-*Telegenix* case, Judge Linn, the author of *Telegenix*, dissented from the majority’s narrower construction of the term “chromosomally integrated,” stating that the majority improperly limited an otherwise broad meaning which contemporary treatises endorse.<sup>75</sup>

The reach of *Telegenix* should not be overstated. Dictionaries are nothing more than a source for ordinary meaning; they need not be used in all claim interpretations. Indeed, when the *Telegenix* court construed the term “pattern,”<sup>76</sup> and the term “controlling the duration,” it provided the ordinary meanings without citing any dictionary.<sup>77</sup>

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71. *Id.* at 1204-05 (citing various cases to advocate that claims should not be limited to embodiments described in the specification alone).

72. *See id.* at 1204. The court stated:

If an invention is disclosed in the written description in only one exemplary form or in only one embodiment, the risk of starting with the intrinsic record is that the single form or embodiment so disclosed will be read to require that the claim terms be limited to that single form or embodiment.

*Id.*

73. *Tate Access Floors, Inc. v. Maxcess Techs., Inc.*, 222 F.3d 958, 966 (Fed. Cir. 2000).

74. *Telegenix*, 308 F.3d at 1204.

75. *Genzyme Corp. v. Transkaryotic Therapies, Inc.*, 346 F.3d 1094, 1107 (Fed. Cir. 2003) (Linn, J., concurring in part and dissenting in part).

76. The court agreed with the district court’s construction “having a systematic arrangement” without consulting to any dictionary. *Telegenix*, 308 F.3d at 1210-11.

77. *See supra* notes 61 and 63.

This Note so far has not explored the distinctions between dictionaries, encyclopedias, and treatises. It is an unanswered question what sources constitute treatises. Would a white paper by an industry standard body be considered a treatise? To what extent do we allow a publication by an interest group into the ranks of dictionaries, encyclopedias, and treatises so as to encompass all the contemporary de facto understandings in a technical field? What about situations where dictionaries do not adopt terms at the rate of the vernacular evolution in a field of technology? In this last instance, a new edition of a dictionary providing true contemporary meanings may come so late (after the time of patent filing) that it would be forever barred from being admitted in claim construction. These questions will have to be resolved in future cases.

## B. The Case for Formalism in Claim Construction

Viewed together with its precedents, *Telegenix's* advocacy of dictionary use is an indication of the Federal Circuit's increasing preference toward a more formalistic claim construction model, where fidelity to the ordinary meaning of the terms is heavily favored, while the intrinsic record, though never ignored, recedes to second place.<sup>78</sup> The next question then is whether such a formalistic or textualist interpretive direction is sensible for the domain of patent claim construction.

### 1. A Brief Catalogue of Competing Interpretive Models

Before the question is answered, a brief catalogue of competing interpretive models is in order. Here, an analogy to other fields of law such as contracts and statutes is drawn because they supply a rich set of interpretive theories and bear close relationship with patent law. On a general level, patents, contracts, and statutes are all instances of written legal documents. Indeed, patent scholars have often couched patent doctrines, such as enablement, in contractual terms.<sup>79</sup> In fact, *Telegenix* already used

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78. In this sense, the word formalism is used interchangeably with textualism in this Note, since textualism also advocates adherence to the plain meaning of the text. For a discussion of textualism as a major school of interpretation, see WILLIAM N. ESKRIDGE, JR. ET AL., *CASES AND MATERIALS ON LEGISLATION STATUTES AND THE CREATION OF PUBLIC POLICY* 670-71 (3d ed. 2001). The interchange does not hide the fact that certain variations of textualism, such as the "new textualism" advocated by Justice Scalia, which disapproves of any reference to legislative history. This is quite different from the formalism advocated here, which does refer to "history." See ESKRIDGE ET AL., *supra*, at 742-43.

79. See ROBERT L. HARMON, *PATENTS AND THE FEDERAL CIRCUIT* § 5.2 at 195 (5th ed. 2001) (arguing that the public gave the patentee a privilege of exclusivity; therefore, the patentee should uphold the other end of the bargain by enabling the public to practice the invention).

contract law as an analogy to advance dictionaries' role in patent claim construction.<sup>80</sup> Still, patents share perhaps more similarities with statutes. Both have the public as the audience; both contain a "history" in public record. In both cases, the subjective intents of Congress and patentees are not determinative in their interpretation. More importantly, the *Markman* court pointed out that both patents and statutes may create liabilities in third persons who did not participate in the genesis of the instruments.<sup>81</sup>

In general, modern interpretive theories navigate between formalism and realism.<sup>82</sup> In contract law, for example, the formalists emphasize the text within the four corners of the contract. A concrete example is a view of contracts that denies the propriety of filling in missing terms and concentrates the interpretation on the expressed terms.<sup>83</sup> This theory advocates that a court should limit its interpretative enforcement role to the unambiguous and verifiable terms in a contract.<sup>84</sup> In contrast, realist approaches to contract law, exemplified in neoclassical and relational contract theories, focus on the entire factual and social context surrounding contract formation to discern the intent of the parties and the fairness of the ultimate judgment.<sup>85</sup>

In the field of statutory interpretation, various models can be grouped into three general categories: intentionalism, which tries to identify the original intent of the drafters;<sup>86</sup> purposivism, which chooses the interpreta-

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80. *Tex. Digital Sys. v. Telegenix, Inc.*, 308 F.3d 1193, 1203 (Fed. Cir. 2002) (citing *Bowers v. Baystate Techs.*, 302 F.3d 1334 (Fed. Cir. 2002), for its use of non-technical dictionaries in construing contracts, and *Buchanan v. Dep't of Energy*, 247 F.3d 1333, 1339 (Fed. Cir. 2001), for its reliance on dictionaries in construing settlement agreements).

81. *Markman v. Westview Instruments, Inc.*, 52 F.3d 967, 987 (Fed. Cir. 1995), *aff'd*, 517 U.S. 370 (1996) (concluding that the statutory interpretation model is suitable for patent law at least because "both of these public instruments may create liability in third persons who were not participants in the legislative process or the PTO proceedings").

82. Cass R. Sunstein & Adrian Vermeule, *Interpretation and Institutions*, 101 MICH. L. REV. 885, 897 (2003).

83. Robert E. Scott, *Relational Contract Theory: Unanswered Questions A Symposium in Honor of Ian R. MacNeil: The Case For Formalism In Relational Contract*, 94 NW. U. L. REV. 847, 859 (2000).

84. *See id.* at 859-61.

85. *See* Jay M. Feinman, *The Significance Of Contract Theory*, 58 U. CIN. L. REV. 1283, 1299 (1990) (stating that relational contract theory, largely developed by Ian Macneil, is "even more multi-dimensional than is neoclassical contract").

86. Intentionalism is perhaps already preempted for patent claim construction by 35 U.S.C. § 112, which requires that patents "contain a written description . . . in such full, clear, concise, and exact terms as to enable any person skilled in the art to which it pertains . . . to make and use the same." 35 U.S.C. § 112 (2000). Thus, a court's objective in

tion best suited for the purpose of the statute; and textualism (synonymous to formalism in this Note), which follows the plain meaning of the text.<sup>87</sup> Professor William Eskridge has also proposed a dynamic statutory interpretation model that deals with changed political and social circumstances.<sup>88</sup> The model tries to save judges from wrestling with antiquated language to fit evolving or changed societal norms by placing greater weight on current political and social conditions.<sup>89</sup>

The interpretive models sketched above do not represent a complete picture of available interpretive theories; they provide only a vocabulary and a conceptual framework, from which a sensible model for patent claim construction can be identified and defended.

## 2. *Formalism Addresses Courts' Institutional Limitations*

The sensibility of formalism, out of all the above interpretive models, cannot be fully appreciated without first understanding the institutional features and constraints of patent law. Patents as public legal instruments necessarily affect the course of conduct of a variety of institutional players. Business entities evaluate, use, strategize around them. Inventors study and produce them. Patent agents and prosecutors draft and obtain them from the Patent and Trademark Office (PTO). Patent litigators are their defenders and challengers. And federal judges, who shape the jurisprudence of patent claim construction, drive how all other players perceive and act upon the next patent. A consideration of courts' institutional limitations, therefore, is central to the discussion of choices of interpretive models for patent law.

To begin with, federal district court judges tend to be generalists, and patent issues are resolved almost exclusively in their courts.<sup>90</sup> And because patents are invariably technologically complex and specialized, gen-

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claim construction is to discern not the subjective intent of the parties but the meanings that one ordinarily skilled in the art would have understood at the time of application.

87. ESKRIDGE ET AL., *supra* note 78, at 670-71.

88. See William N. Eskridge, Jr., *Dynamic Statutory Interpretation*, 135 U. PA. L. REV. 1479 (1987).

89. *Id.* But the dynamism has some difficulties for claim construction: patents enjoy a relatively short life span (twenty years from the date of issuance) compared to statutes, where antiquity is more prevalent; and judges in patent cases are less versed in technology than in making social and political assessment.

90. Exceptions to federal exclusivity exist when patent issues are not raised in original well-pleaded claims but in a counterclaim. See *Holmes Group, Inc. v. Vornado Air Circulation Sys. Inc.*, 535 U.S. 826, 831 (2002) ("Respondent argues that the well-pleaded-complaint rule, properly understood, allows a counterclaim to serve as the basis for a district court's 'arising under' jurisdiction. We disagree.").

eralist judges often are not technically proficient to assess the true scope of the lengthy, acronym-laden, drawing-intensive file-wrapper materials in support of patent claims. In light of this technological mismatch, it is thus sensible for district judges to adhere to the common meaning of claim terms under formalism, especially when the meanings can be and often are determined through dictionaries, which are judges' familiar tools. In this regard, purposivism and dynamism are much more difficult for judges to navigate. These models are more result-oriented, requiring judges to perform policy and value judgments in order to advance the spirit instead of the letters of a statute.<sup>91</sup> This judicial awkwardness is more acute in the patent context, where technical intricacy is difficult to navigate through to determine the "purpose" of a particular device or method.

An objection to formalism could be that formalism cannot avoid the above technical deficiency problem because *Telegenix* and its precedents do require a check into the intrinsic record. But the *Telegenix* approach, which consults dictionaries before the intrinsic record, delays the problem and allows judges to use familiar tools to obtain a more systematically uniform determination of claim scope. The familiarity benefit is further amplified by the busy calendars of federal district courts and the judges' need to keep the calendars moving. In addition, the *Telegenix* approach alleviates the technical deficiency problem as judges only need to look in the intrinsic record for inconsistencies with ordinary meaning or new lexicography, rather than attempting the formidable task of gaining a complete technical understanding of an invention.

The judicial limitation in the context of patent law finds an analogy in statutory interpretation. There, due to time and information constraints, a generalist court may want to ignore legislative history, "whose large volume and unfamiliar components could often provoke judicial error."<sup>92</sup> Even though *Telegenix* does not "ignore" but mandates an intrinsic record check, the same concern of judicial unfamiliarity in resolving intent or purpose applies, thereby making intentionalism and purposivism less fit for claim construction.

It could also be argued that the Federal Circuit is better suited to adopt nonmechanical or nonformalistic interpretive models; the court was created by Congress in 1982 to centralize handling of patent cases<sup>93</sup> and is therefore not a generalist court. But because cases start from a generalist court, and because district courts follow the appellate court's interpretive

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91. See ESKRIDGE ET AL., *supra* note 78, at 671.

92. See Sunstein & Vermeule, *supra* note 82, at 922.

93. The Federal Circuit also handles appeals from the U.S. Court of Claims.

methods, a nonformalistic model from the Federal Circuit would likely create more systematic interpretive errors.<sup>94</sup>

The institutional limitation of judges in patent cases has an empirical support as well. Seven years ago, the Supreme Court decided *Markman v. Westview Instruments, Inc.*<sup>95</sup> with the hope that judges, arguably better than jurors at interpreting patent claims, would provide consistency and predictability in claim construction results. The stark reality today is that district judges are facing a reversal rate above thirty percent.<sup>96</sup> High reversal rate wastes valuable resources, as litigants have to wait until the end of trial to appeal a claim construction ruling.<sup>97</sup> The adoption of a formalist model, which *Telegenix* continued to shape, should help create a more uniform standard of claim construction and, in turn, help reduce the reversal rate seen today.

### 3. Formalism Promotes Predictability and Ex Ante Planning

Another important characteristic of patent law is that patents serve a public notice function—the public should be able to discern the boundaries of the exclusionary rights from the patent itself. The function directly impacts public life. For example, the perceived boundaries of the exclusive rights may alter competitors' business strategies; competitors frequently must choose between licenses and design-arounds. Because of this notice function, any interpretive model for claim construction should promote predictability for the public and lend greater certainty in ex ante planning.

In this regard, purposivism could undermine the public notice function of a patent and decrease the predictability for the public to anticipate the scope of the next patent. Formalism, on the other hand, advances the pub-

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94. The similar risk argument is seen in a critique of dynamism in statutory interpretation—dynamism creates “the risk that the judges’ relative social insulation, and the resulting informational deficits, might cause them to err in the other direction, updating statutes that aren’t obsolete.” Sunstein & Vermeule *supra* note 82, at 906.

95. 517 U.S. 370 (1996).

96. See Christian A. Chu, *Empirical Analysis of the Federal Circuit’s Claim Construction Trends*, 16 BERKELEY TECH. L.J. 1075, 1104 (2001) (finding a 44% reversal rate in express reviews of claim construction from 179 cases, further resulting in a 29.6% case reversal, and a 36.6 % reversal rate with summary affirmance decisions added); see also Kimberly A. Moore, *Are District Court Judges Equipped to Resolve Patent Cases?*, 15 HARV. J.L. & TECH. 1, 11 (2001) (finding a 33% reversal rate for the five-year period after *Markman* where district judges had at least one claim construction reversed).

97. The Federal Circuit’s rejection of all interlocutory appeals of claim construction orders significantly contributes to the resource waste. The problem is further exacerbated by the fact that parties cannot easily obtain a speedy summary judgment when a case is factually complex, as most patent cases are.

lic notice function more because it predictably emphasizes the meanings of claims within the four corners of a patent. Purposivism's real place in patent cases perhaps lies in the doctrine of equivalents ("DOE") in the infringement analysis stage of a case. With DOE, courts expand claim boundaries to bring in subjects matters that match the "function, way, and result of the claimed element."<sup>98</sup> This practice, in a way, serves to examine the "purpose" of the invention. Unlike DOE and infringement analysis, the goal of claim construction is to resolve disputed claim scopes and to provide a common framework of reference for later stages of a trial. This difference amplifies purposivism's difficulty in claim construction.

Realism also has similar problems. This context-centered approach requires courts to examine the relationships among parties and social conditions to maximize fairness in judgment. Already, the public notice function is disserved since realism necessitates a case-specific, fact-dependent treatment. Furthermore, patents are not formed by extensive, long-term relationships characteristic of relational contracts.<sup>99</sup> A patentee is often involved in the formation process only vicariously through a prosecution agent or attorney. An infringer is even less involved or entirely removed from the formation process. Regarding past dealings, even when the prosecuting agent or attorney is a repeated player, his or her past experience with PTO often informs little about the technology at issue.<sup>100</sup> For these reasons, the parties' relational interdependency, which is highly valued in realism,<sup>101</sup> is less probative in patent claim construction. In comparison, *Telegenix's* adoption of a formalistic model aligns with patent law better because patent claim construction needs to treat patents as discrete, rather than extended transactions, because for purposes of claim construction patents are integrated documents, and because factors supplying external context, such as inventor's testimony, should be treated with much suspicion.

The hallmark of formalism is its predictability in process and results, which also opens it to the criticism of being wooden and mechanical. Formalism promotes patentees' ability to plan and, in general, to gravitate toward a more uniform dictionary-oriented set of draft language. This positive feedback mechanism is perhaps the best attribute of formalism: it gradually reduces courts' interpretive burdens and mistakes, increases in-

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98. *Warner-Jenkinson Co., Inc. v. Hilton Davis Chem. Co.*, 520 U.S. 17, 40 (1997).

99. See Jay M. Fienman, *Relational Contract Theory in Context*, 94 NW. U. L. REV. 737, 739-40 (2000).

100. Exceptions probably exist in rare instances. One example is when one attorney prosecutes numerous patents regarding the same technology in the same field of art.

101. Fienman, *supra* note 99, at 748.

terpretive accuracy and predictability, and encourages a norm formation for patent drafting.

#### 4. *Formalism Promotes Ex Post Efficiency and Fairness*

Predictability in process and outcome breeds efficiency, which is another positive side effect of formalism in claim construction. This occurs both for patent prosecutors and judges. On the prosecution side, efficiency is achieved when patentees gravitate toward a standard set of claim terms that closely follow dictionary definitions used in the field of art, and when the PTO in turn can devote less energy to deciphering the meaning of claims, and more to determining patentability. Insights of contract scholars suggest that high transaction costs are the first reason why parties might not write detailed and complete contracts for fear of misinterpretation.<sup>102</sup> Therefore, the increased efficiency and reduced costs from an adoption of formalism would encourage inventors to patent in the first instance and to describe the underlying technology and the claims more fully.

On the judicial side, judges can theoretically proceed through a formalistic claim construction more speedily and accurately. An objection could be advanced that, compared to a specification-driven search, a dictionary search without help of the intrinsic record is inefficient and often produces many more irrelevant results.<sup>103</sup> It may be true that dictionary shopping (the practice of litigants selecting “best” dictionaries out of many competing ones) likely exerts an initial cost to the efficiency of litigation, when judges are forced to select the most appropriate dictionaries and the best definitions. It is likely, however, that few dictionaries will give contradictory meanings, and that a selected dictionary will have few overlapping meanings relating to the particular technology at issue. In addition, litigants’ submission of their own choices of dictionaries reduces the time that the court spends in finding dictionaries on its own. This initial cost, if any, is likely insignificant or can be eventually recouped by a more standardized and less frequently reversed construction methodology. It is also worth noting that, under the *Telegenix* paradigm, courts do not sacrifice any efficiency for words that are not disputed, or words that have clear ordinary meanings without the need of dictionary support.

In terms of fairness, it could be argued that *Telegenix*’s heavy reliance on dictionaries would yield more pro-patentee results, especially considering that dictionary definitions are often broad and generic. Yet it was the

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102. *Id.* at 862.

103. See generally Ben Hattenbach, *Chickens, Eggs and Other Impediments to Escalating Reliance on Dictionaries in Patent Claim Construction*, 85 J. PAT. & TRADEMARK OFF. SOC’Y 181 (2003).

alleged infringer in *Telegenix* that benefited from the dictionary-based claim construction.<sup>104</sup> Of course, one case can hardly refute the argument,<sup>105</sup> more empirical data is needed to analyze this bias concern. Theoretically, however, any initial pro-plaintiff bias should eventually disappear when patent drafters start to gravitate toward adopting more standard dictionary meanings.

Another safeguard against unfairness is *Telegenix*'s required examination of the intrinsic record.<sup>106</sup> Commentators and courts alike have pointed out that dictionaries, even technical ones in the relevant field, are not always the best objective sources.<sup>107</sup> Dictionary definitions tend to be general and simplified.<sup>108</sup> The neutrality of dictionaries is likely destroyed for a highly specialized term when both sides submit self-serving dictionary evidence, and the court lacks the technical knowledge to identify the most appropriate dictionary or dictionary definition.<sup>109</sup> Moreover, patent language has a larger vernacular variance due to the broad span of technologies.<sup>110</sup> These reasons perhaps underlie the canon "patentees as their own lexicographers." *Telegenix* heeds this canon by requiring a check with the intrinsic record, thereby mollifying concerns about pure literalism.<sup>111</sup> Lastly, the incorporation of intrinsic record also comports with the precedents' teaching against an indiscriminate use of dictionaries.<sup>112</sup>

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104. *Tex. Digital Sys., Inc. v. Telegenix, Inc.*, 308 F.3d 1193, 1216 (Fed. Cir. 2002) (reversing the infringement decision in favor of *Telegenix*, the defendant and the alleged infringer).

105. The *Telegenix* court only invoked dictionaries on two disputed limitations and narrowed the scopes of both limitations.

106. 308 F.3d at 1204.

107. *See, e.g.*, *Anderson v. Int'l Eng'g & Mfg., Inc.*, 160 F.3d 1345, 1348 (Fed. Cir. 1998) ("[D]ictionary definitions of ordinary words are rarely dispositive of their meaning in a technological context.").

108. *See, e.g.*, *Toro Co. v. White Consol. Indus., Inc.*, 199 F.3d 1295, 1300 (Fed. Cir. 1999) ("However, dictionaries provide general definitions, rarely in sufficient detail to resolve close questions in particular contexts.").

109. *See Barney, supra* note 7, at 126 (arguing that the ability of judges' pulling dictionaries off their *own* shelves is the neutrality that makes dictionaries a particularly trustworthy source of extrinsic evidence).

110. It is also because "a verbal portrayal is usually an afterthought written to satisfy the requirements of patent law." *Id.*

111. *Cf. K-2 Corp. v. Salomon S.A.*, 191 F.3d 1356, 1370 (Fed. Cir. 1999) (Rader, J., dissenting) ("Divorced from context, words lose their ordinary and accustomed meanings. . . . When judges intuit an ordinary and accustomed meaning divorced from context, they are (usually unwittingly) imposing their own subjective linguistic values on a public decision.').

112. *See, e.g.*, *Watt v. Alaska*, 451 U.S. 259, 266 n.9 (1981) ("But it is one of the surest indexes of a mature and developed jurisprudence not to make a fortress out of the

A further support for fairness lies in the fact that *Telegenix* does not preclude the use of all contextual information in a claim construction proceeding.<sup>113</sup> Instead, it subordinated extrinsic and intrinsic evidence to ordinary meanings, which are determined through dictionaries or from claims themselves. Some scholars, in the context of statutory interpretation, advise litigators to avoid directly citing legislative history, to formulate more arguments for intra-statute consistency, to increase dictionary shopping, and to still prepare for the court's interrogation of background policies.<sup>114</sup> The same strategy can be transplanted to claim construction. In addition, *Telegenix* does not expressly rule out any judicial canons of claim construction.<sup>115</sup> The canons provide forceful arguments, especially when combined with the intrinsic record in instances of ambiguous literal meanings. Many of the canons can stand their own ground without the intrinsic record, and therefore, can be used in ordinary meaning arguments, complimenting dictionary-based arguments.

#### IV. CONCLUSION

Stripped to its essence, patent claim construction revolves around the interpretation of one or more disputed words.<sup>116</sup> Thus, constructing a sensible interpretative model is perhaps the single most influential aspect of claim construction jurisprudence. Against the backdrop of the unique nature of patents, the *Telegenix* court engaged in a more formalist approach, reaffirming the presumption of ordinary meaning of a claim and explicitly elevating dictionaries' role in claim construction. This Note argues that the formalistic model toward which *Telegenix* is moving is a sensible compromise of the goals and constraints of today's patent law.

*Telegenix*, however, is neither the beginning nor the end of the court's claim construction modeling. On this road to formalism, *Telegenix* is only

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dictionary; but to remember that statutes always have some purpose or object to accomplish, whose sympathetic and imaginative discovery is the surest guide to their meaning.”).

113. 308 F.3d 1193, 1212 (Fed. Cir. 2002) (citing *Vitronics Corp. v. Conception, Inc.*, 90 F.3d 1576, 1583 (Fed. Cir. 1996), for the proposition that “[e]xtrinsic evidence in general, and expert testimony in particular, may be used only to help the court come to the proper understanding of the claims”).

114. See *ESKRIDGE ET AL.*, *supra* note 78, at 770-71.

115. The choices are plenty, including claim differentiation, patentees as lexicographers, commensuration between the specification and the claim scope, construction favoring validity, and many others.

116. See, e.g., *Digital Biometrics, Inc. v. Identix, Inc.*, 149 F.3d 1335, 1345 (Fed. Cir. 1998) (“As with many patent cases, at issue is the meaning of only a few words in the claims.”).

the latest landmark, and it must be read together with a long line of precedents for one to appreciate the full scope of claim construction's evidentiary hierarchy. *Telegenix* is also not pure literalism. The *Telegenix* court, while emphasizing the ordinary meaning of claim terms, never ignored the intrinsic record and mandated an examination of the intrinsic record in every case to ensure interpretive accuracy. At the current stage, the model still has gaps and open questions, such as the undefined scope of treatises and the unaddressed scenario where dictionaries lag contemporary vernaculars. Hopefully the Federal Circuit will resolve these issues before inconsistent rulings start to develop in lower courts.

## MADEY V. DUKE UNIVERSITY: SHATTERING THE MYTH OF UNIVERSITIES' EXPERIMENTAL USE DEFENSE

By Michelle Cai

In *Madey v. Duke University*,<sup>1</sup> the Federal Circuit rejected an experimental use defense to a patent infringement lawsuit against a university.<sup>2</sup> The Federal Circuit considered for the first time the issue of whether a nonprofit research institution accused of patent infringement should be treated any differently from a commercial company. The court held that the experimental use defense does not apply to infringing activities that are “in keeping with the alleged infringer’s legitimate business, regardless of commercial implications.”<sup>3</sup> By defining “legitimate business” broadly, the court practically eliminated the experimental use defense in academic research, causing outcries among universities and nonprofit research institutes who fear that the decision will significantly impede the nation’s scientific progress, especially in the biomedical area.<sup>4</sup>

In reality, *Madey* has merely shattered a long-held myth that universities are immune to patent infringement liability under the experimental use defense. Given the Federal Circuit’s hostility towards the experimental use defense in commercial settings, the *Madey* ruling is hardly a surprise.<sup>5</sup> Pure academic research devoid of commercial implications is becoming a rarity in an era of federal incentives to turn the fruits of government-funded basic research into commercial applications.<sup>6</sup> Moreover, despite their patent infringement activities, universities have not faced infringement liability.<sup>7</sup> Patent holders have traditionally tolerated such infringement because the harm of a lawsuit against a university outweighs its

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1. 307 F.3d 1351 (Fed. Cir. 2002) [hereinafter *Madey II*].

2. *Id.* at 1362.

3. *Id.*

4. Brief of Amici Curiae Association of American Medical Colleges, et al. at 4-5, *Madey v. Duke Univ.*, 207 F.3d 1351 (Fed. Cir. 2002) (No. 02-1007).

5. Rebecca S. Eisenberg, *Patent Swords and Shields*, 299 SCI. 1018, 1018-19 (2003).

6. *Id.*

7. *Id.* at 1019 (“[Research universities] have largely ignored the growing number of patents covering technology that their scientists use without license and without apology.”); John P. Walsh et al., *Working Through the Patent Problem*, 299 SCI. 1021, 1021 (2003).

benefit.<sup>8</sup> In other words, patent holders have exercised a rational forbearance.

This Note examines the impact of the *Madey* decision on academic research. Part I provides a background of the doctrine of the experimental use defense as well as the commercialization phenomenon in academic research environment. Part II describes the *Madey* case, focusing on the issue of the experimental use defense. Part III assesses the *Madey* decision in the context of academic research. Part III.A analyzes the Federal Circuit's interpretation of the experimental use defense to understand whether the defense still has any practical meaning in academic settings. Part III.B discusses the decision's implications on academic research. Part III.B also argues that although *Madey* may send a chilling message to universities that academic research is not shielded from patent infringement lawsuits, the risk of lawsuits remains small because patent holders will likely continue to exercise rational forbearance. Part III.C addresses the problem of broad patents on upstream research tools and argues against expanding the experimental use defense in this area. The Note concludes that, despite its potentially chilling effect, *Madey* is not likely to adversely affect the way research is conducted in universities today.

## I. BACKGROUND

### A. The Experimental Use Defense

The experimental use defense is a common law doctrine that exempts certain acts from patent infringement liability if they are conducted solely for the purpose of scientific inquiry.<sup>9</sup> The doctrine originated in Justice Story's 1813 opinion in *Whittemore v. Cutter*,<sup>10</sup> following the rationale that "it could never have been the intention of the legislature to punish a man, who constructed [an infringing device] merely for philosophical experiments, or for the purpose of ascertaining the sufficiency of the machine to produce its described effects."<sup>11</sup>

Subsequent cases have limited the doctrine to very narrow grounds.<sup>12</sup> In *Pitcairn v. United States*,<sup>13</sup> the Court of Claims held that the United

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8. See Walsh et al., *supra* note 7, at 1021.

9. It is also referred to as the research exemption or the experimental use exception. These terms will be used interchangeably in this Note.

10. 29 F. Cas. 1120 (C.C.D. Mass. 1813).

11. *Id.* at 1121.

12. See Janice M. Mueller, *No "Dilettante Affair": Rethinking the Experimental Use Exception to Patent Infringement for Biomedical Research Tools*, 76 WASH. L. REV. 1, 17-18 (2001).

States government was not entitled to the experimental use defense where a federal agency's use of plaintiff's patented helicopters for testing purposes was in keeping with the agency's legitimate business.<sup>14</sup> The court found that the government was not immune from patent infringement liability, notwithstanding the lack of commercial implications of its use.<sup>15</sup>

The Federal Circuit considered for the first time the experimental use defense in *Roche Products, Inc. v. Bolar Pharmaceutical Co.*<sup>16</sup> Bound by *Pitcairn*, the Federal Circuit held that the experimental use defense is "truly narrow" and only applies to activities "for amusement, to satisfy idle curiosity, or for strictly philosophical inquiry."<sup>17</sup> The court reasoned that Bolar's experimentation on Roche's patented pharmaceutical product was not the kind of "dilettante affair" envisioned by Justice Story, but was solely for commercial purposes.<sup>18</sup> Thus, the court stated that the experimental use defense does not apply to a scientific inquiry which has "definite, cognizable, and not insubstantial commercial purposes."<sup>19</sup>

Congress partially overruled the holding of *Roche* by enacting the Hatch-Waxman Act, which in part provides a safe harbor for experimentation solely for the purpose of generating FDA-required test data.<sup>20</sup> Even so, the experimental use defense remains narrow outside the safe harbor. In *Embrex, Inc. v. Service Engineering Corp.*,<sup>21</sup> for example, the Federal Circuit reaffirmed its narrow interpretation of the experimental use exception by rejecting the defense because the defendant's tests were "expressly for commercial purposes."<sup>22</sup>

Neither the Federal Circuit nor any of its predecessors, however, addressed the issue of a nonprofit research institution's exemption under the experimental use defense until very recently. In fact, throughout the doctrine's nearly two hundred years of existence before *Madey*, only one reported opinion, *Ruth v. Stearns-Roger Manufacturing Co.*,<sup>23</sup> ever dealt with this issue. There, the court held that the experimental use of patented

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13. 547 F.2d 1106 (Ct. Cl. 1976).

14. *Id.* at 1125-26.

15. *See id.*

16. 733 F.2d 858, 863 (Fed. Cir. 1984) (rejecting the experimental use defense where Bolar had experimented on one of Roche's patented drugs in order to generate test data for filing a generic drug application at the FDA).

17. *Id.* at 863.

18. *Id.*

19. *Id.*

20. *See* 35 U.S.C. § 271(e) (2000).

21. 216 F.3d 1343 (Fed. Cir. 2000).

22. *Id.* at 1349.

23. 13 F. Supp. 697 (D. Colo. 1935).

machines in the laboratory of a university, Colorado School of Mines, did not constitute infringement.<sup>24</sup> The defendant in that case was not the university directly, but a commercial company accused of contributory infringement for selling replacement parts for the patented machines to the university.<sup>25</sup>

Despite the lack of case law to define the boundaries of the experimental use defense, academic researchers have by and large ignored patent rights in carrying out their research.<sup>26</sup> Universities and university researchers assume that research activities for noncommercial purposes are exempt.<sup>27</sup> The assumption is arguably implied by language in the Federal Circuit's *Roche*<sup>28</sup> and *Embrex*<sup>29</sup> opinions, which focuses on the commercial purposes of the infringing uses. The absence of patent infringement lawsuits against universities also reinforces such an assumption.<sup>30</sup>

## **B. The Growing Role of Universities in Commercializing Scientific Discoveries**

Since the passage of the Bayh-Dole Act in 1980,<sup>31</sup> universities have increasingly participated in commercializing their research discoveries, blurring the distinction between pure scientific research and commercial research.<sup>32</sup> The Bayh-Dole Act allows universities to patent federally funded inventions and thereby encourages universities to commercialize

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24. *Id.* at 703.

25. *Id.*

26. See Eyal H. Barash, *Experimental Use, Patents, and Scientific Progress*, 91 NW. U. L. REV. 667, 698 (1997) ("University researchers rarely check the patent literature to determine whether their proposed research will infringe on any patents."); John P. Walsh et al., *Effects of Research Tool Patents and Licensing on Biomedical Innovation*, in PATENTS IN THE KNOWLEDGE-BASED ECONOMY 285, 324 (Wesley M. Cohen & Stephen Merrill eds., 2003).

27. Brief of Amici Curiae Association of American Medical Colleges, et al. at 11, *Madey v. Duke Univ.*, 207 F.3d 1351 (Fed. Cir. 2002) (No. 02-1007).

28. *Roche Prods., Inc. v. Bolar Pharm. Co.*, 733 F.2d 858, 863 (Fed. Cir. 1984) (denying experimental use defense where the court found that Bolar's experimentation had "definite, cognizable, and not insubstantial commercial purposes").

29. *Embrex, Inc. v. Serv. Eng'g Corp.*, 216 F.3d 1343, 1349 (Fed. Cir. 2000) (denying defendant SEC's experimental use defense on the basis of district court's finding that the experimental tests performed by SEC were "expressly for commercial purposes")

30. See Walsh et al., *supra* note 26, at 325.

31. Bayh-Dole Act of 1980, 35 U.S.C. §§ 200-212.

32. See, e.g., Rebecca S. Eisenberg, *Proprietary Rights and the Norms of Sciences in Biotechnology Research*, 97 YALE L.J. 177, 195-97 (1987); Arti K. Rai & Rebecca S. Eisenberg, *The Public Domain: Bayh-Dole Reform and the Progress of Biomedicine*, 66 LAW & CONTEMP. PROBS. 289, 291-95 (2003).

the results of their basic research.<sup>33</sup> Universities are now active players in the patent arena. Prior to 1981, fewer than 250 patents were issued to universities per year;<sup>34</sup> in less than twenty years, that number increased to over 3000.<sup>35</sup> Universities' share of United States corporate-owned patents has also steadily increased.<sup>36</sup> To generate revenue out of their patented technologies, universities not only actively seek prospective licensees in the industry, but aggressively sue commercial companies for patent infringement.<sup>37</sup> Two large settlements in 1999, Genentech's \$200 million to the University of California and Glaxo-Wellcome's \$300 million to the University of Minnesota, have spurred a wave of patent infringement lawsuits by universities.<sup>38</sup> Universities' commercial interests also go beyond patented technologies. Encouraged by the federal government, universities receive funding from industry and form collaborative relationships with for-profit companies.<sup>39</sup>

While some hail the Bayh-Dole Act as a success in promoting technology transfer from universities to companies for commercial development, both patent law scholars and research scientists have raised serious questions about the long-term impact of universities' patenting practice.<sup>40</sup> Universities' patents are mostly derived from basic research and tend to be upstream of product development.<sup>41</sup> Such patents, if enforceable, are po-

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33. The stated policy objective of the Bayh-Dole Act is "to use the patent system to promote the utilization of inventions arising from federally supported research or development . . ." 35 U.S.C. § 200.

34. The Council on Governmental Relations, University Technology Transfer, Questions and Answers, No. 1, at <http://206.151.87.59/docs/BayhDoleQA.htm> (Nov. 30, 1993) [hereinafter Questions & Answers].

35. Technology Assessment and Forecast (TAF) Branch, U.S. Patent and Trademark Office, U.S. Colleges and Universities—Utility Patent Grants, Calendar Years 1969-2000, at [http://www.uspto.gov/web/offices/ac/ido/oeip/taf/univ/asgn/table\\_1.htm](http://www.uspto.gov/web/offices/ac/ido/oeip/taf/univ/asgn/table_1.htm) (last modified May 14, 2002).

36. See *id.* For statistical purposes, U.S. corporations include both universities and nonuniversities.

37. Eisenberg, *supra* note 5, at 1018.

38. *Id.* Academic institutions that have filed patent infringement lawsuits against large corporations include Baylor College of Medicine, Cornell University, Columbia University, University of Rochester, University of California and the Massachusetts Institute of Technology. *Id.*

39. Questions & Answers, *supra* note 34, No. 13.

40. See, e.g., Rai & Eisenberg, *supra* note 32, at 290-91 (criticizing the Bayh-Dole Act for drawing no distinction between upstream basic research and downstream commercial development and arguing that patenting upstream fundamental technologies will restrict rather than promote utilization of the technologies).

41. See Ted Agres, *The Costs of Commercializing Research*, 17 SCIENTIST 58 (2003) (quoting Nobel Laureate Paul Berg's comment: Bayh-Dole "is likely to damage

tentially of a very broad scope because they also claim downstream future discoveries and seek reach-through royalties based on sales of products ultimately developed using the patented technologies.<sup>42</sup> Another issue is that universities often grant exclusive rather than nonexclusive licenses to companies and investors because of the risk associated with investing in upstream technology.<sup>43</sup> In genetic research, for example, 68% of licenses granted by universities are exclusive, as compared with only 27% by private companies.<sup>44</sup> Thus, because of their broad scope and exclusive licensing, university patents may not only have huge commercial value but also prevent others from developing downstream technologies.<sup>45</sup>

## II. CASE SUMMARY

Dr. John M.J. Madey (“Madey”) sued his former employer, Duke University (“Duke”), in the United States District Court for the Middle District of North Carolina for infringing his patents on research equipment.<sup>46</sup> Duke moved for partial summary judgment, asserting among other defenses the experimental use defense.<sup>47</sup> The district court granted summary judgment in favor of Duke, holding that the experimental use defense applied to the university’s use because Madey had failed to establish that the use had any commercial purpose.<sup>48</sup> On appeal, the Federal Circuit reversed and remanded for further proceedings.<sup>49</sup>

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the health of the scientific enterprise in the long term, notwithstanding the financial benefits in the short term”), available at [http://www.the-scientist.com/yr2003/avg/profl\\_030825.html](http://www.the-scientist.com/yr2003/avg/profl_030825.html) (Aug. 25, 2003); Rai & Eisenberg, *supra* note 32, at 292 (observing that university-owned patents tend to cover fundamental research discoveries and research tools rather than commercial end products).

42. Rai & Eisenberg, *supra* note 32, at 296-97.

43. Walsh et al., *supra* note 26, 309.

44. *Id.* However, only about 15% of university-based inventions are patented. *Id.*

45. In limited circumstances, the Bayh-Dole Act does authorize government funding agencies to withhold title to government-funded inventions or to exercise “march-in rights” to compel licensing of such inventions. 35 U.S.C. §§ 202(a)-(b), 203. However, the administrative procedure is sufficiently cumbersome that agencies such as the National Institute of Health have rarely exercised these oversight rights. *See* Rai & Eisenberg, *supra* note 32, at 293-94.

46. *Madey v. Duke Univ.*, 266 F. Supp. 2d 420, 424 (M.D.N.C. 2001) [hereinafter *Madey I*].

47. *Id.*

48. *Id.* at 428.

49. *Madey II*, 307 F.3d 1351, 1364 (Fed. Cir. 2002).

## A. Facts

Madey is a renowned scientist and scholar in the field of electromagnetic radiation research.<sup>50</sup> In 1989, while a tenured professor at Stanford University, Duke University recruited Madey to establish a free electron laser laboratory (“FEL lab”) and research program at Duke.<sup>51</sup> At Stanford, Madey had obtained sole ownership of two patents, U.S. Patent No. 4,641,103 (“the ’103 patent”) and U.S. Patent No. 5,130,994 (“the ’994 patent”), covering some of the equipment in his FEL lab, which he moved from Stanford to Duke.<sup>52</sup>

Madey served as the director of the FEL lab at Duke for almost a decade.<sup>53</sup> During that time, Madey’s lab made scientific breakthroughs and Madey helped Duke obtain research funding.<sup>54</sup> In 1997, however, Madey was removed from the director position following a dispute with the university.<sup>55</sup> Subsequently, Madey resigned from Duke, but the university continued to operate some of the patented equipment in the lab.<sup>56</sup> Madey brought suit against Duke alleging, among other things, that Duke had infringed the ’103 and ’994 patents by using three devices at the FEL lab, two of which belonged to Duke.<sup>57</sup>

## B. The District Court’s Ruling

On the basis of the experimental use defense, the district court granted Duke’s motions for partial summary judgment on the patent infringement claims concerning the devices belonging to Duke.<sup>58</sup> The court reasoned that the experimental use defense may be asserted in cases where the allegedly infringing use is “for experimental, nonprofit purposes only.”<sup>59</sup> The court found that Madey had failed to establish by a preponderance of the evidence that Duke’s infringing use was not solely for experimental or other nonprofit purposes.<sup>60</sup> Focusing its analysis on Duke’s nonprofit

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50. *Madey I*, 266 F. Supp. 2d at 421.

51. *Madey II*, 307 F.3d at 1352.

52. *Id.* at 1352-53.

53. *Id.* at 1352.

54. *Id.*

55. *Id.* at 1352-53.

56. *Id.* at 1353.

57. *Id.* The third device belonged to a third party, North Carolina Central University. *Id.* At trial, the district court did not find infringement on the third party’s device because Madey had consented to its manufacture and use, and Madey did not appeal this issue. *Id.* at 1357.

58. *Madey I*, 266 F. Supp. 2d 420, 424-28 (M.D.N.C. 2001).

59. *Id.* at 425.

60. *Id.* at 426.

status, the court concluded that Madey was merely speculating that Duke intended to use the devices covered by his patents for commercial benefit and thus failed to create a genuine issue of material fact.<sup>61</sup>

### C. The Federal Circuit's Ruling

The Federal Circuit reversed the district court's decision on the experimental use defense on three grounds. First, the Federal Circuit found that the lower court had improperly shifted the burden onto Madey to prove that Duke's use of his patented equipment was not experimental.<sup>62</sup> Agreeing with Madey, the Federal Circuit held that the experimental use defense must be established by the defendant.<sup>63</sup>

Second, the Federal Circuit held that the district court's conception of the experimental use defense was "overly broad" and inconsistent with the Federal Circuit's binding precedent.<sup>64</sup> According to the Federal Circuit, the experimental use defense is "very narrow and strictly limited."<sup>65</sup> Reiterating its holdings in *Roche* and *Embrex*, the Federal Circuit stated that the experimental use defense is limited to uses "for amusement, to satisfy idle curiosity, or for strictly philosophical inquiry," and that the defense is disqualified as long as a use has any "definite, cognizable, and not insubstantial commercial purposes."<sup>66</sup> Relying on *Pitcairn*, the Federal Circuit also disqualified any conduct from the experimental use defense if the conduct was in keeping with an infringer's legitimate business, "regardless of commercial implications."<sup>67</sup> The court stated that the legitimate business of a research university includes any project designed to "educat[e] and enlighten[] students and faculty," to "increase the status of the institution," or to "lure lucrative research grants, students and faculty."<sup>68</sup>

Third, the Federal Circuit found that the district court had placed too much emphasis on Duke's nonprofit status, and thus failed to consider specific facts that tended to indicate the university's use was in keeping

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61. *Id.* at 426-28. Given the court's ruling on the experimental use issue, Duke's alternative argument that its uses of the Madey patents were covered by a government license was rendered moot. *Id.* at 429.

62. *Madey II*, 307 F.3d at 1361.

63. *Id.* However, the Federal Circuit refused to label the experimental use defense as an affirmative defense which a defendant must either plead or lose. *Id.*

64. *Id.* at 1361-62.

65. *Id.* at 1361.

66. *Id.* at 1362 (quoting *Roche Prods., Inc. v. Bolar Pharm. Co.*, 733 F.2d 858, 863 (Fed. Cir. 1984)).

67. *Id.*

68. *Id.*

with its legitimate business.<sup>69</sup> On remand, the Federal Circuit required the district court to focus instead on Duke's legitimate business and whether or not Duke's experimental use was "solely for amusement, to satisfy idle curiosity, or for strictly philosophical inquiry."<sup>70</sup>

### III. DISCUSSION

#### A. *Madey* Effectively Disqualifies All Research Universities and Nonprofit Research Institutes from the Experimental Use Defense

In *Madey*, the Federal Circuit attempted to clarify the murky boundary of the experimental use defense in the context of academic research. Combining its holdings in *Embrex*,<sup>71</sup> *Roche*,<sup>72</sup> and *Pitcairn*,<sup>73</sup> the court took one step further toward narrowing the already "very narrow" and "strictly limited" experimental use defense.<sup>74</sup> The Federal Circuit stated that, regardless of commercial implications, an allegedly infringing act does not qualify for the experimental use defense so long as the act is: (1) "in furtherance of the alleged infringer's legitimate business;" and (2) "not solely for amusement, to satisfy idle curiosity, or for strictly philosophical inquiry."<sup>75</sup>

These two conditions are both very broad and overlap substantially. Under the Federal Circuit's broad definition of "legitimate business," practically any project conducted by a research university, even one without any commercial implications, would be in keeping with the university's legitimate business interests and hence would not qualify for the ex-

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69. *Id.* The court took notice that Duke, like other research universities, was aggressively pursuing a patent licensing program and deriving a "not insubstantial" revenue stream from the program. *Id.* at 1362 n.7.

70. *Id.* at 1362-63. On remand, the Federal Circuit also allowed the district court to reexamine Duke's alternative defense on government license, which became moot after the district court's ruling on the experimental use defense. *Id.* at 1363-64.

71. *Embrex, Inc. v. Serv. Eng'g Corp.*, 216 F.3d 1343, 1349 (Fed. Cir. 2000) (holding that the experimental use defense is limited to use "for amusement, to satisfy idle curiosity, or for strictly philosophical inquiry").

72. *Roche Prods., Inc. v. Bolar Pharm. Co.*, 733 F.2d 858, 863 (Fed. Cir. 1984) (holding that the experimental use defense does not apply to use that has "definite, cognizable, and not insubstantial commercial purposes," but in the "guise of scientific inquiry").

73. *Pitcairn v. United States*, 547 F.2d 1106, 1125-26 (Fed. Cir. 1976) (holding that the experimental use defense is not available for use in keeping with an alleged infringer's legitimate business).

74. *See Madey II*, 307 F.3d at 1362.

75. *Id.*

perimental use defense.<sup>76</sup> Furthermore, projects in universities, especially in areas where patent infringement issues arise, are rarely carried out “solely for amusement, to satisfy idle curiosity, or for strictly philosophical inquiry.” Moreover, those “solely for amusement” or “solely . . . to satisfy idle curiosity” generally do not fit into the legitimate business of research universities. A university typically does not design projects *solely* for “amusement” or “curiosity” purposes.

The remaining question then is what constitutes conduct “solely . . . for strictly philosophical inquiry.”<sup>77</sup> The term “philosophical” originated in Justice Story’s opinion in *Whitmore v. Cutler*,<sup>78</sup> and “philosophical inquiry” likely means what we call “scientific inquiry” today.<sup>79</sup> While scientific inquiry encompasses a wide variety of research, only research at the most theoretical end of the spectrum is likely carried out for nothing but pure scientific inquiry and be exempt from patent infringement liability. But such research is unlikely to lead to patent disputes. Thus, in *Madey*, the Federal Circuit has in effect put forth a bright-line rule, practically stripping the experimental use defense from all research universities and nonprofit research institutes.

Nonetheless, some have read *Madey* as a call for a case-by-case “detailed analysis” of each infringing experimental use.<sup>80</sup> The confusion mainly stems from the court’s inconsistent statements regarding the two conditions noted above. The experimental use defense appears to be still available so long as one of the two conditions is not satisfied. Thus, for example, if a university’s infringing conduct is deemed “solely for . . . strictly philosophical inquiry,” then it will be exempted even though such conduct furthers the university’s legitimate business. But such a reading of *Madey* would be inconsistent with the Federal Circuit’s language in the same opinion that “[the court’s] precedent does not immunize *any* conduct that is in keeping with the alleged infringer’s legitimate business.”<sup>81</sup> Per-

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76. *See id.* (providing examples of a university’s legitimate business which include educating and enlightening students and faculty, elevating the university’s status, and attracting research grants, students and faculty).

77. Curiously, while providing a detailed explanation for the meaning of “legitimate business,” the Federal Circuit did not elaborate on the definition of “strictly philosophical inquiry.” *See id.*

78. 29 F. Cas. 1120 (C.C.D. Mass. 1813).

79. *See Integra Lifesciences I, Ltd. v. Merck KGaA*, 331 F.3d 860, 878 n.8 (Fed. Cir. 2003) (Newman, J., dissenting).

80. *See* Brief of Amicus Curiae the United States at 13, *Madey II*, 207 F.3d 1351 (Fed. Cir. 2002) (No. 02-1007) (submitted by the Solicitor General at the invitation of the Supreme Court) (quoting Pet. App. 25a).

81. *Madey II*, 307 F.3d at 1362 (emphasis added).

haps the Federal Circuit could have been clearer if it had used the connector “or” between the two conditions rather than “and.” Then, since all research projects of an academic institution are in keeping with the institution’s legitimate business, none will be exempt under the experimental use defense.

### **B. *Madey*’s Implications for Academic Research in Universities and Nonprofit Institutes**

Denying the experimental use defense to universities and nonprofit institutes could have a chilling effect on academic research. A significant portion of university research is basic research that contributes to the general understanding of science but has no direct commercial applications. Under *Madey*, most basic research will not be exempt because it is not pure scientific inquiry; yet it is remote from commercial applications. In order to avoid patent infringement, universities may have to devote resources to perform costly patent searches and engage in licensing negotiations with patent holders. Concurrent fragments of Intellectual Property (IP) rights may lead to bargaining breakdowns.<sup>82</sup> Even without breakdowns, royalty stacking of downstream discoveries through reach-through licenses could significantly increase costs of doing research.<sup>83</sup> Also, patent transactions can slow down research and impede free flow of scientific information.<sup>84</sup>

Despite its potential chilling effect, *Madey* is unlikely to change the way research is carried out in universities today. Even before *Madey* rational forbearance was the norm, and is likely to remain so. Patent infringement is prevalent in universities.<sup>85</sup> Many of universities’ infringing activities could be interpreted to have “definite, cognizable, and not insubstantial commercial purposes” under *Roche*,<sup>86</sup> and yet patent holders have generally tolerated such conduct.<sup>87</sup> A recent survey of biopharmaceutical companies and universities on how research tool patents affect biomedical research reveals that commercial companies are unlikely to sue universities for patent infringement for several reasons.<sup>88</sup> First, experimental use conducted in research universities can benefit the patent holders by in-

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82. Rebecca S. Eisenberg, *Can Patents Deter Innovation? The Anticommons in Biomedical Research*, 280 SCI. 698, 699 (1998).

83. *Id.*

84. *Id.*

85. Walsh et al., *supra* note 7, at 1021.

86. *Roche Prods., Inc. v. Bolar Pharm. Co.*, 733 F.2d 858, 863 (Fed. Cir. 1984).

87. Walsh et al., *supra* note 7, at 1021.

88. *Id.*

creasing the value of the patented technologies.<sup>89</sup> Second, commercial companies hoping to gain access to materials and information from university researchers do not want to lose the goodwill of the research community by upsetting its norms of open access.<sup>90</sup> Third, and more importantly, the small gains from a lawsuit do not justify the high legal costs, the risk of patent invalidation, and the bad publicity from suing a university.<sup>91</sup> Universities are even less likely to sue other universities.<sup>92</sup>

Such "rational forbearance" has been the norm governing the relationship between patent holders and universities. Because the reasons for doing so in the past still exist after *Madey*, patent holders will likely continue to exercise rational forbearance and refrain from suing universities, even for projects with arguably commercial implications. For research projects without commercial implications, the chances of a university being sued are even slimmer, even if the experimental use defense is unavailable.

Some might argue that just as universities' attitude toward licensing copyrighted materials for classroom use has significantly changed since a 1991 decision, *Basic Books, Inc. v. Kinko's Graphics, Corp.*,<sup>93</sup> so will universities' policy regarding in-bound patent licensing for research purposes change after *Madey*. In *Kinko's*, eight publishers sued a commercial photocopy center for copyright infringement because it copied excerpts from books without permission, combined them into course packets, and sold them to college students.<sup>94</sup> In ruling against *Kinko's*, the court reasoned that although the course packets were used for educational purposes, the copy center made the copies for profit and the making of course packets therefore did not constitute fair use.<sup>95</sup> While both *Madey* and *Kinko's* involved IP infringement in academic settings and in both cases the IP rights were enforced, the plaintiffs and defendants in these cases were very different. *Kinko's* involved two commercial entities, namely publishers and a photocopy center, whereas the dispute in *Madey* is between a disgruntled former employee and a university.

The lesson from *Kinko's* was that publishers can better enforce their IP rights indirectly through pursuing commercial photocopy centers rather than suing the direct infringers, namely universities and their faculty and students. Eight years before *Kinko's*, New York University (NYU) was

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89. *Id.*

90. *Id.*

91. *Id.*

92. Walsh et al., *supra* note 26, at 327.

93. 758 F. Supp. 1522 (S.D.N.Y. 1991).

94. *Id.* at 1526.

95. *Id.* at 1530-35.

sued by publishers for copyright infringement when the university engaged in widespread photocopying of copyrighted materials for classroom use without permission.<sup>96</sup> As a condition for settling the suit, NYU pledged to step up its efforts in enforcing a pre-existing classroom photocopying guideline.<sup>97</sup> However, the university's pledge had little effect on its faculty and students; rampant classroom copyright violations continued.<sup>98</sup> It was not until after *Kinko's*, where a commercial copy center was found liable for copyright infringement, that universities started to acquire licenses for classroom photocopying through copy centers.<sup>99</sup> *Kinko's* infringing copying was done for university students, including those of NYU.<sup>100</sup> This time, rather than dragging in the universities as co-defendants, the publishers only sued the copy center. For settlement, *Kinko's* paid the publishers \$1,875,000 and was barred from supplying course packets for 10 years.<sup>101</sup> The settlement appears to have created enough deterrence since commercial copy centers are no longer willing to photocopy for universities without permission from the publishers.<sup>102</sup>

Like the publishers in *Kinko's*, commercial patent holders are likely to avoid suing universities if they can find commercial targets. If a patented research tool is commercialized, the patent holder may indirectly enforce the IP rights by suing the unlicensed commercial suppliers of the tool. For example, Hoffman-La Roche ("Roche") aggressively pursued a commercial reagent supplier, Promega, for infringing Roche's patents on *Taq* polymerase used in polymerase chain reaction ("PCR"), a basic research tool widely used in life science research.<sup>103</sup> Although Roche accused over forty universities and research institutes and over 200 academic researchers of infringing their patents, it did not bring suits against any of these end-users.<sup>104</sup> By suing the reagent supplier, Roche achieved the same result of

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96. ROBERT C. ELLICKSON, ORDER WITHOUT LAW: HOW NEIGHBORS SETTLE DISPUTES 259-60 (1991) (citing Addison-Wesley Publ'g v. N.Y. Univ., No. 82 Civ. 8333, 1983 WL 1134 (S.D.N.Y. May 31, 1983)).

97. *Id.* at 260.

98. *Id.*

99. See *Princeton Univ. Press v. Mich. Document Servs., Inc.*, 99 F.3d 1381, 1384 (6th Cir. 1996).

100. *Kinko's*, 758 F. Supp. at 1526.

101. *Basic Books, Inc. v. Kinko's Graphics Corp.*, No. 89 Civ. 2807 (CBM), 1991 WL 311892, at \*1-2 (S.D.N.Y. Oct. 16, 1991) (awarding the publishers \$510,000 in statutory damages and \$1,365,000 in attorneys' fees and costs); Publishers Weekly, *Kinko's Re-enters Coursepack Market*, Sept. 22, 2003, available at [http://www.publisher-weekly.reviewsnews.com/esecc/Article\\_324109.htm](http://www.publisher-weekly.reviewsnews.com/esecc/Article_324109.htm).

102. See *Princeton Univ. Press*, 99 F.3d at 1384.

103. Mueller, *supra* note 12, at 3.

104. *Id.*

collecting royalties from academic end-users, but without breaking the norms of the research community. For do-it-yourself type of patented inventions, enforcement will be harder because no commercial entities are between patent holders and universities. Nonetheless, except for clinical research using patented diagnostic tests, patent holders have generally left university researchers alone.<sup>105</sup>

*Madey* is the first case where a university was sued for patent infringement, but its fact pattern is highly unusual. *Madey* owned the patent while the vast majority of patents derived from university research are contractually assigned to universities rather than to individual inventors.<sup>106</sup> In the wake of *Madey*, universities may become more wary about relinquishing their IP rights to their employee inventors.

The more typical patent infringement suits from commercial companies have yet to be brought against universities. While some universities and university researchers have received letters of notification of infringement from patent holders, such letters are very rare and the majority of them do not present a real threat.<sup>107</sup> Occasionally, universities have entered patent licenses at the request of patent holders.<sup>108</sup> While some research universities may have taken steps in educating their researchers about respecting other people's IP rights, universities are not likely to go out of their way to search for patents in order to avoid infringement. Until they are seriously threatened by lawsuits, universities have no incentive to police their own researchers.

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105. Walsh et al., *supra* note 26, at 317.

106. However, inventors are entitled to share a part of the patents' licensing profits. For example, the University of California allows 35% of net royalty income to be allocated to inventors for personal use, 15% for inventor's research and 50% to the university for general campus use. Other major research universities use other formulae to distribute royalty income between inventors and the universities. See Office of Technology Transfer, Univ. of Cal., Patent Policy, at <http://www.ucop.edu/ott/patentpolicy/pat-pol.html> (last visited Mar. 16, 2004) (including royalty distribution formula of the University of California and eleven other major research universities).

107. Walsh et al., *supra* note 26, at 317.

108. For example, many universities have taken out a license from DuPont for the cre-lox patent. The license does not require the universities to pay a fee to use the technology, although it does contain reach-through provisions on income generated by the universities through the use of the technology. See Office of Technology Transfer, Univ. of Cal., Memo: Operating Guidance, No. 98-01 (June 30, 1998) (summary of problems with the DuPont Cre-Lox License), at <http://patron.ucop.edu/ottmemos/docs/ott98-01.html>.

### C. A Critique of Arguments for Expanding the Experimental Use Defense

Scholars and judges have advocated a broader experimental use exception to exempt certain socially beneficial infringing activities. For example, Rebecca Eisenberg proposes an exemption for research that could potentially lead to an improvement or a design-around of a patented invention.<sup>109</sup> She recommends a royalty after the fact under certain circumstances to allow the patent holders to receive adequate return on their initial investments.<sup>110</sup> The rationale is that if a competitor is required to pay royalties before the fact, a patent holder may be reluctant to license the rights to a competitor.<sup>111</sup> Under this proposal, most infringing uses in research will be exempt, including many with commercial purposes. Such an outcome, however, cannot be squared with the Federal Circuit's precedent as postulated in *Roche*<sup>112</sup> and *Embrex*.<sup>113</sup>

Allowing the experimental use exception may be justifiable in areas where patent exclusion produces socially harmful results. For example, Heller and Eisenberg argue that an anticommons tragedy could occur either when too many patent holders concurrently own fragments of patent rights in a future product or when too many upstream patent holders stack licenses on top of downstream discoveries.<sup>114</sup> However, there is little empirical evidence to support the anticommons theory.<sup>115</sup> Patent rights of upstream research discoveries rarely stifle downstream research activities. Although marginal projects are sometimes impeded, worthwhile projects are almost never stopped for lack of IP access.<sup>116</sup> University and industry researchers use creative "working solutions" to get around IP barriers.<sup>117</sup> Such solutions include licensing, designing around, going offshore, developing public databases and research tools, challenging in courts, or simply using a patented invention without permission and hoping the patent holders will not notice or bother to sue.<sup>118</sup>

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109. Rebecca S. Eisenberg, *Patents and the Progress of Science: Exclusive Rights and Experimental Use*, 56 U. CHI. L. REV. 1017, 1078 (1989).

110. *Id.*

111. *See id.* at 1082.

112. *See Roche Prods., Inc. v. Bolar Pharm. Co.*, 733 F.2d 858, 863 (Fed. Cir. 1984).

113. *See Embrex, Inc. v. Serv. Eng'g Corp.*, 216 F.3d 1343, 1349 (Fed. Cir. 2000).

114. Eisenberg, *supra* note 82, at 698.

115. *See Walsh et al.*, *supra* note 26, at 297-305.

116. *Id.* at 303-05.

117. *Id.* at 322-36.

118. *Id.*

A problem with expanding the experimental use exemption is determining where to draw a line between exempted and nonexempted research categories. In her dissenting opinion in *Integra*, Judge Newman voiced her discontent with the *Madey* court's sweeping statement on research exemption.<sup>119</sup> Focusing on the so-called "research tools," which can be broadly defined to include any product or method used in the course of research, she made a distinction between "[u]se of an existing tool in one's research" and "study of the tool itself."<sup>120</sup> The former category is intended for studying subject matters outside the technology of the tool, whereas the latter may lead to improvements on that particular technology. She would exempt the latter category but not the former.<sup>121</sup> However, this distinction is not always meaningful in practice, because the use of an existing tool in one's research is often commingled with study of the tool itself; one could be improving the tool while using it to study something else. Moreover, patented inventions involved in both types of research stimulate innovation and thus there is no reason to give protection to one but not the other.<sup>122</sup>

A division of exempted and nonexempted research activities based on commercial implications would not make sense in today's research environment either. With universities' growing role in commercialization, the distinction between pure scientific inquiry and commercially motivated research is smudged. Gone are the days where scientific research was conducted "solely for . . . strictly philosophical inquiry." Without making claims to some practical implications, such as finding a cure for cancer or AIDS, scientists are hard pressed to get funding for their research.<sup>123</sup> Should such claims, however attenuated they are to the ultimate goal disqualify scientists from the experimental use defense?

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119. See *Integra Lifesciences I, Ltd. v. Merck KGaA*, 331 F.3d 860, 878 (Fed. Cir. 2003) (Newman, J., dissenting).

120. *Id.*

121. *Id.*

122. See David L. Parker, *Patent Infringement Exemptions for Life Science Research*, 16 HOUS. J. INT'L L. 615, 634-36 (1994).

123. For example, one of the most important federal funding agencies, the National Science Foundation, evaluates research grant proposals based not only on the intellectual merits but also on the broader impacts of the proposed research activities. One of the five broader impacts of a proposed research project is its benefits to society. Examples of activities that benefit society include projects that have "potential application of research and education results" and those that can be integrated into "broader programs and activities of national interest." Nat'l Sci. Found., Merit Review Broader Impacts Criterion: Representative Activities, at <http://www.nsf.gov/pubs/2002/nsf022/bicexamples.pdf> (last visited Nov. 12, 2003).

A solution is to allow government funding agencies such as the National Institute of Health (NIH) to exempt certain research activities from patent infringement liability. Rai and Eisenberg argue that the funding agencies are in a better position to draw the line than the court because they have more expertise in evaluating a technology and its policy implications as well as an effective means to enforce the policy decision through the funding channel.<sup>124</sup> However, it is difficult even for agencies like the NIH to draw the line beyond providing a broad guideline.<sup>125</sup> As acknowledged a few years ago by Harold Varmus, the then NIH director, the NIH does not know how to measure the effect of the agency's decisions in increasing the productivity of the scientific community.<sup>126</sup> As such, the NIH may not be any better than the courts in drawing the appropriate line between exempt and nonexempt research.

Another solution is a bright-line rule eliminating the experimental use defense for universities. This solution is not unfair to the universities. Universities aggressively enforce their patent rights; as such they too should be subject to liability when they infringe others' patents. Although universities may lose some bargaining power in settlement negotiations, they would in most circumstances still be able to get away with infringing uses because of the patentee's rational forbearance.<sup>127</sup> Furthermore, state universities have an additional layer of protection based on the state sovereign immunity doctrine, even though institutional constraints will likely prevent states from adopting policies that violate IP law.<sup>128</sup>

Furthermore, rather than expanding the experimental use defense, the concern about broad upstream patents is better addressed using other aspects of patent law. Overbroad upstream patents may be rejected or invalidated for lack of utility,<sup>129</sup> novelty,<sup>130</sup> enablement or written description.<sup>131</sup>

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124. Rai & Eisenberg, *supra* note 32, at 310-13.

125. See Principles and Guidelines for Recipients of NIH Research Grants and Contracts on Obtaining and Disseminating Biomedical Research Resources: Final Notice, National Institute of Health, 64 Fed. Reg. 72,090 (Dec. 23, 1999), available at <http://www.autm.net/policy/agreements/finalnih.doc>.

126. Intellectual Property Rights and Research Tools in Molecular Biology: Summary of a Workshop Held at the National Academy of Sciences, Chapter 6: Perspectives from Different Sectors, February 15-16, 1996 (1997), at <http://books.nap.edu/html/property/6.html>.

127. See Walsh et al., *supra* note 7, at 1021.

128. See Peter S. Menell, *Economic Implications of State Sovereign Immunity from Infringement of Federal Intellectual Property Rights*, 33 LOY. L. REV. 1399, 1403 (2000).

129. A more rigorous showing of utility is required to satisfy the prerequisite of patentability under the guidelines recently issued by the U.S. Patent and Trademark Office (USPTO). See Revised Utility Examination Guidelines, 64 Fed. Reg. 71,441 (Pat. & Trademark Off. Dec. 21, 1999).

Reverse doctrine of equivalents could be invoked if a subsequent improvement is truly significant.<sup>132</sup> Reach-through licenses may be limited if they result in patent misuse charges.<sup>133</sup> Licenses may be found unenforceable if a patentee seeks royalties on subject matter not claimed or supported in the patent.<sup>134</sup> As such, broad upstream patents do not justify expanding the experimental use defense.

In addition, expanding the experimental use defense will do more harm than good in promoting innovations. A broad experimental use exception will likely create uncertainty in patent exclusivity which in turn is likely to diminish incentives for investment, especially in the highly risky biopharmaceutical industry. In fact, universities may overall be worse off if the experimental use defense is broadly applied to nonprofit academic research. Many of the universities' own patents could lose exclusivity with respect to other academic researchers and their perceived value in the eyes of investors may therefore be reduced.

#### IV. CONCLUSION

In *Madey*, the Federal Circuit has essentially destroyed any practical meaning to the experimental use defense. The decision has also shattered the long-held myth about research exemption. However, the *Madey* decision is unlikely to have any significant impact on the way universities carry out academic research; nor will it force universities to step up their efforts to avoid patent infringement in the course of their research.

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130. See, e.g., *Hoffman-La Roche, Inc. v. Promega Corp.*, 323 F.3d 1354, 1367-68, 1372 (Fed. Cir. 2003) (finding inequitable conduct because the inventor misrepresented experimental results to the USPTO in order to overcome novelty rejection in light of prior art). However, the Federal Circuit found that the district court had erred in finding inequitable conduct in other incidents. It also vacated the district court's ruling invalidating the Roche patent and remanded for reconsideration as to whether the incidents of inequitable conduct were sufficient to render the patent unenforceable. *Id.* at 1372.

131. See, e.g., *Regents of the Univ. of Cal. v. Eli Lilly & Co.*, 119 F.3d 1559, 1567-68 (Fed. Cir. 1997) (invalidating claims to human insulin where Lilly's patent specification only disclosed the DNA sequence for rat insulin).

132. See, e.g., *Scripps Clinic & Research Found. v. Genentech, Inc.*, 927 F.2d 1565, 1581 (Fed. Cir. 1991) (reversing a summary judgment of infringement because Genentech raised questions of fact material to the infringement issue that Scripps's patent on Factor VIII:C protein, a blood clotting agent, which Scripps obtained through isolating and purifying from the human blood, does not cover Genentech's Factor VIII:C produced by recombinant DNA technology).

133. Gerald J. Flattmann & Jonathan M. Kaplan, *Licensing Research Tool Patents*, 20 NATURE BIOTECHNOLOGY 945, 945-46 (2002).

134. *Id.*

# INTEGRA V. MERCK: LIMITING THE SCOPE OF THE § 271(E)(1) EXCEPTION TO PATENT INFRINGEMENT

By George Fox

Congress enacted 35 U.S.C. § 271(e)(1) as part of the Drug Price Competition and Patent Term Restoration Act of 1984, better known as the Hatch-Waxman Act.<sup>1</sup> One purpose of the Act was to reduce health care costs by providing incentives for drug manufacturers to bring more generic drugs to market.<sup>2</sup> Congress attempted to achieve this goal by providing an expedited Food and Drug Administration (FDA) approval process for generic drugs and by permitting generic drug manufacturers to seek such approval prior to the expiration the drug patents.<sup>3</sup> Section 271(e)(1) is the statute that allows generic drug manufacturers to seek FDA approval prior to patent expiration.<sup>4</sup>

While the applicability of § 271(e)(1) is uncontested within the context of a drug manufacturer seeking FDA approval for a generic drug, courts and commentators have struggled to define its remaining scope.<sup>5</sup> The legislative history of the Hatch-Waxman Act suggests that it should be very narrowly applied.<sup>6</sup> Judicial interpretation, on the other hand, has resulted in a steady expansion in the types of activities that § 271(e)(1) can shel-

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1. Brian Coggio & F. Dominic Cerrito, *The Safe Harbor Provision of the Hatch-Waxman Act: Present Scope, New Possibilities, and International Considerations*, 57 FOOD & DRUG L.J. 161, 161-62 (2002).

2. See H.R. REP. 98-857, pt. 1, at 14-17 (1984), reprinted in 1984 U.S.C.C.A.N. 2647, 2647-50.

3. *Id.*; see also Holly Soehnge, *The Drug Price Competition and Patent Term Restoration Act of 1984: Fine-Tuning the Balance Between the Interests of Pioneer and Generic Drug Manufacturers*, 58 FOOD & DRUG L.J. 51, 58 (2003).

4. See *Eli Lilly & Co. v. Medtronic, Inc.*, 496 U.S. 661, 671 (1990) (noting that section 271(e)(1) “allows competitors, prior to the expiration of a patent, to engage in otherwise infringing activities necessary to obtain regulatory approval”).

5. See, e.g., David Bloch, *If It's Regulated Like a Duck . . . Uncertainties in Implementing the Patent Exceptions of the Drug Price Competition and Patent Term Restoration Act*, 54 FOOD & DRUG L.J. 111, 120-26 (1999); Courtenay Brinckerhoff, *Can the Safe Harbor of 35 U.S.C. § 271(e)(1) Shelter Pioneer Drug Manufacturers?*, 53 FOOD & DRUG L.J. 643, 648-54 (1998); Coggio & Cerrito, *supra* note 1, at 162-69.

6. See H.R. REP. 98-857, pt. 2, at 24-25 (1984), reprinted in 1984 U.S.C.C.A.N. 2647, 2708-09; Coggio & Cerrito, *supra* note 1, at 162.

ter.<sup>7</sup> The recent decision of the Federal Circuit in *Integra Lifesciences I, Inc. v. Merck KGaA*,<sup>8</sup> has the effect of undoing some of this expansion. Essentially overturning the findings of a district court in the Southern District of New York,<sup>9</sup> the Federal Circuit held that research and development activities that concern the identification of new drug candidates for clinical trials are not protected by § 271(e)(1).<sup>10</sup> Regardless of whether this is viewed as a positive or negative development, the strength of the Federal Circuit's decision is undermined by its lack of clarity. Furthermore, some of the language of the opinion leaves open other avenues for future expansion, even though the Federal Circuit was ostensibly trying to rein in § 271(e)(1)'s scope.

This Note takes a critical look at the Federal Circuit's decision, focusing on how it will affect the value of patents in the pharmaceutical industry. The Note begins with a discussion of the Hatch-Waxman Act, its legislative history, and some of the important judicial interpretations of § 271(e)(1). After a brief description of the *Integra* case, this Note discusses problems inherent in the court's statutory construction of § 271(e)(1) and in its distinction between research activities covered by the exemption and those that are not. The Note concludes that the Federal Circuit has reached the desirable result, but that its opinion may contribute to further expansion of the scope of § 271(e)(1) and a decrease in the value of research tool patents.

## I. 35 U.S.C. § 271(E)(1): ANTECEDENTS, LEGISLATIVE HISTORY, AND JUDICIAL INTERPRETATION

Congress enacted § 271(e)(1) to facilitate the entry of generic drugs into the market immediately following the expiration of patent protection for corresponding pioneering drugs. The language of § 271(e)(1), however, is broadly written and does not unambiguously delineate the statute's scope.<sup>11</sup> 35 U.S.C. § 271(e)(1) provides:

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7. Brinckerhoff, *supra* note 5, at 648-54; Coggio & Cerrito, *supra* note 1, at 162-69.

8. 331 F.3d 860 (Fed. Cir. 2003).

9. Bristol-Myers Squibb Co. v. Rhone-Poulenc Rorer, Inc., No. 95 Civ. 8833(RRP), 2001 WL 1512597, at \*4-\*7 (S.D.N.Y. Nov. 28, 2001).

10. *Integra*, 331 F.3d at 867 (holding that "[e]xtending § 271(e)(1) to embrace new drug development activities would ignore its language and context with respect to the 1984 Act in an attempt to exonerate infringing uses only potentially related to information for FDA approval").

11. See *Eli Lilly & Co. v. Medtronic, Inc.*, 496 U.S. 661, 669 (1990) (criticizing the language of § 271(e)(1) as "not plainly comprehensible on anyone's view").

[i]t 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 or veterinary biological products.<sup>12</sup>

Because of this broad language, a proper understanding of § 271(e)(1)'s scope requires knowledge about the structure of the Hatch-Waxman Act and the legislative history behind it.

The Hatch-Waxman Act was motivated by two overriding concerns: (1) the desire to reduce health care costs by encouraging the manufacture and sale of low-price generic drugs; and (2) a desire to protect the profit incentives that encourage innovative pharmaceutical companies to develop pioneering new drugs.<sup>13</sup> These two goals are reflected in the structure of the Act, which consists of two titles.<sup>14</sup> Title I creates an abbreviated new drug application ("ANDA") procedure designed to streamline the FDA approval process for generic versions of pioneering drugs.<sup>15</sup> As it exists today, the ANDA procedure allows a generic drug manufacturer to avoid the time and expense associated with a new drug application ("NDA")<sup>16</sup>

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12. 35 U.S.C. § 271(e)(1) (2000).

13. The Drug Price Competition and Patent Term Restoration Act of 1984, Pub. L. No. 98-417, 98 Stat. 1585 (codified in scattered sections of 35 U.S.C.).

14. H.R. REP. 98-857, pt. 1, at 16-18 (1984), *reprinted in* 1984 U.S.C.C.A.N. 2647, 2649-51.

15. *Id.* Prior to enactment of the Hatch-Waxman Act, an ANDA process already existed for obtaining FDA approval of generic versions of pre-1963 FDA approved pioneering drugs. The Hatch-Waxman extended the ANDA process to the approval of generic versions of pioneering drugs approved by the FDA after 1962. Soehnge, *supra* note 3, at 53-54.

16. The FDA approval process for new drugs involves three clinical trial phases and a period of FDA review. The three clinical trial phases take an average of six years to complete and involve testing a candidate drug on at least 1000 human subjects. The FDA review period takes an additional two and a half years. During the mid-90s, the cost of obtaining FDA approval for a single new drug was between \$200 and \$500 million. Prior to the enactment of the Hatch-Waxman Act, generic drug manufacturers seeking approval for a generic drug (corresponding to a new drug approved by the FDA after 1962) were required to satisfy the requirements as a new drug applicant. Thus, the cost of approval was a major barrier to the entry of generic drugs into the market. *See generally* Diane Furman, *Pharmaceutical and Biotechnology Licensing and the Patent/Regulatory Background*, 514 PRACTICING L. INST., PAT., COPYRIGHT, TRADEMARKS, AND LITERARY PROP. COURSE HANDBOOK SERIES 7 (1998); Jaclyn Miller, *Drug Price Competition and Patent Term Restoration Act: The Elimination of Competition Between Drug Manufacturers*, 5 DEPAUL J. HEALTH CARE L. 91, 92-98 (2002); Brian Urevig, Note, *Hatch-Waxman—*

by submitting data demonstrating that its generic drug is both chemically identical and bioequivalent to a drug that has already received FDA approval.<sup>17</sup>

Title II of the Hatch-Waxman Act, which was designed to mitigate distortions in patent term created by the FDA regulatory process, contains two sections. Section 201 provides a single patent term extension for patents covering new drugs and medical devices that successfully obtain FDA approval.<sup>18</sup> Congress provided the patent term extension to compensate for the decrease in patent term resulting from the time-consuming FDA approval process. The FDA approval process takes, on average, over eight years to complete, and thus substantially decreases the amount of patent life during which pharmaceutical companies and medical device manufacturers can profit from their inventions.<sup>19</sup> Congress reasoned that restoring some of this lost patent life would maintain profit incentives for pioneering drug manufacturers and thereby ensure continued innovation in the pharmaceutical and medical device industries.<sup>20</sup>

Section 202 of Title II, which was codified as § 271(e)(1), counterbalances the benefits that patent term extension provides for pharmaceutical companies. Under § 271(e)(1), manufacturers of generic drugs and medical devices are allowed to use a patented invention prior to the expiration of its patent term, provided that the use is solely for the purpose of obtaining FDA approval.<sup>21</sup> Both sections attempt to remedy distortions in the patent term resulting from the FDA's regulation of drug marketing.<sup>22</sup> The

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*Thoughtful Planning or Just Piling On: A Consideration of the Federal Trade Commission's Proposed Changes*, 4 MINN. INTELL. PROP. REV. 367, 369-73 (2003).

17. Bioequivalence concerns the dosage and rate of absorption of a drug. Two formulations of a drug (e.g., two different pills) will be bioequivalent if, when taken in the prescribed amount, they deliver about the same drug dosage at about the same rate. Urevig, *supra* note 16, at 374 n.49.

18. H.R. REP. 98-857, pt. 2, at 21 (1984), *reprinted in* 1984 U.S.C.C.A.N. 2647, 2705.

19. Miller, *supra* note 16, at 107.

20. H.R. REP. 98-857, pt. 2, at 6, *reprinted in* 1984 U.S.C.C.A.N. at 2690; H.R. REP. 98-857, pt. 1, at 17-18 (1984), *reprinted in* 1984 U.S.C.C.A.N. 2647, 2650-55. The patent term restoration provisions of Title II allow restoration of one-half the time spent testing the product for safety and efficacy and all of the time spent during FDA regulatory review, subject to the constraints that the period of restoration can be reduced if the applicant did not act with due diligence during the regulatory review period and that the amount of post-FDA approval patent term (including the extension) cannot be longer than fourteen years. Miller, *supra* note 16, at 106.

21. See 35 U.S.C. § 271(e)(1) (2000); Coggio & Cerrito, *supra* note 1, at 161-62.

22. *Eli Lilly & Co. v. Medtronic, Inc.*, 496 U.S. 661, 671-73 (1990); Bloch, *supra* note 5, at 111-12.

patent term extension provisions reduce “front end distortion” resulting from the effective loss of patent term that occurs during the FDA approval process. The § 271(e)(1) exemption reduces “back end distortion” resulting from the de facto extension of patent term that would otherwise occur if generic drug manufacturers had to delay seeking FDA approval until after the expiry of the patent covering the pioneering drug.<sup>23</sup>

Unlike the ANDA and the patent term extension provisions of the Hatch-Waxman Act, § 271(e)(1) was not legislation that Congress had been considering for several years. Rather, its inclusion was stimulated by the Federal Circuit’s decision in *Roche v. Bolar*,<sup>24</sup> which issued only a few months prior to the Act’s passage.<sup>25</sup> In *Bolar*, the defendant wanted to market a generic version of Roche’s patented drug flurazepam-hcl.<sup>26</sup> Reasoning that the commercial success of a generic drug is dependent upon how quickly it enters the market after the controlling patent expires, Bolar decided to import a small amount of flurazepam-hcl and initiate the tests required for FDA approval before Roche’s patent expired.<sup>27</sup> Roche sued and the Federal Circuit held that, even though Bolar had no intention of marketing generic flurazepam-hcl until after Roche’s patent expired, the mere use of the drug for business-related purposes established an act of patent infringement.<sup>28</sup> Describing the purpose of § 271(e)(1) with reference to *Bolar*, the House Committee on Energy and Commerce stated:

The purpose of sections § 271(e)(1) and (2) is to establish that experimentation with a patented drug product, when the purpose is to prepare for commercial activity which will begin after a valid patent expires, is not a patent infringement . . . In *Roche Products, Inc. v. Bolar Pharmaceutical Co., Inc.* \_\_\_ F.2d \_\_\_ (Fed. Cir., April 23, 1984), the Court of Appeals for the Federal Circuit held that the experimental use of a drug product prior to the expiration of a patent claiming that drug product constitutes patent infringement, even though the only purpose of the experiments is to seek FDA approval for the commercial sale of the drug after the patent expires. It is the Committee’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

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23. Bloch, *supra* note 5, at 111-12.

24. *Roche Prods., Inc. v. Bolar Pharm. Co., Inc.*, 733 F.2d 858 (Fed. Cir. 1984).

25. H.R. REP. 98-857, pt. 1, at 45-46, *reprinted in* 1984 U.S.C.C.A.N. at 2678-79.

26. 733 F.2d at 860.

27. *Id.*

28. *Id.* at 863, 865.

prevention of such activity would extend the patent owner's commercial exclusivity beyond the patent expiration date.<sup>29</sup>

More to the point, § 271(e)(1) was introduced as having "the net effect of reversing the holding of the court in *Roche Products, Inc. v. Bolar Pharmaceutical Co., Inc.*"<sup>30</sup>

Other aspects of the Hatch-Waxman Act's legislative history also support the idea that § 271(e)(1) was enacted for the limited purpose of reversing *Bolar*. For example, when the Committee on the Judiciary met to consider the bill, Representative Moorhead proposed an amendment to limit the § 271(e)(1) exception to the last year of a patent term extension period.<sup>31</sup> Representative Moorhead's amendment would have restricted the application of § 271(e)(1) to only those patents which received a patent term extension.<sup>32</sup> At the same time, however, the amendment would have prevented generic manufacturers from marketing their generic drugs immediately after patent expiration.<sup>33</sup> This is because it takes an average of two years to receive FDA approval after filing an ANDA.<sup>34</sup> The Committee rejected Congressman Moorhead's amendment for two reasons, stating:

First, the only activity which will be permitted by the bill is a limited amount of testing so that generic manufacturers can establish the bioequivalency of a generic substitute. The patent holder retains the right to exclude others from the major commercial marketplace during the life of the patent. Thus, the nature of the interference with the rights of the patent holder is not substantial. Second, the Committee accepted the public policy rationale of our sister Committee on Energy and Commerce. They reasoned that without section 202 [§ 271(e)(1)] generic manufacturers would be required to engage in these bioequivalency tests after the expiration of the patent. This would result in delays of about two years after the expiration of the patent before a generic could go to market. Thus, the Committee on Energy and Commerce reasoned that section 202 of the bill was essential to implement the policy objective of getting safe and effective

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29. H.R. REP. 98-857, pt. 1, at 45-46, *reprinted in* 1984 U.S.C.C.A.N. at 2678-79.

30. H.R. REP. 98-857, pt. 2, at 27 (1984), *reprinted in* 1984 U.S.C.C.A.N. 2647, 2711.

31. *Id.* at 8, *reprinted in* 1984 U.S.C.C.A.N. at 2692.

32. *See id.*

33. *Id.* at 8-9, 29-30, *reprinted in* 1984 U.S.C.C.A.N. at 2692-93, 2713-14.

34. *See id.* at 8, *reprinted in* 1984 U.S.C.C.A.N. at 2692.

generic substitutes on the market as quickly as possible after the expiration of the patent.<sup>35</sup>

With regard to discerning congressional intent, these statements could hardly be clearer. The “only activity” allowed under § 271(e)(1) is activity taken by “generic manufactures” for the purpose of establishing bio-equivalency—the very same activity that the Federal Circuit found to be infringing in *Bolar*. In addition, when the Committee on Energy and Commerce released its report on the bill, the report included a section entitled “Minority Views of Mr. Bliley” which criticized the loss of patent rights caused by § 271(e)(1).<sup>36</sup> The patent rights that concerned Representative Bliley appear to be limited, however, to only those rights at issue in *Bolar* since his critique discusses no other type of patent rights.<sup>37</sup> Thus, Congressional opponents and proponents alike shared the view that § 271(e)(1) has a limited scope confined the facts and circumstances presented in *Bolar*.

Since the Hatch-Waxman Act passed into law in 1984, many courts have had the opportunity to interpret its scope. Perhaps the most important case is *Eli Lilly & Co. v. Medtronic, Inc.*,<sup>38</sup> a Supreme Court opinion that directly confronts the ambiguity in the scope of § 271(e)(1) and provides a model approach for resolving such issues. In *Medtronic*, the Court held that § 271(e)(1) was applicable to not only pharmaceutical drugs but also to medical devices.<sup>39</sup> In reaching its decision, the Court considered the purpose of the Hatch-Waxman Act—to mitigate the two unintended distortions in patent term length caused by pre-market regulatory approval requirements.<sup>40</sup> The Court reasoned that the patent term extension and the § 271(e)(1) provisions of the Hatch-Waxman Act counterbalance one another and that, since patent term extension is available for medical devices, § 271(e)(1) must also apply to medical devices.<sup>41</sup>

Recent court decisions have relied on *Medtronic* to both limit and expand the scope of § 271(e)(1).<sup>42</sup> In *Infigen, Inc. v. Advanced Cell Technology, Inc.*, for example, a district court found that patent infringement could not be immunized by § 271(e)(1) unless the patent at issue is eligible for

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35. *Id.*

36. H.R. REP. 98-857, pt. 1, at 74-75 (1984), *reprinted in* 1984 U.S.C.C.A.N. 2647, 2684-85.

37. *Id.*

38. 496 U.S. 661 (1990).

39. *Id.* at 664, 679.

40. *Id.* at 669-70.

41. *Id.* at 670-73.

42. *See* Coggio & Cerrito, *supra* note 1, at 167-69.

patent term extension.<sup>43</sup> In contrast, the district court in *Bristol-Myers Squibb Co. v. Rhone-Poulenc Rorer, Inc.*, found that all patents, not just those eligible for patent term extension, are potentially subject to the § 271(e)(1) exception.<sup>44</sup> Some practitioners have expressed concern that the decision of the *Bristol* court, if followed by other courts, could undermine or even eliminate the value of many patents.<sup>45</sup>

## II. THE *INTEGRA* CASE

### A. Factual History

The *Integra* case provided the Federal Circuit with an opportunity to resolve conflicting opinions regarding the scope of § 271(e)(1) and to address concerns about the insufficient protection afforded to research tool patents.<sup>46</sup> The plaintiff, *Integra*, owns a series of patents covering short amino-acid sequences, known as peptides, which include the three amino-acid sequence “RGD,” and methods of using such peptides to regulate cellular adhesion.<sup>47</sup> Modulation of cellular adhesion can induce cellular migration, which is necessary for processes such as wound healing.<sup>48</sup> Al-

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43. 65 F. Supp. 2d 967, 980 (W.D. Wis. 1999). The district court stated that: As *Eli Lilly [ & Co. v. Medtronic, Inc.*, 496 U.S. 661 (1990)] holds, however, § 271(e)(1) is to be read in conjunction with § 156. When that is done, it becomes apparent that § 271(e)(1) applies only to those patents identified in § 156(a)(4) and (5) that, among other things, cover certain specified products (including drug products, see § 156(f)) that were subject to a regulatory review period before their commercial marketing or use.

*Id.*

44. No. 95 Civ. 8833(RPP), 2001 WL 1512597, at \*2 (S.D.N.Y. Nov. 28, 2001). The court found that:

[n]othing in the text of Section 271(e)(1) indicates that Congress intended to restrict the scope of the term “patented invention” to those products covered by Section 156. As the U.S. Supreme Court noted, “The term patented invention in 271(e)(1) is defined to include all inventions, not drug-related inventions alone. . . . *Eli Lilly v. Medtronic*, 496 U.S. 661, 665 (1990).”

*Id.*

45. Coggio & Cerrito, *supra* note 1, at 169-70.

46. See *Integra Lifesciences I, Ltd. v. Merck KGaA*, 331 F.3d 860 (Fed. Cir. 2003).

47. “RGD” refers to a three amino acid peptide having the sequence arginine-glycine-aspartic acid. The patents at issue in the case were US Patent Nos. 4,789,734; 4,879,237; 4,988,621; 5,695,997; and 4,792,525. *Id.* at 862.

48. See R. Rudolph & D. Cheresch, *Cell Adhesion Mechanisms and their Potential Impact on Wound Healing and Tumor Control*, 17(3) CLINICAL PLASTIC SURGERY 457 (1990).

though Integra's predecessor, Telios, believed that the RGD peptides could be used therapeutically to stimulate wound healing, it was never able to develop its patented technology into a drug candidate suitable for clinical trials.<sup>49</sup>

In separate studies, scientists at Scripps Oceanographic Institute ("Scripps") discovered that inhibition of cellular adhesion can suppress angiogenesis, the process of growing new blood vessels.<sup>50</sup> Inhibition of angiogenesis is believed to be a promising cancer therapy because tumor growth is limited by blood supply.<sup>51</sup> In order to identify angiogenesis inhibitors, Merck paid the scientists at Scripps to screen a library of drug candidates for angiogenesis-inhibiting activity.<sup>52</sup> Of the drug candidates provided by Merck, a particularly promising angiogenesis inhibitor emerged—EMD 66203, a cyclic peptide which includes an RGD sequence.<sup>53</sup>

Upon the identification of EMD 66203, Merck entered into an agreement with Scripps to fund studies on the specificity, efficacy, and toxicity of EMD 66203 and several of its derivatives, including EMD 85189 and 121974.<sup>54</sup> The purpose of the agreement was to gather data required by the FDA as part of an Investigatory New Drug ("IND") application.<sup>55</sup> Scripps examined, among other things, the histopathology, toxicology, circulation, diffusion, and half-life of the three peptides in the bloodstreams of mice, as well as the best mode of administering the peptides for optimum therapeutic effect.<sup>56</sup> Based on their results, the Scripps scientists identified EMD 121974 as the best candidate for clinical trials, and Merck filed a corresponding IND application in 1998.<sup>57</sup>

The Merck-Scripps angiogenesis collaboration began in 1994.<sup>58</sup> When Integra learned of the agreement, it offered to license its RGD-peptide pat-

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49. *Integra*, 331 F.3d at 862-63.

50. *Id.* at 863.

51. B.P. Eliceiri & D.A. Cheresh, *Adhesion Events in Angiogenesis*, 13(5) CURRENT OPINIONS IN CELL BIOLOGY 563 (2001).

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

53. *Id.*

54. *Id.*

55. *Id.* In order to enter into human clinical trials with a new and previously unapproved drug, the party seeking approval must first file an IND application. 21 C.F.R. § 312.20(b) (2003). The FDA uses information in the initial IND application to determine whether the new drug is sufficiently safe and effective to justify testing it on human subjects. *Id.* § 312.22(a), (b).

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

57. *Id.* at 863, 874.

58. *Id.* at 863.

ents to Merck.<sup>59</sup> Despite extensive negotiations, a licensing agreement was never reached and Integra ultimately filed suit for patent infringement against Merck and Scripps.<sup>60</sup> Merck responded by claiming that Integra's RGD patents were either limited to linear peptides or entirely invalid, and that its work with Scripps was protected by § 271(e)(1).<sup>61</sup> The jury found that Merck had infringed several of Integra's patents, and the district court concluded that the § 271(e)(1) exemption did not cover the work performed for Merck at Scripps.<sup>62</sup> Based on the finding of infringement, the jury awarded Integra with a reasonable royalty of \$15 million.<sup>63</sup>

## B. The Federal Circuit's Analysis

On appeal, Merck argued that the district court erred in construing the claims of Integra's patents, in interpreting § 271(e)(1), and in refusing to reconsider the damages award.<sup>64</sup> The Federal Circuit affirmed the district court's claim construction.<sup>65</sup> The court reasoned that Integra's claims covered both linear and circular peptides because (1) the claims were not explicitly limited to "linear" peptides, and (2) prior art relating to circular peptides was cited in the patents.<sup>66</sup>

The Federal Circuit also upheld the lower court's decision that § 271(e)(1) did not protect the work that Scripps had performed for Merck.<sup>67</sup> According to the court, the § 271(e)(1) exception to infringement is not broad enough to encompass research and development efforts.<sup>68</sup> In arriving at its decision, the court focused on the language of § 271(e)(1), with particular emphasis on the word "solely" and the phrase "for uses reasonably related to the development and submission of information [for the FDA]."<sup>69</sup> The court first reasoned that the term "solely" placed a significant constraint on the scope of the exemption.<sup>70</sup> Then, to understand

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59. *Id.*

60. *Id.*

61. *Id.*

62. *Id.* at 863-64.

63. *Id.*

64. *Id.* at 864.

65. *Id.* at 868.

66. *Id.*

67. *Id.*

68. *Id.* at 867.

69. *Id.* at 866.

70. *Id.* The emphasis on the term "solely" is interesting because it harkens back to earlier decisions in which the courts narrowly construed the language of § 271(e)(1). *See* Brinkerhoff, *supra* note 5, at 649-50 (discussing how courts have shifted away from their earlier emphasis on the "solely" language towards an emphasis on the "reasonably related" language).

which limited uses are “reasonably related” to developing and submitting information for FDA approval, the court considered the Hatch-Waxman Act’s objective of “facilitat[ing] the immediate entry of safe, effective generic drugs into the marketplace upon expiration of a pioneering drug patent.”<sup>71</sup> Observing that generic drug manufacturers need only perform safety and effectiveness tests on a generic drug and submit the results to the FDA as part of the ANDA process, the court held that uses are “reasonably related” to FDA requirements only if the information generated by the use is considered by the FDA when it evaluates an application for drug approval.<sup>72</sup> As a result, the court concluded that uses which merely identify a compound that is a good candidate for clinical trials fall outside the scope of § 271(e)(1).<sup>73</sup> The court substantiated its decision by noting that the alternative holding—that § 271(e)(1) protects research and development activities that occur prior to clinical trials—would strip the value from research tool patents used in biomedical research.<sup>74</sup>

Finally, the Federal Circuit agreed with Merck that the district court erred by refusing to reconsider the damages award.<sup>75</sup> The court held that the jury award of \$15 million was not supported by substantial evidence, and it remanded the issue to the district court for proceedings to determine what a “reasonable royalty” would be at a time prior to Merck’s first infringement of Integra’s patents.<sup>76</sup>

### C. Judge Newman’s Dissent

In dissent, Judge Newman indicated that she would have overturned the district court’s finding that Merck infringed Integra’s patents.<sup>77</sup> Although Judge Newman agreed with the majority in finding that both linear and cyclic peptides were encompassed by Integra’s patents, she contended that Merck’s research is protected by the long-standing experimental use doctrine.<sup>78</sup> According to Judge Newman, Merck’s research did not simply involve using Integra’s RGD peptides to modulate cellular adhesion.<sup>79</sup> Rather, the research was focused on creating new and improved RGD peptides having pharmaceutically useful properties.<sup>80</sup> She suggested that al-

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71. *Integra*, 331 F.3d at 866-67.

72. *Id.* at 867.

73. *Id.*

74. *Id.*

75. *Id.*

76. *Id.* at 869-72.

77. *Id.* at 872-78 (Newman, J., dissenting).

78. *Id.* at 877 (Newman, J., dissenting).

79. *Id.* (Newman, J., dissenting).

80. *Id.* (Newman, J., dissenting).

lowing this type of experimental use is an essential means for promoting scientific advancement.<sup>81</sup>

### III. DISCUSSION

To fully understand the implications of the Federal Circuit's decision in *Integra*, it is important to understand that the facts of *Integra* differ strikingly from those presented in *Bolar*, the case that inspired Congress to enact § 271(e)(1). In *Bolar*, the defendant sought to obtain FDA approval to market a generic version of flurazepam-hcl, which was Roche's patented, FDA approved, and commercially successful sleeping medication.<sup>82</sup> *Integra*, unlike Roche, never produced an FDA approved drug. Indeed, even though *Integra* had acquired patent protection for RGD peptides and their use in modulating cellular adhesion, *Integra* was never able to develop its patented inventions further.<sup>83</sup> Consequently, Merck was not in the same position as *Bolar*. Merck was trying to develop and market a new drug rather than trying to get FDA approval for a generic drug. This difference is significant for two reasons. First, Merck was not in competition with *Integra* and thus could have licensed *Integra*'s RGD-related patents. In contrast, Roche would never have voluntarily eroded its monopoly position in the flurazepam-hcl market by licensing its patents to *Bolar*.<sup>84</sup> Second, the FDA approval process is much more extensive for new drugs as compared to generic drugs.<sup>85</sup> As a result, any activity that Merck undertook to obtain FDA approval of its RGD-peptide anti-cancer drug was necessarily greater than the activity that a generic drug manufacturer would undertake to bring a generic drug to market. These differences take Merck outside the legislative intent of Congress in enacting § 271(e)(1).

The Federal Circuit, however, did not distinguish Merck as a new drug manufacturer falling outside the ambit of § 271(e)(1). Instead, by ignoring the differences that exist between new drug manufacturers and generic drug manufacturers, the court blurred the distinction between research that should and should not be protected by the § 271(e)(1) exception. The majority adopted the standard that research is "reasonably related" to obtaining FDA approval, and hence protected by § 271(e)(1), if it consists of the

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81. *Id.* (Newman, J., dissenting).

82. *Roche Prods., Inc. v. Bolar Pharm. Co., Inc.*, 733 F.2d 858, 860 (Fed. Cir. 1984).

83. *Integra*, 331 F.3d at 873.

84. *See* discussion *infra* Part IIIB3.

85. Obtaining FDA approval for a new drug takes eight and one-half years on average, while the approval process for a generic drug takes two and one-half years on average. Miller, *supra* note 16, at 104.

type of research in which a generic drug manufacturer would engage.<sup>86</sup> The court then applied the standard to the activities of Merck, a new drug manufacturer, rather than limiting its application to generic drug manufacturers.<sup>87</sup> The majority's treatment of Merck's research activities is confusing because it side-steps the issue of whether § 271(e)(1) should ever be used to protect the activities of new drug manufacturers. The subsequent discussion uses legislative history, policy arguments, and a critique of existing case law to argue that new drug manufacturers should not be protected by § 271(e)(1).

**A. The Federal Circuit Failed To Clearly Distinguish Between Research Exempted by § 271(e)(1) and Exploratory Research**

In describing the work that Scripps performed for Merck as part of their collaboration, the majority suggests that there were two distinct phases: an early phase during which a collection of drugs were screened for the ability to inhibit angiogenesis, and a later phase during which the specificity, efficacy, and toxicity of EMD 66203 and some of its derivatives were analyzed.<sup>88</sup> This distinction is important because there is a credible argument that testing the specificity, efficacy, and toxicity of drug candidates is "reasonably related" to obtaining FDA approval. To satisfy the requirements of an IND application, the party seeking FDA approval will typically provide an extensive array of experimental data that addresses, among other things, the histopathology, toxicology, circulation, diffusion, and half-life of the drug in the bloodstream of laboratory animals.<sup>89</sup> Since the information that Merck and Scripps obtained from the second phase of research was the type that is typically submitted as part of an IND, the second phase of research was, in fact, "reasonably related" to obtaining FDA approval.

The Federal Circuit nonetheless ignored the differences between the two research phases and labeled all of the Scripps-Merck collaborative studies as the "development and identification of new drugs."<sup>90</sup> One reason why the court may have ignored the differences between the two research phases is that the second phase was not exclusively devoted to obtaining information that would go into an IND application. As indicated in the dissent, the second phase of research evaluated not only the specificity, efficacy, and toxicity of EMD 66203, but also the anti-angiogenesis capa-

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86. *Integra*, 331 F.3d at 865-67.

87. *Id.* at 867.

88. *See id.* at 863.

89. 21 C.F.R. § 312.23(a)(8) (2003).

90. *Integra*, 331 F.3d at 865-66.

bilities of a number of compounds derived from EMD 66203.<sup>91</sup> Assuming that the EMD 66203 derivatives were not evaluated for anti-angiogenesis activity during the first phase of research, their evaluation during the second phase necessarily amounted to additional drug candidate identification, which is the type of research that the court clearly found to be outside of the § 271(e)(1) exception.<sup>92</sup>

Although the court may have had good reasons for concluding that the research performed by Scripps was outside the § 271(e)(1) exception, it is unfortunate that the court did not explicitly recognize that the work related to the filing of an IND application had, at the very least, a claim to being reasonably related to obtaining FDA approval. Instead, the court looked toward the legislative intent behind the Hatch-Waxman Act, specifically its emphasis on generic manufacturers, and reasoned that any experimentation outside the requirements of an ANDA application must be beyond the scope of § 271(e)(1).<sup>93</sup> In reaching its decision, the court thus ignored the fact that Merck was seeking regulatory approval of a new drug, not a generic drug, and that the FDA requires new drug manufacturers to provide greater amounts of experimental data prior to regulatory approval. This latter point raises the question of whether a new drug manufacturer could ever be eligible for the § 271(e)(1) exception.<sup>94</sup>

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91. *Id.* at 873-74 (Newman, J., dissenting).

92. *Id.* at 866-67.

93. *Id.*

94. That the Federal Circuit considers new drug manufacturers, like Merck, eligible for the § 271(e)(1) exception is implicit in the *Integra* decision, which states that: "Merck may, nonetheless, escape liability for patent infringement if its uses of the *Integra* inventions falls within the strict limits of § 271(e)(1). To qualify for exemption, Merck must show its activities were 'solely for uses reasonably related to the development and submission of information' to the FDA." *Id.* at 866. On the other hand, it has also been argued that the Federal Circuit's opinion in *Integra* suggests that § 271(e)(1) may be limited to situations involving generic drugs. Nicholas Groombridge & Sheryl Calabro, *Integra Lifesciences v. Merck—Good For Research Or Just Good For Research Tool Patent Owners*, 22 BIOTECHNOLOGY L. REV. 462 (2003). Groombridge and Calabro note that:

The majority opinion in *Integra* does not squarely hold that applicability of § 271(e)(1) is limited to generic drugs to be the case, but it comes very close to doing so. Specifically, the opinion states that "the context of this safe harbor keys its use to facilitating expedited approval of patented pioneer drugs already on the market" and that the proper interpretation of the provision "does not . . . expand the phrase 'reasonably related' to embrace the development of new drugs because those new products will also need FDA approval." Thus, it appears that in the view of the *Integra* majority at least, § 271(e)(1) simply does not apply outside the generic drug context.

*Id.* at 469.

## B. The § 271(e)(1) Exception Was Never Intended To Protect The Activities Of New Drug Manufacturers

### 1. Statutory Construction of § 271(e)(1)

A cursory examination of the language of § 271(e)(1) suggests that the statute protects the activities of both generic and new drug manufacturers. Under § 271(e)(1), it is not an act of infringement “to make, use, or sell a patented invention” for the sole purpose of developing and submitting information under a federal law that regulates the manufacture, use, or sale of drugs.<sup>95</sup> The Supreme Court has held that the term “patented invention” includes *all* inventions, and not just drug-related inventions.<sup>96</sup> The Court reached this conclusion after observing that 35 U.S.C. § 100(a) states: “When used in this title unless the context otherwise indicates . . . [t]he term ‘invention’ means invention or discovery.”<sup>97</sup> Based on this broad, all-encompassing statutory construction, the conclusion naturally follows that § 271(e)(1) covers pharmaceutical inventions that do not lead to an FDA approved drug, so long as the invention is being used to “develop and submit information” for FDA approval. As such, a new drug manufacturer’s efforts to develop drugs based on preexisting, patented technology theoretically fall within the scope of § 271(e)(1).

Nevertheless, the term “patented invention” may take on new meaning in the context of § 271(e)(1).<sup>98</sup> In *Medtronic*, the Supreme Court acknowledged that the plain meaning of § 271(e)(1) remained ambiguous, even though it interpreted the phrase “patented invention” to include all inventions.<sup>99</sup> To better define the scope of the statute, the Court turned to the structure and text of the Hatch-Waxman Act.<sup>100</sup> Observing that the Act was designed to address two off-setting distortions in patent term, the Court endorsed an interpretation of § 271(e)(1) that creates a “perfect product fit” between the patent term extension provisions and the § 271(e)(1) provisions of the Act.<sup>101</sup> According to the Court:

All of the products eligible for a patent term extension were subject to [§ 271(e)(1)], since all of them—medical devices, food

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95. 35 U.S.C. § 271(e)(1) (2000).

96. *Eli Lilly & Co. v. Medtronic, Inc.*, 496 U.S. 661, 665 (1990).

97. *Id.*

98. *Cf.* 35 U.S.C. § 100(a) (stating that “[w]hen used in this title *unless the context otherwise indicates* . . . [t]he term ‘invention’ means invention or discovery”) (emphasis added).

99. 496 U.S. at 669.

100. *Id.*

101. *Id.* at 669-74.

additives, color additives, new drugs, antibiotic drugs, and human biological products—are subject to premarket regulatory approval under various provisions of the FDCA [Food, Drug, and Cosmetic Act]. . . . And the products subject to premarket approval under the FDCA . . . that are not made eligible for a patent term extension under § 201—new animal drugs and veterinary biological products—are excluded from [§ 271(e)(1)] as well.<sup>102</sup>

The Court recognized, however, that there might be “relatively rare” situations in which a patentee would benefit from the patent term extension provisions of the Hatch-Waxman Act without being subjected to the § 271(e)(1) exception, and vice versa.<sup>103</sup> But the Court stated that, absent a good reason, it could not readily imagine such situations.<sup>104</sup>

Despite the Supreme Court’s endorsement of the “perfect product fit” interpretation of the patent term extension and § 271(e)(1) exception provisions of the Hatch-Waxman Act, other courts have held otherwise.<sup>105</sup> In *Abtox, Inc. v. Exitron Corp.*, for example, the Federal Circuit held that patented class II medical devices, which are not eligible for patent term extension, are nonetheless subject to the § 271(e)(1) exception.<sup>106</sup> The *Abtox* court reasoned that the Supreme Court’s decision in *Medtronic* was based on two somewhat conflicting lines of reasoning: first, that the term “patented invention” encompasses all inventions; and second, that § 271(e)(1) and the patent term extension provisions of the Hatch-Waxman Act are ideally applicable to the same sets of inventions.<sup>107</sup> Because the Supreme Court acknowledged that there might be cases in which only one of the provisions applied, however, the *Abtox* court concluded that the critical holding in *Medtronic* was that the term “patented invention” encompasses all inventions.<sup>108</sup> The *Abtox* court went on to state that § 271(e)(1) “does not look to the underlying purposes or attendant

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102. *Id.* at 673-74.

103. *Id.* at 671-72.

104. *Id.* at 672 n.4.

105. See *Abtox, Inc. v. Exitron Corp.*, 122 F.3d 1019 (Fed. Cir. 1997) (Rader, J.); *Chartex Intern. PLC v. M.D. Personal Products Corp.*, 5 F.3d 1505 (Fed. Cir. 1993) (unpublished, Rader, J.); *Bristol-Myers Squibb Co. v. Rhone-Poulenc Rorer, Inc.*, No. 95 Civ. 8833(RPP), 2001 WL 1512597 (S.D.N.Y. Nov. 28, 2001) (citing to the Federal Circuit’s opinions in *Abtox* and *Chartex*).

106. *Abtox*, 122 F.3d at 1027-30. Class III medical devices require FDA approval prior to marketing, and thus are eligible for patent term extension, while Class I and II medical devices do not require FDA approval prior to marketing. *Id.*

107. *Id.* at 1028-29.

108. *Id.* at 1029.

consequences of the activity . . . as long as the use is reasonably related to FDA approval.”<sup>109</sup>

The *Abtox* court’s reading of *Medtronic*, and thus its construction of § 271(e)(1), subverts the Supreme Court’s opinion and is at odds with any reasonable reading of the legislative history of the Hatch-Waxman Act. If the Supreme Court in *Medtronic* had believed that questions about the applicability of § 271(e)(1) could be resolved simply by concluding that the term “patented invention” encompasses all inventions, it would not have devoted most of the opinion to an analysis of the structure of the Act.<sup>110</sup> Furthermore, as discussed above, the clear intent behind the Act was to stimulate the entry of generic drugs into the marketplace while protecting the interests of new drug manufacturers.<sup>111</sup> Protection of the interests of new drug manufacturers was accomplished by providing term extensions for patents that yield FDA approved drugs.<sup>112</sup> Stimulation of the manufacture and sale of generic drugs, on the other hand, was accomplished in part by providing a *limited* exception to patent infringement, thereby allowing generic drug manufacturers to apply for FDA approval prior to the expiration of pioneering drug patents.<sup>113</sup> Many courts and commentators have explicitly recognized that the competing interests of generic drug manufacturers and new drug manufacturers provide the foundation for understanding the Hatch-Waxman Act.<sup>114</sup> By concluding that § 271(e)(1) is applicable to *any* invention that may be used to gather information for submission to the FDA, the *Abtox* court expanded the scope of § 271(e)(1) well beyond the limited exception intended by Congress.

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109. *Id.* at 1030.

110. The Court devoted two sentences in the *Medtronic* opinion to the meaning of the term “patented invention” and over five pages to its analysis of the structure of the Hatch-Waxman Act. See 496 U.S. 661, 665, 669-74 (1990).

111. H.R. REP. 98-857, pt. 1, at 14-18 (1984), *reprinted in* 1984 U.S.C.C.A.N. 2647, 2647-51; H.R. REP. 98-587, pt. 2, at 4-6 (1984), *reprinted in* 1984 U.S.C.C.A.N. 2647, 2688-90.

112. H.R. REP. 98-857, pt. 1, at 14-18, *reprinted in* 1984 U.S.C.C.A.N. at 2647-51; H.R. REP. 98-587, pt. 2, at 4-6, *reprinted in* 1984 U.S.C.C.A.N. at 2688-90.

113. H.R. REP. 98-857, pt. 1, at 14-18, *reprinted in* 1984 U.S.C.C.A.N. at 2647-51; H.R. REP. 98-587, pt. 2, at 4-6, *reprinted in* 1984 U.S.C.C.A.N. at 2688-90.

114. See, e.g., *Allergan, Inc. v. Alcon Labs., Inc.*, 324 F.3d 1322, 1325-26 (Fed. Cir. 2003); *Glaxo, Inc. v. Novopharm, Ltd.*, 110 F.3d 1562, 1568-69 (Fed. Cir. 1997); *Infigen, Inc. v. Advanced Cell Tech., Inc.*, 65 F. Supp. 2d 967, 979-80 (W.D. Wis. 1999); *Intermedics, Inc. v. Ventritex, Inc.*, 775 F. Supp. 1269, 1272-73 (N.D. Cal. 1991); see also Soehnge, *supra* note 3, at 53-59.

2. *Applying § 271(e)(1) to the Activities of New Drug Manufactures Runs Contrary to the Statute's Legislative History*

When a statute is ambiguous, legislative history may be used to guide statutory interpretation.<sup>115</sup> Furthermore, even if the language of a statute is unambiguous, when the "plain meaning" of the text is clearly contrary to Congressional intent, a court may interpret the statute in light of the legislative history.<sup>116</sup> The Supreme Court observed that § 271(e)(1) is ambiguously worded, thus providing a justification for using the legislative history of the Hatch-Waxman Act to interpret § 271(e)(1).<sup>117</sup> A construction of § 271(e)(1) that reads "patented invention" to mean *any* patented invention creates a serious conflict between the statute and Congress' intent for § 271(e)(1) to be a narrow exception having "the net effect of reversing the holding of the court in *Roche Products, Inc. v. Bolar Pharmaceutical Co., Inc.*"<sup>118</sup>

At least one court has tried to argue that the legislative history of the Hatch-Waxman Act supports a broad reading of § 271(e)(1). According to the court in *Bristol-Myers*, the House report's statement that § 271(e)(1) allows only "a limited amount of testing so that generic manufacturers can establish the bioequivalency of a generic substitute" is contradicted by other statements in the legislative history, and is thus insufficient to outweigh the "plain language" of the statute.<sup>119</sup> The court's primary basis for this conclusion is the House Committee's rejection of Representative Moorhead's proposed amendment limiting the applicability of § 271(e)(1) to the last year of a patent term extension period.<sup>120</sup> The *Bristol-Myers* court reasoned that the rejection supports a broad reading of § 271(e)(1) because Congress knew about the broad language of the statute, but nevertheless chose not to amend it.<sup>121</sup> This conclusion, however, is unwarranted. One of the two reasons that the House Committee on the Judiciary provided for rejecting the Moorhead amendment was that the FDA approval

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115. *Wis. Pub. Intervenor v. Mortier*, 501 U.S. 597, 610 n.4 (1991); *Blanchard v. Bergeron*, 489 U.S. 87 (1989); *Train v. Colo. Pub. Interest Research Group, Inc.*, 426 U.S. 1, 10 (1976).

116. *Garcia v. United States*, 469 U.S. 70, 75 (1984) (holding that the plain meaning of a statute can be limited by legislative history, albeit only upon "the most extraordinary showing of contrary intentions").

117. *Eli Lilly & Co. v. Medtronic, Inc.*, 496 U.S. 661, 679 (1990).

118. H.R. REP. 98-857, pt. 2, at 27, *reprinted in* 1984 U.S.C.C.A.N. at 2711.

119. *Bristol-Myers Squibb Co. v. Rhone-Poulenc Rorer, Inc.*, No. 95 Civ. 8833 (RPP), 2001 WL 1512597 at \*3 n.6 (S.D.N.Y. Nov. 28, 2001).

120. *Id.*

121. *Id.*

process for generic drugs takes about two years.<sup>122</sup> Consequently, the proposed amendment could not have satisfied § 271(e)(1)'s explicit goal of getting generic drugs to market *as soon as possible* following patent expiration.<sup>123</sup> Furthermore, Representative Bliley's statements indicate that even those Representatives opposed to § 271(e)(1) believed that its scope did not extend beyond the facts presented in *Bolar*.<sup>124</sup>

The *Bristol-Myers* court's other observations similarly fail to identify statements in the legislative history that contradict the clear indications that § 271(e)(1)'s scope should be construed very narrowly.<sup>125</sup> In addition, the findings of the *Bristol-Myers* court run contrary to the legislative history of § 271(e)(1) as viewed by both the Supreme Court in *Medtronic* and the Federal Circuit in *Integra*.<sup>126</sup>

### 3. *Applying § 271(e)(1) to the Activities of New Drug Manufacturers Undermines the Rationale of the Statute*

To better understand why Congress enacted § 271(e)(1), it is helpful to consider why the problem in *Bolar* arose in the first place. *Bolar* could never have obtained a license to use Roche's patented and highly profitable drug, flurazepam-hcl, because Roche, as a monopolist in the flurazepam-hcl market, could expect to maximize its profits by excluding competitors from the market for as long as possible.<sup>127</sup> Because companies like

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122. H.R. REP. 98-857, pt. 2, at 8-9, *reprinted in* 1984 U.S.C.C.A.N. at 2692-93.

123. *Id.*

124. H.R. REP. 98-857, pt. 1, at 74-75 (1984), *reprinted in* 1984 U.S.C.C.A.N. 2647, 2684-85.

125. *See* *Bristol-Myers Squibb Co. v. Rhone-Poulenc Rorer, Inc.*, No. 95 Civ. 8833 (RPP), 2001 WL 1512597 at \*3 n.6 (S.D.N.Y. Nov. 28, 2001). It seems that the court's dismissal of legislative history in *Bristol-Myers* is motivated primarily by a belief in the "plain language" approach to statutory construction, given that the court's final argument is a citation to Justice Scalia's concurring opinion in *Crosby v. National Foreign Trade Council*, 530 U.S. 363, 390-91 (2000), which argued that the only reliable indicators of Congressional intent are the words of the bill that were voted into law.

126. *See* *Eli Lilly & Co. v. Medtronic, Inc.*, 496 U.S. 661, 669-73 (1990); *Integra Lifesciences I, Ltd. v. Merck KGaA*, 331 F.3d 860, 866-67 (Fed. Cir. 2003).

127. *Cf.* Urevig, *supra* note 16, at 377-78 (discussing recent antitrust litigation arising from settlement agreements between new drug manufacturers and generic manufacturers in which the pioneering drug manufacturers are willing to pay generic manufacturers to stay out of the market). The antitrust litigation described by Urevig suggests that there is no amount of money that a profit-maximizing generic drug manufacturer could pay a new drug manufacturer in order to license a patented drug for the purpose of seeking FDA approval for a generic version. To provide such a license, a new drug manufacturer would be expected to charge a licensing fee equivalent to its predicted loss in profits caused by giving up a monopoly position and allowing a low-cost competitor into the market immediately following patent expiration. The introduction of a low-price generic drug into

Bolar could neither license patented drugs nor use the drugs for the limited purpose of obtaining FDA approval without infringing the corresponding patents, it was simply impossible for generic drugs to enter the market immediately after patent expiration. Congress correctly reasoned that the only way to achieve the goal of immediate entry was to provide generic drug manufacturers with a limited exemption to patent infringement such as that provided by § 271(e)(1).<sup>128</sup>

The rationale behind Congress' enactment of § 271(e)(1), and its concomitant reversal of *Bolar*, is simply inapplicable in the context of new drug manufacturers like Merck. Integra, having failed to produce an FDA-approved drug based on its RGD-peptide patents, actively sought to license its patents to Merck.<sup>129</sup> Presumably because Merck did not want to pay Integra's asking price, the negotiations broke down.<sup>130</sup> The court's conclusion that Merck's use of Integra's RGD peptides could be protected by § 271(e)(1), provided that the use occurs during clinical trials and is reasonably related to obtaining FDA approval,<sup>131</sup> is thus problematic. The Federal Circuit has, in effect, granted Merck unlimited license to use Integra's patented inventions in clinical trials. But Integra's sole means of profiting from its inventions is through licensing agreements. Unlike Roche, Integra has no pharmaceutical products to sell.<sup>132</sup> The court's ruling thus results in a substantial diminution of patent rights, despite its acknowledgement that the § 271(e)(1) exception was intended to have "only a *de minimis* impact on the patentee's right to exclude."<sup>133</sup> Furthermore, allowing unfettered use of Integra's patented RGD-peptide technology during clinical trials does not advance the goal of the Hatch-Waxman Act,

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the market, however, would result in a loss in manufacturer surplus. Consequently, the generic manufacturer would have to pay all of its profits to the new drug manufacturer plus a sum of money corresponding to the lost surplus. Since the payment covering lost surplus would cause the generic drug manufacturer to lose money, it would not make sense for the generic drug manufacturer to enter into the licensing agreement in the first place. *See also* Burford, 19 BERKELEY TECH. L.J. 365 (2004).

128. *See* H.R. REP. 98-857, pt. 2, at 8-9 (1984), *reprinted in* 1984 U.S.C.C.A.N. 2647, 2692-93.

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

130. *Id.*

131. *See id.* at 866-67. The court held that "Merck may, nonetheless, escape liability for patent infringement if its uses of the Integra inventions fall within the strict limits of § 271(e)(1)" and that "the district court correctly confined the § 271(e)(1) exemption to activity that 'would contribute (relatively directly)' to information the FDA considers in approving a drug." *Id.*

132. *Id.* at 867, 876.

133. *Id.* at 867.

even though it may result in a new drug being brought to market at a reduced cost to Merck.<sup>134</sup>

A second problem with the broad reading of “patented invention” in § 271(e)(1) is that it allows all inventions to be used for the purpose of obtaining FDA approval, even if the inventions, such as research tools, are unrelated to the product being tested for approval. In rendering its opinion in *Integra*, the Federal Circuit stated that “expansion of § 271(e)(1) to include the Scripps Merck activities would effectively vitiate the exclusive rights of patentees owning biotechnology tool patents. After all, patented tools often facilitate general research to identify candidate drugs, as well as downstream safety-related experiments on those new drugs.”<sup>135</sup> Ironically, under the reading of § 271(e)(1) endorsed by the Federal Circuit, methods or tools which can be used to synthesize or evaluate therapeutic drugs during clinical trials no longer have to be licensed during clinical trials.<sup>136</sup> Thus, the Federal Circuit’s holding reduces the value of research tool patents that might be used during clinical trials and decimates the value of research tool patents that are used primarily in the context of clinical trials. Needless to say, the resulting loss of licensing revenue far exceeds the type of *de minimis* infringement that Congress permitted when it enacted § 271(e)(1).

4. *The Experimental Use Exception Does Not Protect Activities that Fall Within the Legitimate Business Interests of an Accused Infringer*

In dissent, Judge Newman argued that Merck’s research and development activities should be protected by the common-law experimental use

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134. See H.R. REP. 98-857, pt. 1, at 14-15 (1984), reprinted in 1984 U.S.C.C.A.N. 2647, 2647-48 (stating that “[t]he purpose of Title I of the bill is to make available more low cost generic drugs by establishing a generic drug approval procedure for pioneer drugs first approved after 1962”). The Report further stated that:

[t]he purpose of Title II of the bill is to create a new incentive for increased expenditures for research and development of certain products which are subject to premarket government approval. The incentive is the restoration of some of the time lost on patent life while the product is awaiting pre-market approval.

*Id.*

135. 331 F.3d at 867.

136. *Id.* at 866 (holding that Merck could escape liability for patent infringement by showing that “its activities were ‘solely for uses reasonably related to the development and submission of information’ to the FDA,” even though Merck had infringed five of *Integra*’s patents, only one of which was directed to RGD peptides). The remaining four patents were directed to methods of using RGD peptides. Compare U.S. Patent No. 4,792,525 with U.S. Patent Nos. 4,789,734; 4,879,237; 4,988,621; and 5,695,997.

exception, if not by § 271(e)(1). Her dissent focused on the interplay between scientific advancement and patent law rather than the more technical issues of statutory construction.<sup>137</sup> The issues raised by Judge Newman are quite important. It may not be desirable for our increasingly technical society to prevent scientists from conducting research in a particular field simply because someone has a broad patent in that area.<sup>138</sup> This is a big concern in the area of biotechnology, in particular, since many biotech patents are directed to pioneering technology not yet sufficiently developed to yield pharmaceutical drug candidates. Consider, for example, the large number of DNA patents, most of which claim poorly characterized genes that are potentially related to one or more diseases.<sup>139</sup> By providing too much protection to early stage inventions, broad patents may have a stifling influence on future research efforts.<sup>140</sup>

Although the issues raised by Judge Newman are important, this application of the common law experimental use exception to Merck's activities runs counter to established law.<sup>141</sup> It is undisputed that Merck's research and development activities were related to its business interests—the development and sales of pharmaceutical drugs.<sup>142</sup> In contrast, the experimental use exception, while arguably applicable to university-based scientific pursuits, was never applied to experimentation that fell within the legitimate business interests of an alleged infringer.<sup>143</sup> Consequently, Merck has no legitimate experimental use claim.<sup>144</sup> Merck's inability to

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137. See *Integra*, 331 F.3d at 872-78 (Newman, J., dissenting).

138. Rebecca Eisenberg, *Patents and the Progress of Science: Exclusive Rights and Experimental Use*, 56 U. CHI. L. REV. 1017 (1989); Janice Mueller, *No "Dilettante Affair": Rethinking the Experimental Use Exception to Patent Infringement for Biomedical Research Tools*, 76 WASH. L. REV. 1 (2001).

139. See, e.g., Julian Borger, *Rush to Patent Genes Stalls Cures for Disease*, GUARDIAN (Dec. 15, 1999), at [www.guardian.co.uk/genes/article/0,2763,191864,00.html](http://www.guardian.co.uk/genes/article/0,2763,191864,00.html).

140. Eisenberg, *supra* note 138, at 1048-65. However one commentator argues that investments can be seen as a scarce resource. See Edmund W. Kitch, *The Nature and Function of the Patent System*, 20 J.L. & ECON. 265, 275-78 (1977) (comparing patents to mining prospects and arguing that because investment in innovation is limited, it can be seen as a scarce resource). Thus, Kitch argues, investment in innovation is limited, so broad patent protection for pioneering inventions increases the overall level of innovation in society by reducing the amount of duplicative investment in innovation. *Id.*

141. See *Pitcairn v. United States*, 547 F.2d 1106, 1125-26 (Ct. Cl. 1976) (holding that experiments that are in line with the alleged infringer's legitimate business interests are not protected by the experimental use defense).

142. See *Integra*, 331 F.3d at 876.

143. *Roche Prods., Inc. v. Bolar Pharm. Co., Inc.*, 733 F.2d 858, 862-63 (Fed. Cir. 1984); *Pitcairn*, 547 F.2d at 1125-26.

144. Merck's attorneys explicitly stated that the experimental use defense was not relevant to the lawsuit. *Integra*, 331 F.3d at 863 n.2.

successfully assert an experimental use defense is desirable because Merck could have licensed Integra's patents and internalized the cost into the price of its marketed pharmaceutical drugs. A holding that Merck's activities are protected by the experimental use doctrine would greatly reduce the value of countless patents that relate to technology still being developed.<sup>145</sup> While it can be argued that such patents inhibit scientific advances, expanding the experimental use exception in the manner advocated by Judge Newman amounts to a dramatic change in existing law—a change that could have far reaching consequences. As such, the re-evaluation and modification of the scope of the experimental use doctrine is a task best left to Congress.

#### IV. CONCLUSION

By holding that § 271(e)(1) does not protect developmental research activities, the Federal Circuit in *Integra* reversed a judicial trend of expanding the statute's scope. Although this is a desirable outcome, the court's reasoning lacks clarity because it made no distinction between research that is required for entry into clinical trials and research that is focused on identifying new drug candidates. The court supposed that activities related to obtaining approval for both generic and new drugs are within the scope of § 271(e)(1), but then used legislative history to justify a standard for activities "reasonably related" to obtaining regulatory approval that had been exclusively targeted towards generic drug manufacturers. While activities that take place during clinical trials are protected by § 271(e)(1), pre-clinical activities mandated by the FDA are not. Furthermore, the court ignored the obvious discrepancy between the focus of § 271(e)(1)'s legislative history on generic drug manufacturers and its application to pioneering drug manufacturers like Merck. Implicit in the opinion is a "plain meaning" approach to statutory construction that fails to match up with the legislative intent behind § 271(e)(1). As a result, the court implies that the scope of § 271(e)(1) will expand in new directions, such as towards the protection of otherwise infringing uses of research tool patents during clinical trials. The court's decision can only hurt the value of research tool patents and early-stage pharmaceutical patents like the ones owned by Integra.

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145. This, in turn, could lead to a decrease in investment in innovation. See Suzanne Scotchmer, *Standing on the Shoulders of Giants: Cumulative Research and the Patent Law*, 5 J. ECON. PERSPS. 29, 30-31 (1991) (arguing that a company's inability to profit from an early stage invention by obtaining patent protection and licensing the patented technology to other companies that can then improve the invention and successfully market it decreases incentives for companies to invest in innovation).

**BERKELEY TECHNOLOGY LAW JOURNAL**

## ADDITIONAL DEVELOPMENTS—PATENT

### *BAYER AG v. HOUSEY PHARMACEUTICALS., INC.*

340 F.3d 1367 (Fed. Cir. 2003)

The Federal Circuit held that the scope of protection provided by 35 U.S.C. § 271(g) is limited to physical products that have been manufactured. The definition includes products not directly made by the patented process and excludes the production of information.

Housey Pharmaceuticals, Inc. (“Housey”) holds a number of process patents useful for screening products for use as drugs. Bayer AG and Bayer Corporation (“Bayer”) sought a declaratory judgment of invalidity, unenforceability, and noninfringement of Housey’s patents. Housey counter-claimed and alleged both direct and contributory infringement of its patents as well as infringement under 35 U.S.C. § 271(g), which prohibits importation of a product made using a process patented in the United States. Bayer filed a motion to dismiss, arguing that § 271(g) only applies to methods of manufacture and does not apply to methods of use. Housey argued that Bayer violated § 271(g) in two ways: 1) by selling an inhibitor or activator of a target protein that Housey’s patent taught and 2) by importing information derived by using the patented process. The district court granted Bayer’s motion to dismiss, holding that § 271(g) applies only to products manufactured using a patented process, and Housey appealed to the Federal Circuit.

The Federal Circuit focused on the meaning of the term “made” in the phrase “a product which is made by a [patented] process” in § 271(g). Housey argued that the information Bayer derived by using the patented process was “made” within the scope of § 271(g). In contrast, Bayer argued that “made” is synonymous with the word “manufactured” and that information is not a manufactured product. The court determined that the plain meaning of “made” was ambiguous and therefore looked to other sources for clarification of the meaning. The court first consulted other sections of the Omnibus Trade and Competitiveness Act of 1988, which was the bill that created § 271(g). The court found that all references in the bill suggested an understanding on the part of Congress that “made” referred to the manufacture of tangible goods. This interpretation was strengthened by two exceptions to § 271(g) that exclude products which have been “materially changed” or have “become trivial and nonessential components.” According to the court, both of these exceptions contemplate the manufacture of tangible products rather than intangibles such as information. After looking to these statutory sources, the court explored the legislative history of § 271(g). The court found that “[e]ach and every reference to the provision that became section 271(g) describes it as directed to manufacturing.” The court noted that if Congress intended § 271(g) to apply to information it should have made that intention explicit.

The court also held that § 271(g) allows infringement actions based on the importation of products manufactured using a patented process, even if the patented process is not used to directly produce the product. *See Bio-Technology Gen. Corp. v. Genentech Inc.*, 80 F.3d 1553, 1561 (Fed. Cir. 1996) (making a protein using a cell line expressing the protein from a plasmid was infringement under § 271(g) when process for making the plasmid was patented). In this case, unlike *Genentech*, the court held that Bayer’s use of Housey’s process to screen compounds was not sufficiently involved in the process of manufacture of the accused product to constitute infringement.

The Federal Circuit affirmed the dismissal of Housey’s claims of infringement.

***ELI LILLY & CO. V. BOARD OF REGENTS OF THE UNIVERSITY OF WASHINGTON***

*334 F.3d 1264 (Fed. Cir. 2003)*

The Federal Circuit ruled that the Board of Patent Appeals and Interferences (“Board”) committed no reversible error in interpreting 37 C.F.R. § 1.601(n). This regulation imparts a “two-way test” for deciding whether two inventions are the same for patent interference purposes. Under the two-way test, the Patent and Trademark Office (PTO) would declare an interference only if competing genus and species claims, regardless of presumptive seniority, anticipated or rendered each other obvious.

Eli Lilly filed a reissue application (No. 09/185,663 or “the ’663 reissue application”) of its U.S. Patent No. 4,775,624 (“the ’624 patent”) and requested an interference proceeding between the reissue application and U.S. Patent No. 5,302,529 (“the ’529 patent”) held by the Regents of the University of Washington. Since the ’624 patent was filed earlier than the ’529 patent, Lilly’s reissue application would have been the senior party of the interference. Lilly’s proposed count for the interference was claim 1 of the ’529 patent, which claimed cDNA coding for a particular amino acid sequence. The Board found that whether claim 1 of the ’529 patent was construed as a genus or as a species, it still did not define the same patentable invention as the claims in the ’663 reissue application. The Board therefore rejected Lilly’s interference request for a lack of interference-in-fact.

Lilly appealed to the Federal Circuit, claiming that the Board wrongly applied a two-way test in determining whether the two inventions were the same or not for interference purposes. Lilly argued that 37 C.F.R. § 1.601(n) only calls for a one-way test. The Federal Circuit disagreed.

The Federal Circuit noted that 35 U.S.C. § 135(a) indicated Congress’ preference that declaration of an interference be left to the discretion of the PTO, and that the Director’s interpretation of PTO regulations was controlling unless it was “plainly erroneous or inconsistent with the regulation.” Focusing on the “same invention” definition of 37 C.F.R. § 1.601(n), the Federal Circuit found that the Board’s two-way test was consistent with the text of § 1.601(n), because it is not conclusively known which of the two inventions in the interference is the prior art, as mentioned in § 1.601(n). When both inventions can be prior art, the test for patentability should be conducted both ways. In addition, the court found that the Board’s two-way test avoided the proliferation of unnecessary, wasteful interference proceedings and concluded that both parties were entitled to patents in situations in which the claimed inventions did not define the same patentable invention, but merely overlapped in scope.

Focusing on the genus-species context, the court noted that case law had firmly established that an earlier species claim prevented a later genus claim, but an earlier disclosure of a genus did not necessarily prevent later patenting of a species. Therefore, in this context, the two-way test was underinclusive (meaning an interference would not be declared when a species was in fact invented before the genus, resulting in the grant of an invalid genus patent), and the one-way test was overinclusive (meaning an interference would be declared when the genus was in fact invented before a species and when both can be patented, resulting in a waste of PTO resources). The court opined that § 1.601(n) could be reasonably interpreted to require an election of either a one-way or a two-way test. The Board’s election of a two-way test was therefore reasonable.

**OMEGA ENGINEERING, INC. v. RAYTEK CORP.***334 F.3d 1314 (Fed. Cir. 2003)*

The Federal Circuit held that “means for causing” (or means-plus-function) claims must be given full ordinary meaning during claim construction and that prosecution history estoppel limits the claimed function, but it may not bar the inventor from claiming the function.

Omega Engineering, Inc. (“Omega”) owns patents on a laser sighting system for infrared thermometers, which are also called radiometers. A radiometer measures an object’s temperature remotely by assessing the amount of infrared radiation emitted from the object. To accurately measure the temperature of a target area, it is important to determine the target area within the radiometer’s optical field of view, or the “energy zone.” Written in means-plus-function format, the asserted claims cover a device using one or more laser beams to outline the energy zone. The accused devices have laser beams directed to the periphery as well as the center of the energy zone. The district court interpreted the phrase “to outline the energy zone” and equivalent phrases in the claims as precluding any laser beam from striking within the energy zone. Based on such a construction, the district court granted summary judgment of noninfringement in favor of defendants. Omega appealed.

The Federal Circuit reversed. The court rejected the district court’s claim construction, holding that the claimed function is to cause at least one laser beam to strike the border of the energy zone and visibly outline it without adding significant heat that would affect the accuracy of the temperature measurement. The Federal Circuit held that the claim language must be given its full ordinary meaning and the patentee’s express disclaimers are the only limits. It further found that district court erred in adding a negative limitation to exclude any laser beam from striking the *interior* of the energy zone, where the explicit claim language and the written description merely requires that the laser beam strike the *periphery* of the zone.

Where the patentee has expressly disavowed a particular meaning to avoid prior art, the doctrine of prosecution history estoppel prevents him from recapturing that meaning through claim interpretation. The Federal Circuit found that to overcome the Examiner’s obviousness rejection, Omega repeatedly insisted that its claimed invention differed from the prior arts by not adding appreciable heat to the energy zone and thus not affecting the accuracy of the temperature measurement. The Federal Circuit ruled such a prosecution disclaimer added a limitation to Omega’s claimed function, but not to the extent that Raytek argued. That is, the court found that Omega did not clearly bar itself from claiming an invention that directs a laser beam into the interior of the energy zone.

Based on its claim construction, the Federal Court found that a reasonable jury could reach a different conclusion as to whether the accused device adds any appreciable heat to the energy zone by directing a laser beam to the center of the zone. Thus, the court reversed the summary judgment of noninfringement.

***SCHERING CORP. V. GENEVA PHARMACEUTICALS, INC.****339 F.3d 1373 (Fed. Cir. 2003)*

The Federal Circuit held that a prior patent on a drug inherently anticipates broad compound claims to the metabolite, which is a compound formed by the human body upon ingestion of the drug.

Schering Corporation ("Schering") owned U.S. Patent No. 4,282,233 ("the '233 patent") on loratadine, which is an antihistamine. Loratadine is the active component of CLARITIN TM, which treats allergic reactions without causing drowsiness. Schering also owned U.S. Patent No. 4,659,716 ("the '716 patent"), which issued six years after the '233 patent. The '716 patent covers a metabolite of loratadine called descarboethoxy-loratadine ("DCL"), which forms naturally in the body after ingesting loratadine. Upon expiration of the '233 patent, numerous pharmaceutical companies sought FDA approval to market generic versions of loratadine, whereupon Schering sued them for infringement of the '716 patent. At issue was the validity of claims 1 and 3 of the '716 patent, which are chemical compound claims to the structural formula of DCL, its fluorine analog, and their salts. The parties agreed to the district court's broad interpretation that claims 1 and 3 cover DCL metabolized by the human body as well as isolated and purified DCL. The district court invalidated both claims since it found that the prior art '233 patent anticipated them.

The Federal Circuit affirmed the district court's holding. The court ruled that a single prior art reference inherently anticipates a claimed invention that is "necessarily present" as a "natural result flowing from" the explicit prior art disclosure. Summary judgment was appropriate because there was "extensive" evidence supporting the district court's finding that consumption of loratadine by humans necessarily and naturally results in the production of the DCL metabolite in the human body. The court acknowledged that inherency had heretofore been needed to supply only a single missing feature of an otherwise express disclosure of claim limitations, and that the '233 patent lacked any explicit description of the later claimed DCL. However, since inherent disclosures place material in the public domain just as much as express disclosures do, the court concluded that a claim is invalid even if its entire subject matter, including all limitations, has been inherently anticipated. The Federal Circuit also ruled that inherent anticipation requires neither actual recognition in the prior art nor that a person of ordinary skill in the art would have recognized the inherent disclosure prior to the critical date of the '716 patent. Based on these considerations, the Federal Circuit concluded that the district court properly granted the defendant's motion for summary judgment.

The Federal Circuit clarified that its decision does not preclude patent protection for chemical products of "known drugs." The court stated that the drafter may claim the purified and isolated metabolite or the method for administering the chemical compound. It found that the '233 patent did not disclose isolation or administration of DCL and therefore claims 5-13 and 14-16 of the '716 patent are valid.

## MOSELEY V. V SECRET CATALOGUE, INC.

By Brian Paul Gearing

In 1995 Congress amended § 43 of the Trademark Act of 1946 (“Lanham Act”)<sup>1</sup> to enact the Federal Trademark Dilution Act (“FTDA”), which provides a remedy for the dilution of famous trademarks.<sup>2</sup> Unlike traditional trademark law, the FTDA is not the result of common law developments or an interest in preventing consumer confusion.<sup>3</sup> The FTDA’s purpose “is to protect famous trademarks from subsequent uses that blur the distinctiveness of the mark or tarnish or disparage it, even in the absence of a likelihood of confusion.”<sup>4</sup> Shortly after the FTDA’s enactment, the federal circuit courts of appeal began to diverge in their interpretation of the FTDA.

In the recent *Victoria’s Secret* decision, the Supreme Court interpreted the FTDA for the first time, resolving a circuit split over whether a plaintiff asserting a dilution claim must prove actual dilution or merely a likelihood of dilution.<sup>5</sup> The Court held that the FTDA requires a showing of *actual dilution*.<sup>6</sup>

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1. The Lanham Act is codified at 15 U.S.C.
  2. See 15 U.S.C. § 1125 (2000).
  3. See generally DAVID S. WELKOWITZ, TRADEMARK DILUTION (2002).
  4. H.R. REP. NO. 104-374, at 2 (1995), reprinted in 1996 U.S.C.C.A.N. 1029, 1029.
  5. *Moseley v. V Secret Catalogue, Inc.*, 537 U.S. 418 (2003) [hereinafter *V Secret III*].
  6. *Id.* at 433. The Court considered the text of 15 U.S.C. § 1125(c)(1), providing: The owner of a famous mark shall be entitled, subject to the principles of equity and upon such terms as the court deems reasonable, to an injunction against another person’s commercial use in commerce of a mark or trade name, if such use begins after the mark has become famous and *causes dilution* of the distinctive quality of the mark, and to obtain such other relief as is provided in this subsection.
- 15 U.S.C. § 1125(c)(1) (emphasis added). Section 1127 defines dilution as:  
The term “dilution” means the lessening of the capacity of a famous mark to identify and distinguish goods or services, regardless of the presence or absence of—
- (1) competition between the owner of the famous mark and other parties, or
  - (2) likelihood of confusion, mistake, or deception.

*Id.* § 1127.

The Court's narrow holding sets a high bar for proof of dilution. The Court suggested that trademark owners may use survey evidence and expert testimony to prove actual dilution and that circumstantial evidence of dilution may suffice when a famous mark and the mark alleged to cause dilution<sup>7</sup> are identical.<sup>8</sup> But where the marks are not identical, the Court gave little guidance as to what evidence from surveys or expert testimony would prove actual dilution.<sup>9</sup> Furthermore, the Court failed to specify the extent of dilution that the trademark owner must prove.<sup>10</sup> Although *Victoria's Secret* and *amici* emphasized the difficulty in obtaining evidence of actual dilution, the Court stated that such difficulties do not allow a plaintiff to escape proof of "an essential element of a statutory violation."<sup>11</sup>

Part I of this Note traces the origin and evolution of trademark dilution law in the United States. Part II examines the history and progression of the *Victoria's Secret* case. Part III critiques the Court's opinion, focusing on statutory interpretation, the possible consequences of the new evidentiary hurdles, and the remaining ambiguities frustrating application of the FTDA. Part IV concludes the Note by considering the Court's decision as merely the first chapter in the FTDA's story.

## I. BACKGROUND

Whereas traditional trademark infringement law protects against consumer confusion, trademark dilution law protects only the "distinctive

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7. In the trademark parlance, the famous mark and the accused mark are referred to as the senior and junior marks, respectively.

8. *V Secret III*, 537 U.S. at 434. While the Court gave no guidance on what this circumstantial evidence may be, the leading treatise on trademarks provides some useful suggestions. See 4 J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 24:94.2 (2003); see also discussion *infra*.

9. *V Secret III*, 537 U.S. at 434. McCarthy provides some guidance with his discussion of expert testimony and dilution surveys. See 4 MCCARTHY, *supra* note 8, § 24:94.2.

10. *V Secret III*, 537 U.S. at 434.

11. *Id.* The Court's view on this issue is in accord with avoiding the judicial presumption of actual economic harm criticized by the Fourth Circuit: "Neither can the [FTDA] be interpreted to require proof of actual economic harm and its effective cause but permit them to be judicially presumed from proof alone of the marks' sufficient similarity." *Ringling Bros.-Barnum & Bailey Combined Shows v. Utah Div. of Travel Dev.*, 170 F.3d 449, 459 (4th Cir. 1999). The Fourth Circuit's opinion conflicted with the Second Circuit's opinion in *Nabisco, Inc. v. PF Brands, Inc.*, 191 F.3d 208 (2d Cir. 1999), where a "likelihood of dilution" standard was approved (the *Nabisco* test).

quality” of a mark.<sup>12</sup> Dilution law, therefore, allows a mark owner to limit uses that erode or “dilute” this distinctive quality.<sup>13</sup>

Many viewed the proposal to enact protection against trademark dilution in 1927 as a radical break from the traditional touchstone of consumer confusion.<sup>14</sup> It took twenty years before Massachusetts enacted the first state anti-dilution law and the Model State Trademark Bill followed in 1964.<sup>15</sup> It was not until 1995, however, that Congress enacted the FTDA.

#### A. Origin of Trademark Dilution in the United States

The language of dilution<sup>16</sup> is found in cases dating back to the early twentieth century in the United States and even earlier in Great Britain.<sup>17</sup> But in the 1927 article, *The Rational Basis of Trademark Protection*, Professor Frank I. Schechter brought the concept of trademark dilution to the attention of courts and legislators.<sup>18</sup> Schechter reasoned that the “preservation of the uniqueness of a trademark should constitute the only rational basis for its protection.”<sup>19</sup> Therefore, trademark law should prohibit the “dilution” of the mark’s uniqueness: the quality from which the trademark derived its hard-earned advertising value and selling power.<sup>20</sup> The Schechter article focused principally on protecting established arbitrary marks that had been “added to rather than withdrawn from the human vocabulary” and identical, infringing marks that diluted the arbitrary mark.<sup>21</sup> Schechter, therefore, advocated the broadest dilution protection for only “coined or fanciful marks,” as opposed to “words or phrases in common

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12. See WELKOWITZ, *supra* note 3, at 4-5.

13. See *id.*

14. See *Ringling Bros.*, 170 F.3d at 454.

15. See generally WELKOWITZ, *supra* note 3.

16. In contrast to traditional infringement law, where consumer confusion is the touchstone, dilution protects the commercial image or goodwill of the trademark. Cases protecting a trademark from the perspective of dilution used such “language of dilution.”

17. For more information on these cases, see generally 4 MCCARTHY, *supra* note 8, §24:67 and the sections that follow, which provide a critical assessment of the dilution doctrine. Other sources include RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 25 (2003) [hereinafter RESTATEMENT (THIRD)] (providing background on the incorporation of the dilution doctrine into state anti-dilution laws); ROBERT P. MERGES ET AL., INTELLECTUAL PROPERTY IN THE NEW TECHNOLOGICAL AGE (3d ed. 2003); WELKOWITZ, *supra* note 3 (tracing the origins and development of trademark dilution law in the United States).

18. Frank I. Schechter, *The Rational Basis of Trademark Protection*, 40 HARV. L. REV. 813 (1927).

19. *Id.* at 831.

20. *Id.* at 832 (borrowing the term “diluted” from a German case).

21. *Id.* at 828-29.

use.”<sup>22</sup> He justified this position because trademark law required that a mark be *uniquely* associated with a particular source to merit broad protection from dilution.<sup>23</sup>

Schechter believed that these arbitrary marks had from their introduction into the market been associated with a particular product, not with a variety of products,<sup>24</sup> and that the marks had created in the public consciousness an impression of the product’s excellence.<sup>25</sup> By “dilution” Schechter did not mean a use that caused consumer confusion, but instead a use that caused the “gradual whittling away or dispersion of the identity and hold upon the public mind of the mark or name by its use upon non-competing goods.”<sup>26</sup>

Schechter’s model was radical. If fully adopted, it would have essentially granted property rights in gross to owners of suitably “unique” marks. This would have made trademark protection similar to copyright or patent protection but without the time limits.<sup>27</sup> However, Schechter’s “radical dilution proposal” received only occasional judicial notice and did not become part of trademark doctrine.<sup>28</sup> It took twenty years for trademark dilution to resurface in the first state anti-dilution statute.<sup>29</sup>

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22. *Id.* at 828.

23. *See id.* at 829. Schechter apparently did not contemplate dilution protection for trade dress. He stated that “[t]he owner of a distinctive mark or name . . . obtains thereby no monopoly of goods or services; these may be freely sold on their own merits and under their own trade symbols.” *Id.* at 833. When Schechter wrote, the concept of protecting product configurations (trade dress protection) was not established. *See WELKOWITZ, supra* note 3, at 7 n.25. However, the FTDA extends protection to famous trade dress and product configurations. *See Sunbeam Prods. v. W. Bend Co.*, 123 F.3d 246 (5th Cir. 1998).

24. This language from the Schechter article appears to indicate that he intended protection from dilution to apply to a class of trademarks that were synonymous with a single product or product class. Some commentators have argued that, in situations where the senior trademark owner uses their famous mark to identify a diversity of products, the owners themselves destroy the uniqueness of their mark and, thus, should lose their rights to a claim under the FTDA. *See Sara Stadler Nelson, The Wages of Ubiquity in Trademark Law*, 88 IOWA L. REV. 731, 734-35 (2003).

25. Schechter, *supra* note 18, at 828-29.

26. *Id.* at 825.

27. *See, e.g.*, Robert N. Klieger, *Trademark Dilution: The Whittling Away of the Rational Basis for Trademark Protection*, 58 U. PITT. L. REV. 789, 802 (1997).

28. *Ringling Bros.-Barnum & Bailey Combined Shows v. Utah Div. of Travel Dev.*, 170 F.3d 449, 454 (4th Cir. 1999) (stating that Schechter’s concept evoked only “occasional favorable judicial notices”).

29. For a history of the futile attempts at passing a federal dilution act in the years preceding the enactment of the first state anti-dilution act, see WELKOWITZ, *supra* note 3, at 11.

## B. State Anti-dilution Statutes

Massachusetts enacted the first state anti-dilution statute in 1947, giving trademark owners a cause of action in state court against trademark dilution.<sup>30</sup> The Massachusetts statute prohibited both injury to a business's reputation ("tarnishment") and dilution of a mark's distinctive quality ("blurring").<sup>31</sup> While the original Massachusetts bill intended to protect only a "coined or peculiar word," the statute did not expressly limit protection to such marks.<sup>32</sup> Early Massachusetts courts interpreted the statute cautiously and reluctantly enforced the statute when the trademark both lacked substantial renown and consisted of fairly common terms.<sup>33</sup>

In the decades preceding the FTDA's passage in 1995, twenty-five states passed similar anti-dilution laws that explicitly allowed claims based on a likelihood of dilution.<sup>34</sup> These state statutes were the only source of dilution law prior to the FTDA.<sup>35</sup> Though these state statutes varied in detail, they typically had four consistent features: (1) defining the class of marks eligible for dilution protection based on their "distinctive quality"; (2) prohibiting both actual dilution and a likelihood of dilution; (3) defining dilution as diminishment of the mark's distinctiveness rather

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30. The Massachusetts statute provided:

Likelihood of injury to business reputation or of dilution of the distinctive quality of a trade name or trade-mark shall be a ground for injunctive relief in cases of trade-mark infringement or unfair competition notwithstanding the absence of competition between the parties or of confusion as to the source of goods or services.

*V Secret III*, 537 U.S. at 430 (quoting 1947 Mass. Acts, ch. 307, 300).

31. *See id.* Under the dilution doctrine, tarnishment occurs when the junior use injures the reputation and goodwill of the famous senior mark, such as when the junior use is associated with poor quality goods or by parody associating the famous mark with sex or drugs. *See WELKOWITZ, supra* note 3, at 111. Blurring occurs when the junior use obscures or mars the identification of the famous senior mark with a particular source. *See id.* at 80 (noting that blurring describes the form of dilution that most closely comports with Schechter's concept of dilution protection).

32. *WELKOWITZ, supra* note 3, at 12.

33. *Id.* (citing Walter J. Derenberg, *The Problem of Trademark Dilution and the Anti-dilution Statutes*, 44 CALIF. L. REV. 439, 453-57 (1956)).

34. *See* RESTATEMENT (THIRD), *supra* note 17, at 2, 8 (listing state anti-dilution statutes and discussing their commonalities). Interestingly, in many cases when the statutes were initially being applied, courts denied dilution claims because the plaintiff had failed to show a likelihood of confusion, notwithstanding the plain language of the statutes eliminating confusion as an element of a dilution cause of action. *See id.*

35. *See WELKOWITZ, supra* note 3, at 17 (discussing in detail the state anti-dilution statutes, which exist in a total of thirty-four states). The FTDA became effective on January 16, 1996. Federal Trademark Dilution Act of 1995, Pub. L. No. 104-98, 105 Stat. 985 (1996) (codified as amended in scattered sections of 15 U.S.C.).

than as harm to a senior mark's economic value; and (4) providing only injunctive relief.<sup>36</sup>

### C. The Model State Trademark Bill

In 1964, the United States Trademark Association added a dilution provision identical to the Massachusetts statute to its Model State Trademark Bill.<sup>37</sup> Like the state statute, the 1964 Model Bill was broadly worded—it neither defined “dilution” nor clarified what gives a mark the distinctive quality necessary for dilution protection.<sup>38</sup> In 1992, the dilution provisions of the 1964 Model Bill were amended to provide substantially more detail.<sup>39</sup> The 1992 provisions protect only famous marks, provide factors to assess fame, define the term dilution, and permit the award of damages for certain willful acts of infringement.<sup>40</sup> However, the 1992 Model Bill still uses the likelihood of injury standard adopted from the state anti-dilution statutes in 1964.<sup>41</sup>

### D. The Federal Trademark Dilution Act

Prior to the FTDA's enactment, dilution doctrine had developed at the state level for almost seventy years, and for most of this time, the cause of action was based on a likelihood of dilution. Against this backdrop, the House and Senate passed the FTDA in 1995 after an unsuccessful attempt to pass federal dilution protection in 1988.<sup>42</sup>

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36. *Ringling Bros.-Barnum & Bailey Combined Shows v. Utah Div. of Travel Dev.*, 170 F.3d 449, 454 (4th Cir. 1999). *See, e.g.*, CAL. BUS. & PROF. CODE § 14330 (West 1987).

37. *See WELKOWITZ, supra* note 3, at 15. The purpose of the Model Bill was to provide a model promoting uniformity and greater certainty concerning trademark rights under state laws. *Id.*

38. *Id.*

39. *Id.* at 16.

40. *Id.*

41. *Id.*

42. *Id.* at 158-59. The House Report on the dilution bill, H.R. 1295, stated that the purpose of the FTDA

is to protect famous trademarks from subsequent uses that blur the distinctiveness of the mark or tarnish or disparage it, even in the absence of a likelihood of confusion. H.R. 1295 does this by amending Section 43 of the Trademark Act of 1946 to add a new subsection (c) to provide protection against another's commercial use of a famous mark which results in dilution of such mark. Presently, the nature and extent of the remedies against trademark dilution varies from state to state and, therefore, can provide unpredictable and inadequate results for the trademark owner. The federal remedy provided in H.R. 1295 against trademark dilution will bring uniformity and consistency to the protec-

The FTDA contains a number of innovations over the previous state anti-dilution statutes. First, it requires that a mark be famous<sup>43</sup> and outlines eight factors to guide the court in determining a mark's fame.<sup>44</sup> Second, it explicitly defines dilution as "the lessening of the capacity of a famous mark to identify and distinguish goods and services."<sup>45</sup> Third, the FTDA lists three specific defenses to a dilution claim: (1) fair use in comparative advertising, (2) noncommercial use, and (3) news reporting and commentary.<sup>46</sup> Fourth, it lacks the language "likelihood of dilution" and instead only proscribes use that "causes dilution."<sup>47</sup> Fifth, it allows for damages in cases of willful violations and, sixth, enables the owner of a famous mark to oppose or cancel registrations.<sup>48</sup>

### E. A Split Between the Circuits: Setting the Stage for *Victoria's Secret*

Shortly after enactment of the FTDA, a conflict arose among the federal circuits over interpretation of the FTDA. This eventually led to the Supreme Court's intervention in *Victoria's Secret* to determine whether the FTDA required (1) proof of actual dilution or (2) proof of a likelihood that dilution would eventually occur.<sup>49</sup> The Fourth and Fifth Circuits held that the statute required a showing of actual dilution: actual economic in-

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tion of famous marks and is also consistent with our international obligations in the trademark area.

H.R. REP. NO. 104-374, at 2-3 (1995), *reprinted in* 1996 U.S.C.C.A.N. 1029, 1029-30.

43. *See* 15 U.S.C. § 1125(c)(1) (2000); WELKOWITZ, *supra* note 3, at 163-64.

44. *See* 15 U.S.C. § 1125(c)(1)(A)-(H).

45. *Id.* § 1127 (definition of "dilution").

46. *Id.* § 1125(c)(4). While any state law patterned after the 1964 Model Bill does not contain these provisions, an analogy to the FTDA provisions may exist under the state laws. *See* L.L. Bean, Inc. v. Drake Publishers, Inc., 811 F.2d 26, 31 (1st Cir. 1987) (holding that the First Amendment required allowance of a fair use defense of parody to state anti-dilution law); WELKOWITZ, *supra* note 3, at 166.

47. 15 U.S.C. § 1125(c)(1).

48. *See id.* § 1125(c)(2). It should be noted that the FTDA does not preempt state anti-dilution law. WELKOWITZ, *supra* note 3, at 164.

49. *See generally* Karen S. Frank & Gail I. Nevius, *Dilution: The Conflict in the Circuits*, PRACTISING L. INST., PLI Order No. G0-0124, Sept. 2002, at 513; Paul Edward Kim, Note, *Preventing Dilution of the Federal Trademark Dilution Act: Why the FTDA Requires Actual Economic Harm*, 150 U. PA. L. REV. 719 (2001) (discussing the circuit split and arguing for an actual economic harm standard); Matthew S. Voss, Note, *Ringling Bros.-Barnum & Bailey Combined Shows, Inc. v. Utah Division of Travel Development & Nabisco, Inc. v. PF Brands, Inc.*, 15 BERKELEY TECH. L.J. 265 (2000) (highlighting the key cases in the split between the Fourth and Second Circuits).

jury to the trademark holder.<sup>50</sup> The Second, Third, Sixth, and Seventh Circuits held that a plaintiff need only show a likelihood of dilution: that the defendant's actions would eventually dilute the trademark.<sup>51</sup>

The Fourth Circuit's analysis in *Ringling Brothers-Barnum & Bailey Combined Shows v. Utah Division of Travel Development* exemplifies the actual harm interpretation.<sup>52</sup> The Fourth Circuit held that under the FTDA a plaintiff must prove actual economic harm.<sup>53</sup> The court reasoned that the near impossibility of proving actual economic harm did not support a judicial presumption of dilution from proof only of the marks' sufficient similarity.<sup>54</sup> The Fourth Circuit suggested that a plaintiff could show actual dilution with evidence of revenue loss or with a skillfully constructed consumer survey.<sup>55</sup>

The Second Circuit, in *Nabisco, Inc. v. PF Brands, Inc.*, rejected the Fourth Circuit's requirement of actual economic harm.<sup>56</sup> According to the Second Circuit, because the FTDA only provides an injunctive remedy, a trademark owner required to prove actual harm would have to wait until after harm occurred before invoking the statute. Although damages would be available if the trademark owner could show that the violation was willful, in most cases the trademark owner would suffer an uncompensated injury.<sup>57</sup> Furthermore, with an actual harm requirement, those desiring to use a new mark would be unable to seek a declaratory judgment before going to market.<sup>58</sup> Thus, they could invest large sums of money to introduce a mark without assurance that the mark would not later be enjoined.<sup>59</sup>

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50. See *Westchester Media v. PRL USA Holdings, Inc.*, 214 F.3d 658 (5th Cir. 2000); *Ringling Bros.-Barnum & Bailey Combined Shows v. Utah Div. of Travel Dev.*, 170 F.3d 449 (4th Cir. 1999).

51. See *V Secret Catalogue, Inc. v. Moseley*, 259 F.3d 464 (6th Cir. 2001) [hereinafter *V Secret II*]; *Eli Lilly & Co. v. Natural Answers, Inc.*, 233 F.3d 456 (7th Cir. 2000); *Times Mirror Mags., Inc. v. Las Vegas Sports News, LLC*, 212 F.3d 157 (3d Cir. 2000); *Nabisco, Inc. v. PF Brands, Inc.*, 191 F.3d 208 (2d Cir. 1999).

52. See *Ringling Bros.*, 170 F.3d at 449-65.

53. *Id.* at 459-61.

54. *Id.* In advocating its interpretation of the FTDA, the court stated: "The difficulties of proving actual dilution by practically available means is evident . . . . It may have lead a few federal courts early on simply to assume, without facing up to the interpretive difficulty of doing so, that the federal Act only requires proof of a 'likelihood of dilution.'" *Id.* at 464.

55. *Id.* at 465.

56. *Nabisco*, 191 F.3d at 224. The Second Circuit stated that the requirement of actual dilution "depends on excessive literalism to defeat the intent of the statute." *Id.*

57. *Id.*

58. *Id.*

59. *Id.*

Based on this reasoning, the Second Circuit adopted a test that used a non-exclusive list of ten factors to establish a likelihood of dilution.<sup>60</sup>

## II. CASE SUMMARY

### A. Facts and Procedural Posture

In February of 1998, Victor and Cathy Moseley advertised the grand opening of their retail store, "Victor's Secret," in Elizabethtown, Kentucky.<sup>61</sup> The advertisement appeared in a weekly publication distributed to residents of the military installation at Fort Knox, Kentucky.<sup>62</sup> An army colonel at Fort Knox saw the advertisement as an attempt to use the "Victoria's Secret" trademark to promote the sale of "unwholesome, tawdry merchandise."<sup>63</sup> He sent a copy of the advertisement to the corporations that own the Victoria's Secret trademark and operate over 750 Victoria's Secret stores, two of which are in nearby Louisville, Kentucky.<sup>64</sup> Victoria's Secret requested that the Moseleys stop using the name "Victor's Secret" and any variations. The Moseleys responded only by changing the name to "Victor's Little Secret."<sup>65</sup> Dissatisfied with this change, Victoria's

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60. *See id.* at 217-24. The ten factor test for blurring considers the following factors:

- (1) The degree of distinctiveness of the senior user's mark;
- (2) The similarity of the marks;
- (3) The proximity of the products and likelihood of bridging the gap;
- (4) The interrelationship among the distinctiveness of the senior mark, the similarity of the junior mark, and the proximity of the products;
- (5) Shared consumer and geographic limitations;
- (6) Sophistication of consumers;
- (7) Actual confusion;
- (8) Adjectival or referential quality of the junior use;
- (9) Harm to the junior user and delay by the senior user; and
- (10) Effect of the senior's prior laxity in protecting the mark.

*Id.* For a commentary on the *Nabisco* factors, see 4 MCCARTHY, *supra* note 8, § 24:94.4.

61. *V Secret III*, 537 U.S. 418, 422 (2003).

62. *Id.* at 423. The advertisement announced the "GRAND OPENING Just in time for Valentine's Day!" and featured "Intimate lingerie for every woman," "Romantic Lighting" and "Adult Novelties/Gifts." *Id.* (emphasis in original).

63. *Id.* Whereas Victoria's Secret primarily marketed "moderately priced, high quality, attractively designed lingerie," *id.* at 422, Victor's Little Secret sold, among other things, novelty action clocks, patches, temporary tattoos, handcuffs, hosiery bubble machines, incense burners, lingerie, pagers, adult video tapes, and adult novelties. *Id.* at 423.

64. *Id.* at 422.

65. *Id.* at 423.

Secret filed an action under the Lanham Act alleging, among other things, dilution of its trademark in violation of the FTDA.<sup>66</sup>

In its dilution claim, Victoria's Secret alleged that the Moseleys' conduct was "likely to blur and erode the distinctiveness" and "tarnish the reputation" of the Victoria's Secret trademark.<sup>67</sup>

## B. The District Court

Because the Moseleys acknowledged the famous status of the Victoria's Secret mark, the only question before the district court was whether using the name Victor's Little Secret diluted the distinctive quality of the Victoria's Secret trademark.<sup>68</sup> The court granted summary judgment to Victoria's Secret on the dilution claim, holding that the two marks were sufficiently similar to cause dilution and that the Victor's Little Secret mark caused dilution through its "tarnishing effect" on the Victoria's Secret mark.<sup>69</sup>

## C. The Sixth Circuit

On appeal, the Court of Appeals for the Sixth Circuit affirmed the dilution claim.<sup>70</sup> In its opinion, the Sixth Circuit considered two additional elements not analyzed by the district court: (1) whether the Victoria's Secret mark was "distinctive" and (2) whether relief could be granted before dilution had actually occurred.<sup>71</sup>

Considering the distinctiveness factor, the court held that the Victoria's Secret trademark was distinctive because the mark "rank[ed] with those that are 'arbitrary and fanciful' and was therefore deserving of a high level of trademark protection."<sup>72</sup> On the second issue of pre-dilution relief, the court determined that the evidence sufficiently established dilution in light of the FTDA's legislative history and the difficulty of proving actual harm.<sup>73</sup> In reaching this decision, the court held that the likelihood

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66. *Id.*

67. *Id.* at 424.

68. *V Secret Catalogue, Inc. v. Moseley*, No. 3:98CV-395-S, 2000 WL 370525, at \*5 (W.D. Ky. Feb. 9, 2000) [hereinafter *V Secret I*].

69. *Id.* at \*5-6.

70. *V Secret II*, 259 F.3d 464 (6th Cir. 2001).

71. *Id.* at 468-71.

72. *Id.* at 470.

73. *Id.* at 475-76. The Sixth Circuit stated:

While no consumer is likely to go to the Moseleys' store expecting to find Victoria's Secret's famed Miracle Bra, consumers who hear the name "Victor's Little Secret" are likely automatically to think of the more famous store and link it to the Moseleys' adult-toy, gag gift, and lingerie shop. This, then, is a classic instance of dilution by tarnishing

of harm standard was sufficient to establish dilution and expressly rejected the Fourth Circuit's requirement of proof of actual harm to the famous mark's economic value.<sup>74</sup> The court concluded that the Second Circuit's *Nabisco* test both "track[ed] the language of the statute and follow[ed] more closely Congress's intent in enacting the FTDA."<sup>75</sup> The court determined that specific language in the House Report revealed a Congressional intent to allow a remedy before dilution had actually caused economic harm.<sup>76</sup>

#### D. The Supreme Court

The Supreme Court reversed the Sixth Circuit's grant of summary judgment on the dilution claim and remanded the case.<sup>77</sup> The Court held (1) that the FTDA "unambiguously requires a showing of actual dilution, rather than a likelihood of dilution" and (2) that Victoria's Secret failed to prove actual dilution of their famous mark absent evidence showing that the mark had lost some capacity to identify and distinguish goods or services sold in their stores or advertised in their catalogues.<sup>78</sup> Justice Kennedy, in concurrence with the Court's reasoning, focused on the famous mark's "capacity" to identify goods and services and concluded that diminishment of this capacity could be shown by the "probable consequences flowing" from the junior use.<sup>79</sup>

##### 1. The Court's Reasoning

The Court discussed the legislative intent behind the FTDA by focusing on the identical language used to describe the bill in both Houses of Congress: "The purpose of [the bill] is to protect famous trademarks from

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(associating the Victoria's Secret name with sex toys and lewd coffee mugs) and by blurring (linking the chain with a single, unauthorized establishment). Given this conclusion, it follows that Victoria's Secret would prevail in a dilution analysis, even without an exhaustive consideration of all ten of the *Nabisco* factors.

*Id.* at 477.

74. *Id.* at 475.

75. *Id.*

76. *Id.* The court focused on the following passage in the House Report: "Confusion leads to immediate injury, while dilution is an infection, which if allowed to spread, will inevitably destroy the advertising value of the mark." *Id.* (quoting H.R. REP. NO. 104-374, at 3 (1995), reprinted in 1996 U.S.C.C.A.N. 1029, 1030).

77. Justice Stevens delivered a decision that was unanimous for all parts except for Part III, which examined the legislative history of the FTDA. See *V Secret III*, 537 U.S. 418, 430-31 (2003). Justice Kennedy filed a concurring opinion. See *id.* at 435 (Kennedy, J., concurring).

78. *Id.* at 432-34.

79. *Id.* at 435-36 (Kennedy, J., concurring).

subsequent uses that blur the distinctiveness of the mark or tarnish or disparage it, even in the absence of a likelihood of confusion.”<sup>80</sup> The Court noted that the bill passed the House unanimously and passed in the Senate without any hearings.<sup>81</sup>

The Court then focused on the contrast between the state anti-dilution statutes and the FTDA to elucidate whether actual harm must be shown for an actionable dilution claim.<sup>82</sup> The Court noted that while the state statutes repeatedly refer to a “likelihood” of harm, the FTDA lacks this language. Instead, the FTDA only provides relief when the diluter’s commercial use of a trademark “causes dilution of the distinctive quality” of the famous mark.<sup>83</sup> The FTDA’s definition of “dilution” also supports an interpretation that the FTDA only protects against actual dilution.<sup>84</sup> Based on this reasoning, the Court concluded that the FTDA’s text unambiguously requires a showing of actual dilution, rather than merely a likelihood of dilution.<sup>85</sup>

The Court stated that its holding does not require that a plaintiff always show actual losses in sales or profits.<sup>86</sup> The Court suggested that proof of actual dilution may be established by survey evidence and expert testimony, and that in instances such as when the junior and senior marks are identical, circumstantial evidence of dilution may suffice.<sup>87</sup>

## 2. Concurring Opinion

In his concurring opinion, Justice Kennedy focused on the word “capacity” in the definition of dilution as the “lessening of the capacity of a famous mark to identify and distinguish goods or services.”<sup>88</sup> Justice Kennedy stated that a court could find dilution based on the *probable conse-*

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80. *Id.* at 431 (quoting H.R. REP. NO. 104-374, at 2, reprinted in 1996 U.S.C.C.A.N. at 1029).

81. *Id.*

82. *Id.* at 432-33.

83. *Id.* at 433 (quoting 15 U.S.C. § 1125(c)(1) (2000)) (emphasis in original).

84. *Id.* The definition of dilution is given in *supra* note 6. The Court stated that the contrast between the initial reference to an actual lessening of the mark’s capacity and the later reference of a “likelihood of . . .” in the second caveat confirms the interpretation that actual dilution must be established. *Id.*

85. *Id.* The Court presumably reached this decision in light of the history of dilution law, the legislative history and intent of the FTDA, and the suggested narrower reading of the FTDA compared to state anti-dilution laws with respect to blurring and tarnishment. However, the Court provided no explicit bearing of these factors upon its interpretation of the statutory language. *See id.*

86. *Id.*

87. *Id.* at 434.

88. *Id.* at 435 (Kennedy, J., concurring) (quoting 15 U.S.C. § 1127).

quences that a competing mark's commercial use would have on a famous mark's capacity to function.<sup>89</sup> In this situation, the word "capacity" "imports into the dilution inquiry both the present and the potential power of the famous mark to identify and distinguish goods," and in some cases the diminishment of this potential power can suffice to prove actual dilution.<sup>90</sup> Therefore, in accord with the rationale for injunctive relief, Justice Kennedy reasoned that requiring proof of actual dilution does not force the holder of a famous mark threatened by diminishment of the mark's capacity "to wait until the damage is done and the distinctiveness of the mark has been eroded."<sup>91</sup>

### III. DISCUSSION

Despite resolving a circuit split over the FTDA's statutory interpretation, the Court reached a result that squarely contradicts the FTDA's purpose. The Court's decision creates many evidentiary hurdles that likely will cripple any dilution claims brought by trademark holders. Furthermore, when viewed within the context of the existing ambiguities surrounding the FTDA, the Court's holding is merely a first step in the interpretation of the federal dilution statute.

#### A. The Court's Holding Contradicts the FTDA's Purpose

The Court's textualist interpretation of "causes dilution" yields a holding which contradicts the FTDA's purpose.<sup>92</sup> Indeed, the FTDA's purpose would be better served by a likelihood of dilution standard. Furthermore, the fifty years of state anti-dilution statutes prior to the FTDA, the Model

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89. *Id.* at 435-36 (emphasis added).

90. *Id.* at 435.

91. *Id.* at 436.

92. Because the Court, following a textualist approach, found the language of the statute to be unambiguous, *see id.* at 433, its analysis did not consider the FTDA's purpose. *See* Brief of Amicus Curiae Intellectual Property Law Professors in Support of Respondents at 2, *V Secret III*, 537 U.S. 418 (2003) (No. 01-1015) [hereinafter Brief of IP Law Professors] (stating that the FTDA can serve its purpose "only if it is interpreted to cover likely dilution as well as proof of actual economic harm"), *available at* 2002 WL 1967938; Brief of American Bar Association as Amicus Curiae Supporting Respondents at 11, *V Secret III*, 537 U.S. 418 (2003) (No. 01-1015) (arguing that the likelihood of dilution standard comports more closely with the FTDA), *available at* 2002 WL 1929517. *See generally* William N. Eskridge & Philip P. Frickey, *Statutory Interpretation as Practical Reasoning*, 42 STAN. L. REV. 321 (1990) (providing a critical assessment of traditional approaches to statutory interpretation and formulating a new approach to statutory interpretation).

State Trademark Bill, and the courts' ability to effectively apply complicated balancing tests<sup>93</sup> all support having a likelihood of dilution standard.

*1. Statutory Interpretation Favors a Likelihood of Dilution Standard*

In interpreting the statutory phrase "causes dilution,"<sup>94</sup> the Court ultimately followed a strict textualist approach<sup>95</sup> and supported this approach by contrasting the FTDA's language with language in state statutes requiring a likelihood of dilution.<sup>96</sup> Although the Court briefly discussed the legislative history behind the FTDA and indicated the legislative intent by reviewing comments in both the House and the Senate,<sup>97</sup> neither the legislative intent nor the federal legislative history explicitly elucidate the meaning of the phrase "causes dilution" in the FTDA.<sup>98</sup> Because the Court adhered to a strict textualist approach, it did not explicitly link the legislative background to its conclusion: neither providing apposite evidence of legislative intent nor using the legislative record to support its interpretation of "causes dilution."<sup>99</sup>

However, the legislative record and statutory language do provide guidance for correctly interpreting this phrase. And the Court's narrow textualist approach failed to consider the context provided by the statutory language as well as what the legislature considered important about dilution law.<sup>100</sup> The FTDA allows a senior user to obtain injunctive relief against a junior use that causes dilution. In essence, the role of injunctive relief is to "prevent future wrong, although no right has yet been violated."<sup>101</sup> But forcing a trademark owner to wait until a provable level of harm has occurred makes the injunctive remedy of the statute futile because it will not remedy the harm suffered prior to winning an injunc-

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93. See, e.g., *AMF Inc. v. Sleekcraft Boats*, 599 F.2d 341 (9th Cir. 1979) (laying out the eight *Sleekcraft* factors for likelihood of confusion in a trademark infringement claim).

94. 15 U.S.C. § 1125(c)(1) (2000).

95. See Eskridge & Frickey, *supra* note 92, at 340-45.

96. *V Secret III*, 537 U.S. at 432-33.

97. See *id.* at 431. The comments, however, only indicate a desire to "protect famous trademarks from subsequent uses that blur the distinctiveness of the mark or tarnish or disparage it, even in the absence of a likelihood of confusion." *Id.* These comments do not shed light on the statutory phrase "causes dilution" in 15 U.S.C. § 1125(c)(1).

98. 15 U.S.C. § 1125(c)(1).

99. See *V Secret III*, 537 U.S. at 432-34.

100. See generally Eskridge & Frickey, *supra* note 92, at 341-42.

101. *V Secret III*, 537 U.S. at 436 (Kennedy, J., concurring) (quoting *Swift & Co. v. United States*, 276 U.S. 311, 326 (1928)).

tion.<sup>102</sup> Furthermore, the provable amount of harm may be far less in comparison to the amount that the senior user continues to endure. Such an unjust result diminishes the dilution protection guaranteed by the FTDA.

Furthermore, while Justice Kennedy's concurrence focuses on the statutory use of the word "capacity,"<sup>103</sup> his analysis achieves a contradictory result. Justice Kennedy states that "[a] holder of a famous mark threatened with diminishment of the mark's capacity to serve its purpose should not be forced to wait until the damage is done and the distinctiveness of the mark has been eroded."<sup>104</sup> But it is unclear whether the *threat* of diminishment would be associated with actual economic harm due to dilution or, instead, more properly associated with a likelihood of such harm. In the latter situation, proof of actual harm remains unsatisfied. Therefore, contrary to Justice Kennedy's assertions, the holder of a famous mark necessarily would be "forced to wait" until at least a provable amount of damage was done and the distinctiveness of the mark had thus been eroded.<sup>105</sup>

On a policy level, Congress designed the FTDA to protect senior mark owners from uses that reduce the distinctiveness of the famous mark (blurring) or disparage it (tarnishment).<sup>106</sup> By adopting a standard of actual dilution, the Court requires these forms of dilution to occur *before* the senior user may seek relief.<sup>107</sup> This result contradicts the legislature's original intent to protect famous marks before blurring and tarnishment.<sup>108</sup> Addi-

102. The harm prior to an injunction likely will never be compensated because, in the absence of willful behavior, the trademark owner may only seek injunctive relief under the FTDA. *See* Brief of IP Law Professors, *supra* note 92, at 5-8.

103. 15 U.S.C. § 1127 (defining dilution as "the lessening of the capacity of a famous mark to identify and distinguish goods or services").

104. *V Secret III*, 537 U.S. at 436 (Kennedy, J., concurring).

105. *See id.*

106. *See* 15 U.S.C. § 1125(c)(1).

107. *See* *Nabisco, Inc. v. PF Brands, Inc.*, 191 F.3d 208, 223-35 (2d Cir. 1999); Brief of IP Law Professors, *supra* note 92, at 5-7.

108. In commenting on this contradiction, Mark A. Lemley and other IP law professors stated:

The fact that a statute is limited to injunctive relief in most cases belies the arguments for the actual dilution standard. Surely Congress didn't intend to require proof of damage and then refuse to compensate it. Such a reading would render the protections of the FTDA hollow indeed. It would also strain the equity powers of the courts.

Brief of IP Law Professors, *supra* note 92, at 7. Not surprisingly, the Moseleys argued exclusively for a plain language interpretation of "causes dilution." *See* Petitioner's Reply Brief on the Merits, *V Secret III*, 537 U.S. 418 (2003) (No. 01-1015), available at 2002 WL 31156489.

tionally, the Court's interpretation forces junior users to incur potentially large costs without judicial assurance that their use will not be later enjoined and their investment wasted.<sup>109</sup>

The canons of statutory interpretation provide a safety valve to avoid results that are absurd or that clearly contradict a statute's purpose.<sup>110</sup> But in *Victoria's Secret*, the Court failed to activate this safety valve and apply these basic canons.

### 2. *State Statutes and the Model State Trademark Bill Require a Likelihood of Dilution Standard*

When Congress passed the FTDA, no court had interpreted a state anti-dilution statute to require proof of actual economic harm.<sup>111</sup> In addition, the Model State Trademark Bill explicitly allowed plaintiffs to show only a likelihood of harm.<sup>112</sup> Within this context of existing dilution law, Congress enacted the FTDA to improve upon the "patch-quilt system of protection" from state anti-dilution laws.<sup>113</sup> A federal dilution statute was necessary to overcome the inconsistent state court decisions and the reluctance of state courts to grant nationwide injunctions when only half of the states had anti-dilution laws.<sup>114</sup>

If the FTDA protects only against actual dilution, then it sharply contrasts with nearly fifty years of state law and the Model State Trademark Bill. It seems unlikely that Congress, striving to bring uniformity and predictability to the protection of famous marks from dilution, would have ignored fifty years of anti-dilution precedent.<sup>115</sup> Therefore, it is unlikely that Congress intended the FTDA to require proof of actual dilution.<sup>116</sup>

### 3. *Courts are Accustomed to Applying Complex Balancing Tests*

The Court's interpretation of the FTDA should have been tempered by additional considerations. In reaching its decision, the Court overlooked the expertise of the lower courts in applying complex balancing tests to

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109. *See Nabisco*, 191 F.3d at 224.

110. *See generally* Eskridge & Frickey, *supra* note 92.

111. *See, e.g.,* WELKOWITZ, *supra* note 3, at 17-21; Klieger, *supra* note 27, at 813-14.

112. *See, e.g.,* WELKOWITZ, *supra* note 3, at 17-18.

113. H.R. REP. NO. 104-374, at 3-4 (1995), *reprinted in* 1996 U.S.C.C.A.N. 1029, 1030-31.

114. *Id.* A federal cause of action also prevented forum shopping.

115. *See* Brief of IP Law Professors, *supra* note 92, at 12.

116. *See id.*

draw logical inferences from other established facts.<sup>117</sup> In fact, given the uncertainties and potential for manipulation inherent in customer surveys<sup>118</sup> as well as the difficulties in measuring actual dilution,<sup>119</sup> an actual dilution standard may render a dilution claim prohibitively difficult to win. Thus, a *Nabisco*-like balancing test<sup>120</sup> would allow for a more viable dilution claim by avoiding the introduction of potentially misleading or manipulated evidence and giving the court the ability to exercise its expertise.

## B. The Court Issued a Resolution Beleaguered by Ambiguity

In reaching its conclusion, the Court failed to resolve ambiguities involving the types of evidence and threshold of harm sufficient to show actual dilution.<sup>121</sup>

### 1. *The Suggested Means of Proof are Not Effective*

The initial question to consider is whether anyone can reliably measure dilution. The FTDA defines dilution as “the lessening of the capacity of a famous mark to identify goods and services.”<sup>122</sup> To show dilution at trial, some commentators advocate using expert testimony and a skillfully constructed consumer survey.<sup>123</sup> But others note the manipulability of these surveys and the possibility that the actual dilution may be vanishingly small.<sup>124</sup>

117. See, e.g., *Nabisco, Inc. v. PF Brands, Inc.*, 191 F.3d 208, 224 (2d Cir. 1999) (applying a ten factor test); *AMF Inc. v. Sleekcraft Boats*, 599 F.2d 341 (9th Cir. 1979) (laying out eight factors for likelihood of confusion in a trademark infringement claim).

118. See discussion *infra*.

119. See discussion *infra*.

120. See *Nabisco*, 191 F.3d at 217-22.

121. Indeed, in *Ringling Brothers*, the Fourth Circuit conceded that the difficulties of proving actual dilution may have led a few federal courts to assume, “without facing up to the interpretive difficulty of doing so,” that the FTDA only requires a “likelihood of dilution.” *Ringling Bros.-Barnum & Bailey Combined Shows v. Utah Div. of Travel Dev.*, 170 F.3d 449, 464 (4th Cir. 1999).

122. 15 U.S.C. § 1127 (2000).

123. See, e.g., 4 MCCARTHY, *supra* note 8, § 24:94.2; Patrick M. Bible, Comment, *Defining and Quantifying Dilution Under the Federal Trademark Dilution Act of 1995: Using Survey Evidence to Show Actual Dilution*, 70 U. COLO. L. REV. 295 (1999); Adam Omar Shanti, Comment, *Measuring Fame: The Use of Empirical Evidence in Dilution Actions*, 5 MARQ. INTELL. PROP. L. REV. 177 (2001).

124. See, e.g., *V Secret II*, 259 F.3d 464, 476 (6th Cir. 2001) (stating that customer surveys to show dilution are “unwieldy at best”); *Nabisco*, 191 F.3d at 223-24. In the Seventh Circuit’s recent opinion *Ty, Inc. v. Softbelly’s, Inc.*, Judge Posner addressed the *Victoria’s Secret* Court’s implication of trial-type evidence to prove actual dilution by stating: “We are not sure what question could be put to consumers that would elicit a meaningful answer either in that case [*V Secret III*] or this one . . . . We are not alone in

Indeed, at the initial stages of dilution, the harm to the famous mark may be immeasurably small.<sup>125</sup> If the harm were immeasurable,<sup>126</sup> then a trademark owner would be unable, under the Court's actual dilution requirement, to win a nationwide injunction against a diluting mark. For example, if multiple junior uses were to occur at different times, then even assuming that the dilutive effects of a junior use may be statistically factored out of the survey evidence, the quantity of measured dilution may be too insignificant at these times to allow a viable dilution claim against a single junior user. Such a result would allow dilution to spread like an "infection" as more and more junior users siphon and benefit from the goodwill of the senior mark, irreparably damaging the famous trademark.<sup>127</sup>

The Court should have realized that in most situations actual harm would be vanishingly small. Based on this realization, a likelihood of dilution standard would be the only pragmatic way to protect the senior user from harm due to dilution. That the Court's actual dilution standard fails to account for the difficulty in showing proof of dilution casts additional doubt on the reasoning behind the Court's interpretation of the FTDA.<sup>128</sup>

## 2. *The Level of Harm Necessary to Show Actual Dilution is Uncertain*

Assuming that surveys or expert testimony can reliably show some measurable quantity of dilution, the Court's opinion leaves uncertain just how much harm a plaintiff must show. At least one commentator has suggested that the Court's holding does not require an expert witness to quan-

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having these doubts." 353 F.3d 528, 535 (7th Cir. 2003). When considering the Court's suggestion that circumstantial evidence may alone be sufficient to prove actual dilution where the junior and senior marks are identical, see *V Secret III*, 537 U.S. 418, 434 (2003), Posner states: "The [*V Secret III*] Court did not explain and no one seems to know what that 'circumstantial evidence' might be." *Ty*, 353 F.3d at 536.

125. See *Nabisco*, 191 F.3d at 223-24.

126. Clearly, momentarily putting aside "the principle" of the matter in *Victoria's Secret*, if the profits (as one potential indicator of actual harm) lost to *Victoria's Secret* due to dilution by blurring or tarnishment by *Victor's Little Secret* were taken relative to the total profits of the company, the result would likely be a rather small percentage.

127. See H.R. REP. NO. 104-374, at 3 (1995), reprinted in 1996 U.S.C.C.A.N. 1029, 1030 ("Confusion leads to immediate injury, while dilution is an infection, which if allowed to spread, will inevitably destroy the advertising value of the mark.")

128. An initial reaction to the Court's holding was given by Judge Rice of the federal District Court for the Southern District of Ohio: "However, [plaintiffs] are no doubt entitled to an opportunity to make their [dilution] case on the merits, the Court will note that it is *extremely difficult to prevail* on such [dilution claim] under the Lanham Act." *Reed Elsevier, Inc. v. TheLaw.net Corp.*, 269 F. Supp. 2d 942, 953 (S.D. Ohio 2003) (emphasis added).

tify the damage to a senior mark's marketing strength.<sup>129</sup> Instead, the marketing or advertising expert need only explain that the value of a senior mark has been lessened to some extent, and in the case of tarnishment, the expert need only explain that the junior use will in fact cause tarnishment.<sup>130</sup>

While this interpretation, if correct, eases concern over the quantity of dilution, it is still unclear how an expert would support an opinion on actual dilution. If the expert employs dilution surveys, then the infirmities of these surveys<sup>131</sup> could undermine the testimony. If the expert presents testimony based on an analysis of the case's facts, then the expert would essentially perform an analysis identical to that of a judge applying a likelihood of dilution test.

With respect to survey evidence, even assuming that dilution may be measured and quantified with a survey, the quantity of dilution necessary for a viable dilution claim remains uncertain. Ultimately, the lower federal courts will have to struggle to set an appropriate threshold level for actual dilution.<sup>132</sup> The Court could have avoided this additional uncertainty with a likelihood of dilution standard.

### C. The *Victoria's Secret* Decision is the First Chapter in the Story of the FTDA

Moving beyond the *Victoria's Secret* decision, many ambiguities involving interpretation of the FTDA continue to frustrate the statute's application. For example, courts have not yet resolved the role of distinctiveness or fame in qualifying a trademark for dilution protection.<sup>133</sup> Therefore, the *Victoria's Secret* decision merely begins the first chapter in FTDA interpretation.

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129. See 4 MCCARTHY, *supra* note 8, § 24:94.2.

130. *Id.*

131. See discussion *supra*.

132. Perhaps an analogy may be drawn to customer surveys in trademark infringement analysis, where a threshold typically around 20% suffices to prove customer confusion.

133. Other questions surrounding the FTDA involve what constitutes fair use under the FTDA, see 15 U.S.C. § 1125(c)(4)(A) (2000), and whether dilution is applicable where the goods or services are in competition, see 4 MCCARTHY, *supra* note 8, § 24:72 (observing that the FTDA on its face is capable of application to competitive situations). Courts and commentators are also divided on whether the FTDA covers trade dress. Compare *Nabisco, Inc. v. PF Brands, Inc.*, 191 F.3d 208 (2d Cir. 1999) (applying dilution to protect Pepperidge Farm's fish-shaped Goldfish crackers), with *Planet Hollywood, Inc. v. Hollywood Casino Corp.*, 80 F. Supp. 2d 815, 901 (N.D. Ill. 1999) ("The [c]ourt concludes that Section 43(c) was not intended to provide a cause of action for trade dress dilution . . .").

### 1. *Distinctiveness*

When a trademark is capable of immediately identifying a product's source, the mark is labeled "inherently distinctive."<sup>134</sup> These inherently distinctive marks are further classified as arbitrary, fanciful, and suggestive marks and are given full protection under the Lanham Act.<sup>135</sup> For all other marks, to secure trademark rights, the Lanham Act requires proof that the trademark has acquired a secondary meaning to the public.<sup>136</sup> Once secondary meaning is established, the mark is deemed to have acquired the distinctiveness needed for protection.<sup>137</sup>

The FTDA explicitly provides dilution protection only to owners of famous marks. However, the FTDA lists factors to determine whether a mark is "distinctive and famous."<sup>138</sup> Courts and commentators are divided over whether the addition of the word "distinctive" indicates an additional element of a dilution claim.<sup>139</sup> The *Victoria's Secret* Court may have provided in dicta some insight into this conflict. In a footnote, the Court approvingly cited language from Schechter's 1927 article that directly supports the Second Circuit.<sup>140</sup> This language supports the importance of dis-

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134. See generally *Qualitex Co. v. Jacobson Prods. Co.*, 514 U.S. 159 (1995); *MERGES ET AL.*, *supra* note 17, at 546.

135. See *Qualitex*, 514 U.S. at 162-63.

136. See *id.* Secondary meaning may occur, for example, when consumers come to identify descriptive words on a product with the product's origin. See *id.*

137. See *id.*

138. See 15 U.S.C. § 1125(c)(1)(A)-(H).

139. Compare *Id.* § 1125(c)(1)(A), and *Nabisco, Inc. v. PF Brands, Inc.*, 191 F.3d 208, 217 (2d Cir. 1999) (noting that distinctiveness serves two functions: first, it is a threshold statutory element, and second, "the degree of distinctiveness of the senior mark has a considerable bearing on the question whether a junior use will have a diluting effect") (citing 15 U.S.C. § 1125(c)(1)(A)), with *Times Mirror Mags., Inc. v. Las Vegas Sports News, LLC*, 212 F.3d 157, 164 (3d Cir. 2000) (stating that distinctiveness is not a separate element), and 4 MCCARTHY, *supra* note 8, § 24:91 (suggesting that the term "distinctive" was supposed to be dropped from the statute before enactment and was inadvertently "left floating in the statute, unmoored to either any statutory requirement or underlying policy goal").

140. In footnote 10, the Court quoted from Schechter:

The rule that arbitrary, coined or fanciful marks or names should be given a much broader degree of protection than symbols, words or phrases in common use would appear to be entirely sound. Such trademarks or tradenames as 'Blue Ribbon,' used, with or without registration, for all kinds of commodities or services, more than sixty times; 'Star' as far back as 1898, nearly four hundred times; 'Anchor,' already registered over one hundred fifty times in 1898 . . . all these marks and names have, at this late date, *very little distinctiveness* in the public mind, and in most cases suggest merit, prominence or other qualities of

tinctiveness in a dilution analysis, but it remains unclear whether a mark that is not inherently distinctive and has acquired distinctiveness solely through secondary meaning deserves dilution protection.<sup>141</sup>

## 2. *Fame*

In addition to the confusion over the role of distinctiveness in applying the FTDA, courts and commentators have struggled with how to determine the fame of a mark.<sup>142</sup> The FTDA provides a list of nonexclusive factors for courts to consider in determining whether a mark is distinctive and famous.<sup>143</sup> Congress presumably provided this guidance to ensure that dilution would be confined to truly famous marks as envisioned by Schechter. Furthermore, since dilution is a federal cause of action, marks possessing fame in a local market—niche fame—are clearly not eligible for dilution protection.<sup>144</sup> It is likely that the somewhat odd findings of

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goods or services in general, rather than the fact that the product or service, in connection with which the mark or name is used, emanates from a particular source. On the other hand, 'Rolls-Royce,' 'Aunt Jemima's,' 'Kodak,' 'Mazda,' 'Corona,' 'Nujol,' and 'Blue Goose,' are *coined, arbitrary or fanciful words or phrases* that have been added rather than withdrawn from the human vocabulary by their owners, and have, from the very beginning, been associated in the public mind with a particular product, not with a variety of products, and have created in the public consciousness an impression or symbol of the excellence of the particular product in question.

*V Secret III*, 537 U.S. 418, 429 n.10 (2003) (quoting Schechter, *supra* note 18, at 828-29) (emphasis added).

141. See, e.g., *N.Y. Stock Exch. Inc. v. N.Y., N.Y. Hotel, LLC*, 69 F. Supp. 2d 479, 488 (S.D.N.Y. 1999) ("[A] famous mark that has acquired secondary meaning is not 'distinctive' as that term is used in the federal anti-dilution statute, and is thus not entitled to protection thereunder.").

142. See, e.g., 4 MCCARTHY, *supra* note 8, § 24.112.1 (stating that the FTDA does not require courts to recognize niche fame); Mark A. Lemley, *The Modern Lanham Act and the Death of Common Sense*, 108 Yale L.J. 1687, 1698 (1999) (discussing how some courts applying the FTDA have expanded the scope of "famous" marks to include the marks of a local favorite and obscure companies).

143. See 15 U.S.C. § 1125(c)(1)(A)-(H).

144. See 4 MCCARTHY, *supra* note 8, § 24.112.1 ("[R]ecognition of niche fame is an improper application of the federal act, is an unnecessary and superfluous legal theory and improperly displaces the traditional balance of competitive rights reflected in the likelihood of confusion test.").

fame<sup>145</sup> were merely fleeting growing pains as the courts adjusted to application of the FTDA.<sup>146</sup>

#### IV. CONCLUSION

Although the *Victoria's Secret* Court resolved a circuit split over interpretation of the FTDA, the Court reached a result that contradicts the FTDA's purpose. The Court's decision presents numerous evidentiary hurdles that may cripple many dilution claims. In particular, the effectiveness of the suggested means of proof to show dilution—customer surveys and expert testimony—is at best questionable. Furthermore, it is unclear whether dilution can be reliably measured. Even assuming that dilution can be measured and quantified, the required quantity of harm to prevail on a dilution claim is uncertain.

While the Court's decision in *Victoria's Secret* suffers some infirmities, it does address one issue in the dilution puzzle. The consequences of the decision remain to be seen. When considered in the context of the numerous uncertainties that continue to frustrate application of the FTDA, *Victoria's Secret* is merely the first chapter in the FTDA's story.

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145. See Lemley, *supra* note 142, at 1698-99 (listing a number of the "rather obscure" marks that have been accorded famous status by courts applying the FTDA).

146. Additionally, since dilution cases concerning domain names became the province of the Anticybersquatting Consumer Protection Act in 1999, ambiguities in applying the FTDA have been reduced. See 15 U.S.C. § 1125(d).

## DASTAR CORP. V. TWENTIETH CENTURY FOX FILM CORP.

By Richard Ronald

On June 6, 1944, General Dwight D. Eisenhower led the Allied invasion of Normandy, a hotly contested battle over several small beaches on the French coast that proved a turning point in World War II.<sup>1</sup> Almost sixty years later—and thirty-three years after General Eisenhower died—he again figured in a conflict, this time over copyright, trademarks, and the public domain.<sup>2</sup> The litigants in the case, *Dastar Corp. v. Twentieth Century Fox Film Corp.*, clashed over a video series based on General Eisenhower's book *Crusade in Europe*.<sup>3</sup>

The Supreme Court resolved two outstanding issues of intellectual property law in *Dastar*. First, the Court ruled that the Lanham Act does not protect uncopyrighted works from unattributed copying.<sup>4</sup> In other words, trademark law cannot constrain the use of public domain materials. Second, the Court officially recognized “reverse passing off,” the selling of another's goods as one's own, as a valid, though limited, legal theory under the Lanham Act.<sup>5</sup> The Court also built on its decisions in *TraFFix*,<sup>6</sup> *Samara Bros.*,<sup>7</sup> and *Bonito Boats*<sup>8</sup> by further delineating the boundaries separating three different intellectual property regimes—patent, copyright, and trademark.<sup>9</sup>

The *Dastar* ruling will prove significant as more works of authorship fall into the public domain after their copyrights expire. Indeed, *Dastar* may ultimately stand for the principle that authors and other copyright owners lose all intellectual property rights in their creative works once copyrights expire.

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1. See DWIGHT D. EISENHOWER, *CRUSADE IN EUROPE* 250-54 (Doubleday & Co. 1948).

2. *Dastar Corp. v. Twentieth Century Fox Film Corp.*, 123 S. Ct. 2041 (2003).

3. *Id.* at 2044.

4. *Id.* at 2049.

5. *Id.* at 2046.

6. *TraFFix Devices, Inc. v. Mktg. Displays, Inc.*, 532 U.S. 23 (2001).

7. *Wal-Mart Stores, Inc. v. Samara Bros., Inc.*, 529 U.S. 205 (2000).

8. *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141 (1989).

9. *Dastar*, 123 S. Ct. at 2048-50.

Part I of this Note traces the history of reverse passing off from its uncertain beginnings to its eventual recognition by the Supreme Court in *Dastar*. Part II summarizes *Dastar*'s facts and its holdings. Part III discusses the Supreme Court's decision, concluding that while the Court's holding was correct, it failed to resolve two significant areas of intellectual property law. First, the Court did not address whether copyrighted materials used as trademarks lose their trademark status when their copyright expires. Second, the Court left unsettled a circuit split on what constitutes consumer confusion in trademark cases involving copyrighted materials.

## I. THE LANHAM ACT AND REVERSE PASSING OFF

### A. Explanation of Reverse Passing Off

When a manufacturer falsely represents that he produced goods actually produced by another, he is directly or "expressly passing off" these goods.<sup>10</sup> Professor McCarthy, in his famous treatise, calls this "the classic form of trademark infringement."<sup>11</sup> In most instances of direct passing off, someone affixes the trademark of a well-known company to a cheaper imitation.<sup>12</sup> For example, an unscrupulous manufacturer could affix a Nike Swoosh to his own cheaply made shoes and sell them as Nike for higher prices. This would clearly violate the Lanham Act, since the shoes would be falsely represented as originating from Nike.<sup>13</sup>

In contrast to direct passing off, where the product being sold is actually produced by the seller, the typical reverse-passing-off case involves one manufacturer selling another manufacturer's goods as its own. This would include a manufacturer purchasing a competitor's product, removing that competitor's trademark, and then selling the resulting product either without the trademark (implied reverse passing off) or with the purchaser's own trademark (express reverse passing off).<sup>14</sup> For example, Coca-Cola would be guilty of reverse passing off if it obtained a quantity of Pepsi soft drink, packaged it in Coca-Cola bottles, and sold it as Coca-Cola.<sup>15</sup> Reverse passing off also includes selling unauthorized copies of

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10. See 4 J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 25:1, at 25-5 (4th ed. 2003).

11. *Id.* § 25:5, at 25-11.

12. See *id.* § 25:3, at 25-10.

13. 15 U.S.C. § 1125(a) (2000).

14. Lori H. Freedman, *Reverse Passing Off: A Great Deal of Confusion*, 83 TRADEMARK REP. 305, 305 (1993).

15. This is the example given by the Court in *Dastar*. 123 S. Ct. 2041, 2047 (2003).

another manufacturer's product as one's own,<sup>16</sup> or using another manufacturer's good or picture of the good as a sales model to solicit orders for one's own product.<sup>17</sup>

Reverse passing off harms manufacturers in two ways.<sup>18</sup> First, this practice undermines their efforts to identify themselves clearly with a good or product.<sup>19</sup> A vendor who removes a trademark from a good and replaces it with its own mark has frustrated the link between manufacturer and consumer that trademark law is designed to protect.<sup>20</sup> For instance, suppose a consumer buys blue jeans made by Levis, but which are being sold as Wranglers. The Levis brand does not gain the goodwill that would normally accrue to it, should the consumer like the jeans and wish to purchase others like them in the future.<sup>21</sup> Rather, Wrangler appropriates that goodwill for itself.<sup>22</sup> Second, a manufacturer can also use reverse passing off to undermine a competitor's advantage in being the first to market a new product.<sup>23</sup> A manufacturer can pass off its competitor's goods as its own until it has had sufficient time to manufacture a competing version of the product.<sup>24</sup> For example, if Levis introduced a new type of jeans, Wrangler could undermine Levis' lead-time advantage in sales and goodwill simply by selling the jeans as their own until they produced a Wrangler's version of the jeans.

Reverse passing off also harms consumers. First, it misleads consumers as to the true source of a good, frustrating a trademark's ability to reduce consumer search costs.<sup>25</sup> Second, it frustrates the consumer's ability to buy that specific item again.<sup>26</sup> The consumer may falsely believe that the good is available only from the passer-off.<sup>27</sup> For example, imagine a

16. John T. Cross, *Giving Credit Where Credit is Due: Revisiting the Doctrine of Reverse Passing Off in Trademark Law*, 72 WASH. L. REV. 709, 713 (1997).

17. Freedman, *supra* note 14, at 320; *see also* Matsushita Elec. Corp. of Am. v. Solar Sound Sys., Inc., 381 F. Supp. 64, 66-70 (S.D.N.Y. 1974) (discussing radio modified by plaintiff, then used as a sales model).

18. William M. Borchard, *Reverse Passing Off—Commercial Robbery or Permissible Competition?*, 67 TRADEMARK REP. 1, 4-5 (1977).

19. *Id.* at 16-18.

20. *Id.*

21. *See id.*

22. *Id.*

23. Freedman, *supra* note 14, at 321-22.

24. *Id.*

25. William M. Landes & Richard A. Posner, *Trademark Law: An Economic Perspective*, 30 J. LAW & ECON. 265, 269-70 (1987); *see also* Borchard, *supra* note 18, at 4-5, 18.

26. *See* Borchard, *supra* note 18, at 4-5.

27. *See id.*

company that purchases Nike shoes in bulk, rebrands them as "Ronald" shoes, and sells them. A consumer who routinely purchases the Ronald shoes because she enjoys their quality and feel cannot discover that Nike is the true source of the shoes she favors. Should Ronald shoes go out of business, she will not know that she could purchase her favorite shoes from Nike, and may expend considerable energy seeking out new shoes.<sup>28</sup> Finally, reverse passing off deprives the consumer of buying and endorsing similar goods from the true source of the good.<sup>29</sup> The consumer who likes the quality of the misbranded shoes is prevented from searching out similar quality products—perhaps other running wear—from the true source.

## B. The History of Reverse Passing Off

Although courts first started using the phrase "reverse passing off" in the 1980s, courts have long held that failing to acknowledge the source of a commercial good can violate trademark law.<sup>30</sup> One of the earliest cases to consider reverse passing off, though it did not identify it as such, was *International News Service v. Associated Press*.<sup>31</sup> There, Justice Holmes stated in dissent that although a newspaper could copy news from a rival paper, it should also inform readers of the original source of that news.<sup>32</sup> Justice Holmes concluded that "the same evil may follow . . . from saying whether in words or by implication that the plaintiff's product is the defendant's . . . ."<sup>33</sup>

Few cases were litigated under common law reverse passing off doctrine after *International News*.<sup>34</sup> Only decades after Congress passed the

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28. Landes & Posner, *supra* note 25, at 269-70.

29. *Id.* at 269.

30. Cross, *supra* note 16, at 715.

31. 248 U.S. 215 (1918).

32. *Id.* at 246-48 (Holmes, J., dissenting).

33. *Id.* at 247 (Holmes, J., dissenting).

34. William Borchard mentions that only two other common law cases involving reverse passing off were brought before passage of the Lanham Act. Borchard, *supra* note 18, at 7. The first was *Federal Electric Co. v. Flexlume Corp.*, 33 F.2d 412 (7th Cir. 1929). In that case, the Seventh Circuit considered a defendant who replaced the trademarks on the electric signs he serviced with his own, thereby suggesting he had produced the signs himself. *See id.* at 414-15. The court found for the plaintiff on an unfair competition claim on essentially the same grounds now recognized as reverse passing off. *See id.* The second case was *Jantzen Knitting Mills v. A. Balmuth, Inc.*, 257 N.Y.S. 611 (N.Y. App. Div. 1932). This case involved a retailer who had removed the tags from Jantzen's swimsuits prior to sale. *See id.* at 611. The court stated that the removal allowed the retailer to represent other, perhaps inferior, swimsuits as also being made by Jantzen. *See id.*

Lanham Act in 1946 did courts recognize reverse passing off as a brand of unfair competition.<sup>35</sup> Congress enacted the Lanham Act in 1946 to create federal protection against unfair competition.<sup>36</sup> Congress' primary intent in creating § 43(a) of the Act was to "codify the common law trademark infringement doctrine of passing off."<sup>37</sup> Rather than create an all-encompassing federal unfair competition statute, Congress deliberately reserved for the province of the states "a broad range of acts defined as unfair competition."<sup>38</sup>

As initially written, § 43(a) offered protection against anyone who either falsely designated the origin of or gave a false description of goods or services.<sup>39</sup> The Act did not require that the false designation actually deceive consumers as to the true origin of the goods—what is now known as "consumer confusion."<sup>40</sup> Therefore, early courts did not have to consider whether a defendant had committed reverse passing off or had caused consumer confusion, but rather, focused solely on false designation of origin.<sup>41</sup> Based on this view of the Act, some courts, in addition to finding no

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35. Cross, *supra* note 16, at 720.

36. 4 MCCARTHY, *supra* note 10, § 27:7, at 27-12.

37. Freedman, *supra* note 14, at 307.

38. Toho Co. v. Sears, Roebuck, & Co., 645 F.2d 788, 792 (9th Cir. 1981); *see also* 4 MCCARTHY, *supra* note 10, § 27:7, at 27-14. Elsewhere, Prof. McCarthy lists trade secret infringement and bait-and-switch sales tactics as examples of unfair competition theories not covered by the Lanham Act. *See* J. Thomas McCarthy, *Lanham Act § 43(a): The Sleeping Giant is Now Wide Awake*, 59 LAW & CONTEMP. PROBS. 46, 50 (1996).

39. 15 U.S.C. § 1125(a) (1982). Prior to its amendment in 1988, § 43(a) stated:

Any person who shall affix, apply, or annex, or use in connection with any goods or services, or any container or containers for goods, a false designation of origin, or any false description or representation, including words or other symbols tending falsely to describe or represent the same, and shall cause such goods or services to enter into commerce, and any person who shall with knowledge of the falsity of such designation of origin or description or representation cause or procure the same to be transported or used in commerce or deliver the same to any carrier to be transported or used, shall be liable to a civil action by any person doing business in the locality falsely indicated as that of origin or the region in which said locality is situated, or by any person who believes that he is or is likely to be damaged by the use of any such false description or representation.

*Id.*

40. *See id.*

41. Freedman, *supra* note 14, at 307.

common law action for reverse passing off, also found no basis for the theory in the Lanham Act.<sup>42</sup>

In the 1976 case *John Wright, Inc. v. Casper Corp.*,<sup>43</sup> a court explicitly acknowledged that reverse passing off violated the Lanham Act.<sup>44</sup> Five years later, the Ninth Circuit, in *Smith v. Montoro*,<sup>45</sup> ruled that § 43(a) prevented “attempt[s] to misappropriate or profit from another’s talents and workmanship.”<sup>46</sup> The *Smith* court held that the unauthorized substitution of an actor’s name (considered here as a trademark) constituted a false designation of origin within the meaning of § 43(a).<sup>47</sup>

In 1988, Congress amended the Lanham Act in order to “improve the law’s protection of the public from counterfeiting, confusion, and deception.”<sup>48</sup> Congress revised § 43(a) to codify the interpretation the section had been given by the courts, which included judicial approval of reverse passing off such as found in *Smith*.<sup>49</sup> The new Act stated in part:

(1) 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—

(A) 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 . . .

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42. See *Blazon, Inc. v. DeLuxe Game Corp.*, 268 F. Supp. 416 (S.D.N.Y. 1965) (finding unpersuasive arguments that the Lanham Act does not preclude reverse passing off, though dismissing on other grounds); *Pic Design Corp. v. Sterling Precision Corp.*, 231 F. Supp. 106 (S.D.N.Y. 1964) (denying recovery under both the common law and the Lanham Act for defendant’s removal of identifying mark from gears prior to resale); see also *Cross*, *supra* note 16, at 716.

43. 419 F. Supp. 292 (1976).

44. *Id.* at 325. *Casper Corp.*, the defendant in *John Wright*, sold replicas of antique penny banks based on John Wright’s banks, but advertised them as being replicas of its own original antiques. The court wrote “[I]t would violate the statute for . . . a defendant to sell [a] plaintiff’s goods as his own.”

45. 648 F.2d 602 (1981).

46. *Id.* at 607.

47. See *id.* at 607-8.

48. S. REP. NO. 100-515, at 1 (1988). Congress amended the Act through the Trademark Law Revision Act of 1988, Pub. L. No. 100-667, 102 Stat. 3935 (1988).

49. S. REP. 100-515 at 40.

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<sup>50</sup>

Following this amendment, at least one court that had previously refused to find a cause of action for reverse passing off interpreted the new language to include this cause of action.<sup>51</sup> All Circuits that have faced reverse-passing-off cases have now recognized reverse passing off as a tenable legal theory,<sup>52</sup> with *Smith* proving extremely influential in interpreting the amended Lanham Act.<sup>53</sup>

## II. CASE SUMMARY

### A. Facts: A Campaign over *Campaign*

In 1948, Doubleday published General Dwight D. Eisenhower's *Crusade in Europe*.<sup>54</sup> That same year, Doubleday granted Twentieth Century

50. 15 U.S.C. § 1125(a) (2000).

51. *Kasco Corp. v. Gen. Servs., Inc.*, 905 F. Supp. 29, 35 (D. Mass. 1995). The court in *Kasco* stated:

[R]everse palming off may very well now be actionable under the amended statute . . . . Given the broad language of the amended Section 43(a) and the rich body of case law it was designed to codify, there is on this record a genuine issue of material fact as to whether General Services has committed a violation of the Lanham Act.

*Id.* (internal quotes omitted).

52. See, e.g., *Waldman Publ'g Corp. v. Landoll, Inc.*, 43 F.3d 775, 780 (2d Cir. 1994); *Pioneer Hi-Bred Int'l v. Holden Found. Seeds, Inc.*, 35 F.3d 1226, 1241 (8th Cir. 1994); *Cleary v. News Corp.*, 30 F.3d 1255, 1260-62 (9th Cir. 1994); *Web Printing Controls Co. v. Oxy-Dry Corp.*, 906 F.2d 1202, 1204 (7th Cir. 1990); *Roho, Inc. v. Marquis*, 902 F.2d 356, 359 (5th Cir. 1990); *Lamothe v. Atl. Recording Corp.*, 847 F.2d 1403, 1406-08 (9th Cir. 1988); *Williams v. Curtiss-Wright Corp.*, 691 F.2d 168, 172 (3d Cir. 1982); see also *Xoom, Inc. v. Imageline, Inc.*, 323 F.3d 279, 286 (4th Cir. 2003) (acknowledging the theory exists, but declining to address it since it was not at issue in the case); *John G. Danielson, Inc. v. Winchester-Conant Prop., Inc.*, 322 F.3d 26, 46 (1st Cir. 2003) (assuming for the sake of an appeal that the circuit would recognize reverse passing off as a cause of action); *Johnson v. Jones*, 149 F.3d 494, 504 (6th Cir. 1998) (finding "quintessential reverse passing off" in the sale, as defendant's own, of plaintiff's stolen architectural plans) (internal quotes omitted); *Witco Chem. Corp. v. United States*, 742 F.2d 615, 625 (Fed. Cir. 1984) (assuming, arguendo, that the tort of reverse passing off exists). Cross notes that the Eleventh Circuit has not faced the issue, but because this court was carved out of the Fifth Circuit, precedent from that Circuit holds in the Eleventh. See Cross, *supra* note 16, at 718 n.43. The Tenth Circuit and the D.C. Circuit do not appear to have faced this issue.

53. Cross, *supra* note 16, at 717.

54. EISENHOWER, *supra* note 1.

Fox the rights to create a television series based on the book.<sup>55</sup> The series, also entitled *Crusade in Europe*, consisted of narration from Eisenhower's book dubbed over World War II footage filmed by armed forces and unidentified newsreel cameramen.<sup>56</sup> Fox failed to renew its copyright in the television series and, as a result, the series fell into the public domain in 1977.<sup>57</sup> In 1988, Fox gave the negatives of the television series to another company, SFM, who restored and repackaged the series on videotapes that were then distributed by New Line.<sup>58</sup>

In 1995, Dastar Corp., hoping to profit from renewed interest in WWII generated by the fiftieth anniversary of the war's end, bought eight beta cam tapes of the entire original *Crusade in Europe* television series (not the repackaged tapes sold by New Line).<sup>59</sup> Dastar copied portions of the tapes, provided new opening and closing sequences, inserted new chapter-title sequences, rearranged the sequence of materials, and removed references to Eisenhower's book.<sup>60</sup> Dastar packaged the resulting video series, which was roughly half as long as the original, as *World War II Campaigns in Europe*.<sup>61</sup> Neither the packaging nor the credits mentioned the original *Crusade* television series, Eisenhower's book, or the *Crusade* video set.<sup>62</sup>

## B. The Lower Courts' Decisions

In 1998, Fox brought suit alleging that Dastar's sale of the *Campaigns* video without crediting the original *Crusade* television series constituted reverse passing off in violation of the Lanham Act.<sup>63</sup> The district court found for Fox.<sup>64</sup> On appeal, the Ninth Circuit affirmed the lower court's holding of reverse passing off, noting that Dastar had bodily appropriated

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55. *Dastar Corp. v. Twentieth Century Fox Film Corp.*, 123 S. Ct. 2041, 2044 (2003).

56. *Id.*

57. *Id.* However, Doubleday did renew the copyright on the book in 1975 as a work made for hire.

58. *Id.*

59. *Id.*

60. *Id.*

61. *Id.*

62. *Id.*

63. *Id.* Fox's original complaint alleged that Dastar's *Campaigns* video series infringed copyrights in the Eisenhower book, including the right to produce derivative television works. *Id.* Fox later added the Lanham Act claim. *Id.* The copyright claim was not before the court. *Id.*

64. *Twentieth Century Fox Film Corp. v. Entm't Distrib.*, 34 Fed. Appx. 312, 314 (9th Cir. 2002) (unreported opinion).

the original *Crusade* series and that the minimal changes made in creating the *Campaign* videos were not enough to avoid liability.<sup>65</sup>

### C. The Supreme Court Decision

The Supreme Court reversed in a unanimous opinion authored by Justice Scalia.<sup>66</sup> The Court held that although the Lanham Act creates a federal cause of action for reverse passing off, the word “origin” in the statute applies only to the source of manufacture of a good, not to the creative or authorial source behind a work.<sup>67</sup> Thus, the Act cannot extend a right of attribution to uncopyrighted works, since an author is not the “producer of the tangible product sold in the marketplace.”<sup>68</sup> The Court stated that Dastar would have falsely designated the tapes’ origin if it had merely repackaged the original *Crusade* tapes and sold them under the Dastar name.<sup>69</sup> Dastar, however, did something quite different: it took a work in the public domain and used that work to make a new product.<sup>70</sup>

According to the Court, § 43(a) is one of the few Lanham Act provisions to go beyond trademark protection.<sup>71</sup> It also prevents unfair competition involving the false designation of origin in connection with goods or services.<sup>72</sup> That is, § 43(a) embraces false advertising as to origin even when a trademark is not being infringed, like a Florida orange company advertising that its oranges come from California.

Looking at both the original and amended wording of § 43(a), the Court noted that the term “origin” could literally mean “the geographic location in which the goods originated.”<sup>73</sup> However, based on the legislative history of the 1988 amendments, the Court determined that the word

65. *See id.*

66. *See Dastar*, 123 S. Ct. at 2050. The decision was 8-0. *Id.* at 2043. Judge Breyer did not take part in the decision. *Id.* He recused himself because his brother, United States District Judge Charles Breyer, presided over the case at trial. *See* Tony Mauro, *High Court Hands Fox Copyright Defeat*, LEGAL TIMES, June 3, 2003, available at <http://www.law.com/jsp/article.jsp?id=1052440822405>.

67. *Dastar*, 123 S. Ct. at 2047.

68. *Id.*

69. *Id.* at 2042.

70. *Id.*

71. *Id.* at 2045.

72. *Id.* However, the Court did not believe the statute creates federal action for all types of unfair competition. The court stated “§ 43(a) can never be a federal ‘codification’ of the overall law of ‘unfair competition.’” *Id.* (quoting 4 MCCARTHY, *supra* note 10, § 27:7, at 24-14).

73. *Id.* at 2046 (citing *Two Pesos, Inc. v. Taco Cabana, Inc.*, 505 U.S. 763, 777 (1992) (Stevens, J., concurring)).

“origin” also includes the producer or manufacturer of a good.<sup>74</sup> Based on this broad interpretation, the Court held that the Lanham Act’s language is broad enough to support a reverse-passing-off cause of action, despite the lack of explicit language in the Act prohibiting such an action.<sup>75</sup>

This expansive reading of the Act, however, does not allow the meaning of “origin” to be stretched to include the creative originators of an underlying work.<sup>76</sup> Relying on the dictionary definitions of “origin” and “goods,” the Court determined that “origin” is limited to the “source of wares” or manufacturers; the phrase “origin of goods” cannot extend to cover the originator of an idea of communication embodied in a good.<sup>77</sup>

In addition to this textual interpretation, the Court supported its reading of “origin” with an analysis of the Lanham Act’s purpose. The Court reasoned that most consumers do not believe that a company selling a good also invented, designed, or otherwise authored the good.<sup>78</sup> That is, consumers believe that the physical originator of a product is not always its creative originator. Thus, consumers are not confused or deceived as to origin if a manufacturer produces a good that it did not create. For instance, a consumer understands that the Gap shirt she buys was designed by a real person; she does not necessarily believe that Gap Co. is the actual designer.<sup>79</sup> Nor, according to the Court, does she care.<sup>80</sup> Because the creative force behind the shirt, or any other branded product, is of no consequence to most consumers, the Act should not be extended to cover it.<sup>81</sup>

The Court briefly considered creating a “communicative products” exception for books or videos because consumers might be interested in both the producer and the author of these products.<sup>82</sup> But the Court dismissed this exception because it would bring the Lanham Act into conflict with copyright law.<sup>83</sup> Allowing the Lanham Act to prevent Dastar from using the public domain *Crusades* videos to create a new product would upset

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74. *Id.*

75. *Id.* For contrary views, see Freedman, *supra* note 14, at 330 (“[R]everse passing off does not belong within Section 43(a) confusion based analysis.”); Cross, *supra* note 16, at 740 (“[R]everse passing off does not fit within section 43(a)(1)(A).”).

76. *Dastar*, 123 S. Ct. at 2047-50.

77. *Id.* at 2044.

78. *Id.*

79. *See id.*

80. *Id.*

81. *Id.*

82. *Id.* at 2047-48

83. *Id.* at 2048.

copyright's carefully crafted bargain allowing the public to use any creation without attribution once that creation falls into the public domain.<sup>84</sup>

The Court further stated that “[t]he Lanham Act . . . does not exist to reward manufacturers for their innovation.”<sup>85</sup> Rather, trademark law exists for two purposes: (1) to reduce consumer searching and shopping costs, and (2) to prevent unjust enrichment by competitors.<sup>86</sup> Even assuming Dastar had represented itself as the “author” of the new *Campaigns* series, to punish Dastar’s act under the Lanham Act would not serve these two purposes. Instead punishment would turn the Act into “a species of mutant copyright law” limiting the use of public domain materials.<sup>87</sup>

The Court also pointed to the fact that Congress has created a limited right of attribution outside of copyright for visual artists via the Visual Artists Rights Act of 1990.<sup>88</sup> The Court held that a new cause of action for misrepresenting the authorship of an uncopyrighted work would render the Visual Artists Rights Act meaningless.<sup>89</sup>

84. *Id.*

85. *Id.* (quoting *Traffix Devices, Inc. v. Mktg. Displays, Inc.*, 532 U.S. 23, 29 (2001)).

86. *Id.*

87. *Id.* The Court did not address attribution in the context of purely factual materials in its opinion, despite briefs filed by the American Library Association and a group of intellectual property law professors arguing that requiring attribution for public domain works would create a similar right for facts. Amici Curiae of American Library Association et al., *Dastar*, 123 S. Ct. 2041 (2003) (No. 02-428), 2003 WL 367723; Amicus Brief of Malla Pollack and Other Law Professors on Question One Supporting Dastar Corp., *Dastar*, 123 S. Ct. 2041 (2003) (No. 02-428), 2003 WL 21058263. Such a finding, the briefs argued, would undermine the Court’s opinion in *Feist Publications, Inc. v. Rural Telephone Service Co.*, 499 U.S. 340 (1991). See Amici Curiae of American Library Association et al., *supra*, at 5; Brief of Malla Pollack and Other Law Professors, *supra*, at 12. A brief in support of Fox filed by Association for Competitive Technology argued that the Lanham Act does require attribution to prevent consumer confusion as to the source of those facts. Brief Amicus Curiae of the Association for Competitive Technology et al., *Dastar*, 123 S. Ct. 2041 (2003) (No. 02-428), 2003 WL 1100673. *Dastar* allows companies that disseminate facts—financial information providers or on-line telephone directories, for instance—to do so without attribution. Likewise, manufacturers of computer software that utilize uncopyrighted aspects of computer programs, such as user interfaces, can also do so without attribution.

88. *Dastar*, 123 S. Ct. at 2048. The Visual Artists Rights Act of 1990 (Title VI at 104 Stat. 5128), Pub. L. No. 101- 650, 104 Stat. 5089 (codified in scattered sections of 17 U.S.C.), allows creators of visual arts to claim authorship for works that slip into the public domain. 17 U.S.C. § 106A (2000). That Act expressly limits the right to visual art: limited edition paintings or photographs. *Id.* This right of attribution is good only for the artist’s life. *Id.*

89. *Dastar*, 123 S. Ct. at 2048.

Finally, the Court enumerated the practical problems that would arise from a broad interpretation of the term “origin.” Attributing all the public domain works used in creating a work could lead to long chains of attributions, often impossible to make with certainty.<sup>90</sup> For example, Fox itself could hardly be said to be the only creative originator of the *Crusade in Europe* series because newsreel and armed forces cameramen shot most of the actual war footage shown in the series.<sup>91</sup> Fox, and subsequently Dastar, would have to credit each one of these cameramen as authors, as well as Eisenhower. The Court dismissed this result: “We do not think the Lanham Act requires this search for the source of the Nile and all its tributaries.”<sup>92</sup> Furthermore, requiring Dastar to credit Fox would create a Lanham Act Catch-22. If Dastar credited Fox it could be liable under the Lanham Act for implying Fox’s sponsorship of the *Campaign* videos; if Dastar failed to credit Fox it could be liable for reverse passing off.<sup>93</sup>

The Court concluded its *Dastar* opinion by examining the Court’s past decisions delineating the boundaries separating different intellectual property regimes.<sup>94</sup> Justice Scalia asserted that reading the Lanham Act to prevent the use of otherwise unprotected works and inventions without attribution—plagiarism—would contradict the essence of previous decisions like *Samara Bros.*,<sup>95</sup> *TrafFix*,<sup>96</sup> and *Bonito Boats*.<sup>97</sup> It would also create a species of perpetual intellectual property, which Congress may not do under the Constitution.<sup>98</sup>

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90. *Id.* at 2049.

91. *Id.*

92. *Id.*

93. *Id.*

94. *Id.* at 2049-50.

95. *Wal-Mart Stores, Inc. v. Samara Bros.*, 529 U.S. 205 (2000). In this case, the Court held that Samara Brothers could not prevent Wal-Mart from producing knock-off versions of its children’s clothing designs unless those designs had acquired a secondary meaning identifying Samara Brothers as the source of the design. *Id.* at 212. If Samara Brothers could sue under the Lanham Act, claiming it was the origin of the designs, this would render the careful balance achieved in *Wal-Mart* meaningless. *Dastar*, 123 S. Ct. at 2049.

96. *TrafFix Devices, Inc. v. Marketing Displays, Inc.*, 532 U.S. 23 (2001). *TrafFix* refused trademark protection for a roadside sign spring design whose patent had expired. *Id.* at 30-34. The Court stated that the spring design was functional, and thus not eligible for trade dress protection. *Id.* at 28-29.

97. *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141 (1989). *Bonito Boats* permitted the reverse engineering of boat-hull designs which were neither patented nor copyrighted. *Id.* at 162-63. The public, the Court reasoned, was free to use these designs without accrediting the hulls’ original designer. *Id.* at 160-63.

98. *See Eldred v. Ashcroft*, 537 U.S. 186, 208 (2003).

### III. DISCUSSION

The Court's conclusion in *Dastar* is good policy. By limiting the meaning of the term "origin" in the Lanham Act to the source of manufacture, and not the creative originator, the *Dastar* Court frees manufactures to use public domain works without fear of a burdensome attribution requirement. This allows the continued prosecution of cases involving true deception—as opposed to copyright infringement cases disguised as trademark violations—while promoting consumer interests by allowing access to public domain goods at lower costs.<sup>99</sup>

The ruling makes intuitive sense as well. A trademark enables a manufacturer to identify and distinguish its goods from those manufactured and sold by others, but it does not indicate authorship or creativity.<sup>100</sup> As the Court explained in the Trademark Cases more than a century ago, "trademark has no necessary relation to invention or discovery."<sup>101</sup> Trademark does not serve the same function as an author's signature or a director's credit. A purchaser of a book published by Penguin Publishing Co. does not rely on the Penguin trademark to make pre-purchase judgments about the *content* of the book. Rather, the purchaser knows that Penguin books are known as physically reliable products. Thus, the ruling separates trademark violations from copyright infringement cases.

The Court, however, failed to sufficiently clarify two outstanding issues in trademark law. First, it did not explicitly rule on whether formerly copyrighted material now in the public domain could be eligible for trademark protection under the theory of reverse passing off. Second, the Court failed to clarify a Circuit split on what suffices as a test for consumer confusion under the Lanham Act.

#### A. The Court Failed to Clarify Whether a Copyrighted Work Used as a Trademark Loses Both Protections When Copyright Expires

The biggest fallout of *Dastar* may not be felt until 2023: the year that the Walt Disney Company's copyright in *Steamboat Willie*, the original Mickey Mouse cartoon, expires.<sup>102</sup> That year, provided Congress does not

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99. This is because manufacturers will not have to pay for the costs associated with tracing the creative origin of works, the licensing fees to use names of possible creators, or the costs associated with law suits.

100. 15 U.S.C. § 1127 (2000).

101. *In re Trade-Mark Cases*, 100 U.S. 82, 94 (1879).

102. *Steamboat Willie* was created in 1928. Disney calls this "the birth of Mickey Mouse." See Disney Archives, *Steamboat Willie*, at <http://disney.go.com/vault/archives/movies/steamboat/steamboat.html> (last visited Mar. 15, 2004). The copyright in the car-

further extend copyright, the 1928 cartoon will become part of the public domain, along with hundreds of other films.<sup>103</sup> Disney's other early classics, including *Mickey Steps Out* (1931/2026), *Three Little Pigs* (1933/2028), and *Snow White* (1937/2032) will soon follow. The *Dastar* ruling means Disney may be unable to prevent another video producer from using the films in new works (a history of animation, for instance). Disney may also be unable to stop producers from repackaging the films and selling them at a discount, provided the new producer manufactures the tapes itself. Even more likely, Disney may be unable to stop "unauthorized" Willies, Mickeys, and Snow Whites from gracing coffee mugs and tee shirts. This is because *Dastar* suggests Disney may not have a Lanham Act claim against unauthorized use of their formerly copyrighted creations.

Today, however, Mickey Mouse is protected by both copyright and trademark law. Original graphic works obtain copyright upon creation, just like movies and written works.<sup>104</sup> When Walt Disney created Willie, Mickey Mouse's maritime forerunner, he received a copyright well before Mickey became associated in people's minds with Disney. Steamboat Willie was copyrighted before he was a trademark. In fact, even if Steamboat Willie had been created solely for trademark use, he would still have copyright protection as a creative work. *Dastar* suggests that graphic works like Willie may lose protected status as a trademark once their copyright runs out.<sup>105</sup> Therefore, any manufacturer could distribute a copy

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toon expires 95 years after it was created, or 2023. See 17 U.S.C. § 304 (4)(A)(b) (2000) ("Any copyright still in its renewal term at the time that the Sonny Bono Copyright Term Extension Act becomes effective shall have a copyright term of 95 years from the date copyright was originally secured.").

103. See Sonny Bono Copyright Term Extension Act, Pub L. No. 105-298 (1998) (extending copyright protections by 20 years). Disney is felt to be the primary impetus behind the Sonny Bono Copyright Extension Act, which increased copyrights on most works by 20 years. See *Mickey Mice? Potential Ramifications of Eldred v. Ashcroft*, 13 FORDHAM INTEL. PROP. MEDIA & ENT. L.J. 771, 780-83 (2003). *Steamboat Willie* was due to become public domain in 2003, and the company is thought to have aggressively lobbied for the Act. See Wm. Bruce Davis, *Web Copyright Debate Traces Roots to Mickey Mouse*, BUS. COURIER, Oct 4, 2002, available at <http://www.bizjournals.com/cincinnati/stories/2002/10/07/focus2.html>.

104. 17 U.S.C. § 102(a)(5). Thus, a graphic logo can be copyrighted. Logos consisting solely of a word or phrase cannot be copyrighted. Less clear are words that have been manipulated to be graphics or graphic-like. See 1 MELLVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT, §2.08[B], at 2-83 (2003).

105. *Dastar Corp. v. Twentieth Century Fox Film Corp.*, 123 S. Ct. 2041, 2050 (2003) ("To hold otherwise would be akin to finding that § 43(a) created a species of perpetual patent and copyright, which Congress may not do.").

of the film or use portions of the film in a new work, despite its association with Disney in the mind of the public. Furthermore, the *Dastar* ruling could be seen to allow the use of Steamboat Willie as a standalone character on a mug, tee shirt, or other merchandise.

The *Dastar* Court, however, did not completely foreclose the possibility that certain copyrighted works could retain trademark status.<sup>106</sup> The Court left the door open by alluding to its decision in *Samara Bros.*, in which the Court concluded that uncopyrighted designs could acquire secondary meaning and thus achieve trademark status.<sup>107</sup> Following the same logic, formerly copyrighted material that achieve secondary meaning could retain trademark protection even after its copyright expires. That is, *Dastar* leaves open the possibility that a graphic work may become so identified with a source that it becomes a trademark, continuing to be protected despite its “public domain” status under copyright.<sup>108</sup>

While the *Dastar* Court properly recognized that trademarks should not be allowed to create perpetual copyrights, it did not recognize that limited copyrights could create temporary trademarks. As with other trademarks, the Mickey Mouse logo allows consumers to easily identify works of a certain quality, style, and content, and should be allowed to continue to do so, even after copyright in the graphic itself expires.<sup>109</sup> Thus, Justice Scalia’s dicta suggesting copyrighted works can attain secondary meaning should be made law.<sup>110</sup>

106. See *id.* at 2049.

107. *Id.*; see also *Wal-Mart Stores, Inc. v. Samara Bros.*, 529 U.S. 205, 216 (2000) (“[U]nder § 43(a) of the Lanham Act, a product’s design is distinctive, and therefore protectible, only upon a showing of secondary meaning.”).

108. Even if Steamboat Willie, and eventually Mickey Mouse, retain trademark status, Disney will never be able to trademark an entire film that has lost its copyright. The Ninth Circuit took up this issue in *Comedy III Productions, Inc. v. New Line Cinema*, 200 F.3d 593 (9th Cir 2000). Comedy III, which owns the rights to the Three Stooges, brought a trademark infringement suit against New Line for using a short Stooges clip in its movie *The Long Kiss Goodnight*, even though the copyright had expired. *Id.* at 595-96. The court stated that trademark law covered likenesses and imitated voices, but copyright covered the actual use of characters and voices. With no copyright protection for the actual characters and voices in the short, Comedy III had no claim. *Id.* at 596. Likewise, Disney and other companies will not be able to use the Lanham Act to protect entire movies or clips of movies under trademark law.

109. The Mickey Mouse trademark becomes more important as the Disney Corporation itself expands into more markets and Mickey Mouse becomes a means for identifying not only works by Disney, but even particular types of Disney works.

110. Several courts have already suggested this result. See, e.g., *Frederick Warne & Co. v. Book Sales Inc.*, 481 F.Supp. 1191 (S.D.N.Y. 1979) (“The fact that a copyrightable character or design has fallen into the public domain should not preclude protection under

## B. The Court Did Not Address the Circuit Split in the Lower Courts Over the Need for Consumer Confusion in Reverse Passing Off Cases.

The *Dastar* Court left another significant question unresolved: What is the standard for finding consumer confusion in cases of reverse passing off? Prior to *Dastar*, three standards had emerged: the Ninth Circuit's "bodily appropriation" test,<sup>111</sup> the Second Circuit's "substantial similarity" test,<sup>112</sup> and a "likelihood of confusion" test based on traditional trademark consumer confusion analysis.<sup>113</sup> The Court, in failing to embrace or reject any of these principles, left the circuits uncertain as to the proper method of determining consumer confusion in cases of reverse passing off.

Any cause of action brought under § 43(a), including a claim of reverse passing off, requires proof that the misleading designation of origin will likely confuse consumers as to the sponsorship or origin of the product.<sup>114</sup> Recall the example of the shoes misbranded as Nike. Consumers are fooled into believing the footwear originated with Nike. Likewise, a shoe company using a mark similar to Nike's Swoosh may also deceive consumers into believing the shoes originated with Nike. In a typical

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the trademark laws so long as it is shown to have acquired independent trademark significance, identifying in some way the source or sponsorship of the goods."); see also 1 MCCARTHY, *supra* note 10, § 6:5, at 6-8; Paul E. Adams, *Superman, Mickey Mouse and Gerontology*, 64 TRADEMARK REP. 183 (1974) (arguing that cartoons should retain trademark status, if they qualify, after expiration of copyright); Franklin Waldheim, *Characters—May They Be Kidnapped?*, 55 TRADEMARK REP. 1022 (1965). McCarthy writes:

[I]t is erroneous and a nonsequitur [sic] to state that merely because a picture is out of copyright, it is therefore 'in the public domain' and may be freely copied by anyone for any purpose. Such a picture may have achieved trademark significance by use as a symbol of origin by another.

1 MCCARTHY, *supra* note 10, § 6.5, at 6-8.

111. See *Shaw v. Lindheim*, 919 F.2d 1353, 1364 (9th Cir. 1990).

112. See *Walman Publ'g Corp. v. Landoll, Inc.*, 43 F.3d 775 (2d Cir. 1994).

113. See *Lipscher v. LRP Publ'ns, Inc.*, 266 F.3d 1305, 1313 (11th Cir. 2001) (stating a claim of reverse passing off must show consumer confusion and noting that the typical Lanham Act consumer confusion factors still apply); *Murray Hill Pubs. Inc. v. ABC Communications, Inc.*, 264 F.3d 622, 634-35 (6th Cir. 2001) (finding use of plaintiff's song within a movie did not lead to consumer confusion, and thus was not actionable under the Lanham Act); *Batiste v. Island Records, Inc.*, 179 F.3d 217, 224-25 (5th Cir. 1999) (finding no proof of consumer confusion in use of a modified digital sample of plaintiff's music, and thus no Lanham Act claim).

114. *Two Peso, Inc. v. Taco Cabana, Inc.*, 505 U.S. 763, 769 (1992) ("It is, of course, also undisputed that liability under § 43(a) requires proof of the likelihood of confusion."); see also 3 MCCARTHY, *supra* note 10, § 23:1, at 23-28.

Lanham Act case, a court will examine two sets of factors: (1) those related to the marks themselves, such as the strength of the senior mark or the similarity of the two marks; and (2) those related to the marketplace, such as the type of goods involved, their physical proximity to one another, and the sophistication of consumers who buy them to determine if consumers are likely to be confused.<sup>115</sup>

However, in reverse passing off cases, both the Ninth and Second Circuits have discarded these balancing tests in favor of a one-factor analysis—the similarity of the competing marks or goods themselves—to arrive at likelihood of confusion. In finding that Dastar had committed reverse passing off, the Ninth Circuit relied on the “bodily appropriation” test it had first set forth in *Shaw v. Lindheim*.<sup>116</sup> The court looked only to see whether *Campaigns in Europe* had “copied substantially the entire *Crusade in Europe* series.”<sup>117</sup> The court refused Dastar’s contention that Fox also had to prove consumer confusion, writing that the bodily appropriation test subsumed the “less demanding consumer confusion test.”<sup>118</sup>

Meanwhile, the Second Circuit had explicitly rejected the Ninth Circuit’s bodily appropriation test in *Waldman Publishing Corp. v. Landoll, Inc.*,<sup>119</sup> adopting instead the more lenient substantial similarity test.<sup>120</sup> But

115. See 3 MCCARTHY, *supra* note 10, § 23:19, at 23-66. The Second Circuit employs an eight-factor “Polaroid” test. See *Polaroid Corp. v. Polaroid Elec. Corp.*, 287 F. 2d 492 (2d Cir. 1961). The Ninth Circuit uses eight factors established by the court in *AMF Inc. v. Sleekcraft Boats*. 599 F.2d 341, 348-49 (9th Cir. 1979) (articulating the well-known *Sleekcraft* factors).

116. 919 F.2d 1353, 1364 (9th Cir. 1990). In *Shaw*, the plaintiff, a screenwriter, charged that Lindheim used a rejected Shaw script—*The Enforcer*—to write his own television pilot of the same name. *Id.* at 1355. The court found that the two works could be found substantially similar and that Shaw had a legitimate copyright claim. *Id.* at 1363. The court, however, rejected Shaw’s claim of reverse passing off, reasoning that § 43(a) prohibited only the passing off of the actual product, not merely of similar products. *Id.* at 1364. The court found that Lindheim’s script was sufficiently different from Shaw’s original such that “the likelihood that the two works will be confused is minimal.” *Id.*

117. *Twentieth Century Fox Film Corp. v. Entm’t Distrib.*, 34 Fed. Appx. 312, 314 (9th Cir. 2002) (unpublished opinion).

118. *Id.* (quoting *Cleary v. News Corp.*, 30 F.3d 1255, 1261-62 (9th Cir. 1994)) (internal quotes omitted).

119. 43 F.3d 775, 784 (2d. Cir. 1994) (“We see no reason for such a bright-line rule.”).

120. *Id.* at 783. In *Waldman*, the court found that a children’s book written by Landoll was substantially similar to a book written by Waldman. *Id.* Although both publishers based the books on a public domain source, Landoll’s book mimicked the adaptations and illustrations used by Waldman. *Id.* The *Waldman* court affirmed the district court’s holding that the similarities between the two books showed that Landoll had copied

this test also only looks at the similarity of the goods or marks in determining whether there is a likelihood of confusion.<sup>121</sup> Despite the different standards, both circuits follow a two-step process: first determining whether a work is similar enough to constitute a false designation of origin and then determining whether that similarity leads to consumer confusion.<sup>122</sup>

In contrast to these single-test methods, other circuits continue to use traditional multi-factor consumer confusion analysis.<sup>123</sup> A multi-factor analysis relying on the Ninth Circuit's *Sleekcraft* test, for example, would have looked to such other facts as the sophistication of the consumers that bought the *Crusade* and *Campaign* videos before finding likelihood of consumer confusion.<sup>124</sup>

The multi-factor approach used by most circuits is arguably the correct one. Mere similarity of marks can sometimes be a poor indicator of consumer confusion. Sophisticated consumers can make distinctions that a court may miss when it only looks at the marks' similarities. For example, a sophisticated consumer of romance novels would likely differentiate between two romance novels that a court may find "substantially similar." Likewise, use of a song within the context of a film may not always result in consumer confusion as to the origin of the song or of the songwriter's sponsorship of the film.<sup>125</sup> The *Dastar* Court, however, did not reach the issue. Courts will have to wait and see whether it will continue to be permissible to find consumer confusion based solely on similarity of marks or goods.

#### IV. CONCLUSION

*Dastar* makes two very important distinctions. First, it separates true reverse-passing-off claims from those that are merely copyright claims in

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Waldman's works with only minimal alterations to disguise the copying. *Id.* The court also found that "consumers are likely to be confused by Landoll's misrepresentation . . . even though the [books] are 'substantially similar' to but not 'bodily appropriations' of the Waldman books." *Id.* at 784.

121. *Id.* at 783.

122. *Id.* at 783-84; *Cleary*, 30 F.3d at 1261-62.

123. *See supra* note 113.

124. *See* AMF Inc. v. Sleekcraft Boats, 599 F.2d 341, 348-49 (9th Cir. 1979).

125. *Agee v. Paramount Communications, Inc.*, 59 F.3d 317 (2d Cir. 1995) presents just such a case. Paramount had played portions of plaintiff Michael Agee's songs in a television feature. *Agee*, 59 F.3d at 319. The court ruled Agee had a valid copyright claim. *Id.* at 324. However, the court stated that Agee failed to show that the public was confused as to the source of the songs, and therefore did not have a Lanham Act claim. *Id.* at 327.

disguise. Second, it limits the protections a copyrighted (or formerly copyrighted) work can receive under trademark law. However, the Court failed to make two important rulings. First, it failed to state explicitly that a trademark that loses its copyright may still retain trademark status. Second, it failed to set forth guidelines for determining consumer confusion in cases of reverse passing off. In doing so, the Court made certain that *Dastar* would be followed by new skirmishes as the Court continues to mark the boundaries between copyright and trademark protections.

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## ADDITIONAL DEVELOPMENTS—TRADEMARK

### *CABLE NEWS NETWORK LP, LLP v. KHOURI*

UDRP case no. 117876 (Dec. 16, 2002) (Nat'l Arb. Forum)

### *DLUHOS v. STRASBERG*

321 F.3d 365 (3rd Cir. 2003)

Two recent cases examined the reach of the Uniform Domain Name Dispute Resolution Policy (UDRP). In *Cable News Network LP, LLP v. Khouri*, the National Arbitration Forum ("Forum") ruled that an online news provider called "Channel News Network" violated the UDRP rules by registering hundreds of domain names starting with "CNN", a service mark well known for the news and information services of Cable News Network (CNN).

Channel News Network ("Channel") is a Lebanon-based company providing online news coverage of the Middle East. Through U.S. registrars, Channel has registered over 325 domain names, such as "cnn-mexico.com" and "cnnafrika.com," all in the form of "cnn + x.gTLD," where x is a geographic or other identifier and gTLD is a generic top level domain (e.g., ".com" or ".org"). The Forum ruled against Channel and ordered all the disputed domain names transferred to CNN. First, the Forum found sufficient similarities between each of the disputed domain names and the CNN mark. The arbitrators reasoned that merely appending a suffix is insufficient to dispel confusion because CNN has formed its own domain names in a similar manner. Second, the Forum ruled that Channel does not have any legitimate rights or interests in the disputed domain names. In the Forum's view, Channel chose hundreds of domain names containing the well-known CNN mark with a clear intention to exploit Internet users' confusion. Last, the Forum found that Channel registered and used the disputed domain names in bad faith.

In the second case, *Dluhos v. Strasberg*, the Third Circuit decided on whether a dispute resolution under the UDRP is entitled to the "extremely deferential" standard of judicial review applicable to most arbitration awards.

Dluhos registered the domain name "leestrasberg.com," invoking the name of the renowned acting coach. Strasberg's estate brought a complaint to the National Arbitration Forum, which ruled against Dluhos in a dispute resolution under the UDRP. Dluhos then challenged the constitutionality of the dispute resolution process in federal court. The district court applied the "extremely deferential" standard of judicial review set forth in the Federal Arbitration Act ("FAA") and dismissed Dluhos' complaint for failure to state a claim.

Dluhos appealed. The Third Circuit reversed, holding that the UDRP dispute resolutions fall outside the limited scope of the FAA. The court reasoned that under the UDRP's unique contractual agreement, the dispute-resolution mechanism does not constitute "arbitration" under the FAA. First, the court found the UDRP proceedings are not intended to replace litigation, but rather to provide quick, independent judicial resolution. Second, because a UDRP proceeding is not a mandatory step before a party seeks independent judicial review, it is unlike traditional arbitration. The court remanded the case to the district court with instructions to review the resolution de novo under the Anticybersquatting Consumer Protection Act.

***PROMOTEK INDUS., LTD. V. EQUITRAC CORP.***

*300 F.3d 808 (7th Cir. 2002)*

***HORPHAG RESEARCH, LTD. V. PELLEGRINI***

*337 F.3d 1036 (9th Cir. 2003)*

In a pair of cases decided by the Seventh Circuit and the Ninth Circuit, the appellate courts ruled that unauthorized use of a trademark in a metatag constituted trademark infringement. A “metatag” is HyperText Markup Language (HTML) code that describes the content of a website. Due to the way some search engines use them, metatags determine how many hits a web page receives and ultimately how the web page is prioritized on the results list.

In the first case, plaintiff Promatek and defendant Equitrac were competing cost-recovery equipment suppliers. Equitrac’s website contained the term “Copitrack” as a metatag because Equitrac provides maintenance and service on Copitrak equipment (a product used in the cost-recovery business). Promatek, owner of the Copitrak trademark, filed suit against Equitrac seeking a preliminary injunction preventing Equitrac from using the term Copitrack. The district court granted the injunction and ordered Equitrac to provide the Promatek and Copitrak web addresses and state on its website that any link between its website and Copitrack was in error. Equitrac appealed and argued that the court should not have issued the injunction without an evidentiary hearing. It also claimed that the required statement would encourage customers to go to Promatek’s website, and that would harm Equitrac’s business.

The Seventh Circuit affirmed. In assessing the likelihood of success on the merits, the court found that there is strong likelihood of consumer confusion from Equitrac’s use of the Copitrack metatag. Specifically, the court found that the use could lead to consumers’ initial interest confusion, which is actionable under the Lanham Act. The court also found that Equitrac’s use of the trademark caused ongoing injury to Promatek’s goodwill, for which Promatek had no adequate remedy at law; therefore, Promatek would suffer irreparable harm. Third, the court found that the harm to Promatek in denying the injunction outweighed the harm to Equitrac in granting it. Since Equitrac lacked evidentiary support for its claims, the court rejected Equitrac’s claim that the remedial language on its website would damage Equitrac and that an evidentiary hearing was unnecessary. In addition, the court found that the injunction would benefit the public interest by preventing consumer confusion. The court noted that websites are limited to legitimate uses of trademarks in metatags, such as including press releases of litigation, placing comparison claims or advertising ability to service the trademarked product.

In *Horphag*, plaintiff owned the trademark “Pycnogenol” for its pine bark extract product. Defendant Garcia, who ran a website which sells pharmaceutical products, repeatedly used “Pycnogenol” as a metatag. Horphag sued for trademark infringement and dilution. The district court granted Horphag’s motion for judgment as a matter of law and awarded attorneys’ fees to Horphag. Garcia appealed.

The Ninth Circuit affirmed the trademark infringement judgment and the award of attorneys’ fees. The court found ample evidence on the record supporting the finding of unauthorized use of the trademark by Garcia. In addressing Garcia’s fair use defense, the Ninth Circuit separated the defense into a “classical” fair use defense and a “nominative” fair use defense. Since “Pycnogenol” does not have a descriptive meaning, the “classi-

cal” fair use defense did not apply, since it is only available when the primary descriptive sense of the mark is used instead of its secondary meaning. With the “nominative” fair use defense, the court required Garcia to satisfy three factors: (1) the product must not be readily identifiable without use of the mark; (2) only so much of the mark could be used as was reasonably necessary to identify the product; and (3) the user must have done nothing that would, in conjunction with the mark, suggest sponsorship or endorsement by the trademark holder. The court concluded that Garcia at least failed to meet the third factor. The court also held that the record evidencing Garcia’s willful and deliberate actions supported the award of attorneys’ fees.

The Ninth Circuit, however, vacated the district court’s judgment on the trademark dilution claim. Since the district court did not have the opportunity to consider the facts of this case with regard to the standard recently articulated by the Supreme Court in *Moseley v. V Secret Catalog, Inc.*, 537 U.S. 418 (2003), which interpreted the Federal Trademark Dilution Act to require proof of actual dilution, the Ninth Circuit remanded that claim for reconsideration.

*TAUBMAN CO. V. WEBFEATS**319 F.3d 770 (6th Cir. 2003)*

The Sixth Circuit ruled that the First Amendment protected noncommercial use of Internet domain names similar to another party's trademark, and that Internet domain names are a type of public speech that can be used for critical commentary.

Plaintiff Taubman was building a shopping mall called "The Shops at Willow Bend." Defendant Mishkoff registered the domain name "shopsatwillowbend.com" and created a website at that address. Mishkoff's website contained information about the mall and its individual stores. His website also contained a prominent disclaimer, indicating that the site was unofficial, with a link to the mall's official website. Except for a link to a company run by Mishkoff's girlfriend and a link to Mishkoff's website for his web design business, "shopsatwillowbend.com" had no other commercial content. Taubman sued Mishkoff for trademark infringement upon learning of the site. Mishkoff responded by registering five more domains with "complaint names," such as "taubmansucks.com." The five "complaint" domain names linked to the same site where Mishkoff provided information about the ongoing suit.

The district court granted Taubman's motion for a preliminary injunction, enjoining Mishkoff from using the original domain name as well as the five "complaint" domain names. Mishkoff appealed, and the Sixth Circuit reversed.

The Sixth Circuit noted that for Taubman to succeed on the merits of its Lanham Act claim, Mishkoff's use of the "shopsatwillowbend.com" domain name needed to (1) be commercial in nature and (2) cause a likelihood of confusion. The court stated that Mishkoff's site contained little commercial content at the time of injunction, since Mishkoff had removed the link to his girlfriend's company's website prior to the issuance of the injunction and had promised to not use the site for any advertising purpose. The court also found that Mishkoff was not a habitual cybersquatter, selling domain names for profit. The Court therefore held that Mishkoff's use of the name "shopsatwillowbend.com" was not "in connection with the sale of goods." Furthermore, the court found that even if Mishkoff's use of the domain name was commercial speech, it was unlikely to cause consumer confusion because of the disclaimer on the site. On the contrary, the court held that the disclaimer might serve to re-direct lost consumers to Taubman's site, as it linked to the official site.

With regard to the "complaint names," the Sixth Circuit held that they were purely exhibitions of free speech. The court regarded domain names as a type of public expression, similar to a billboard or a pulpit. It stated that even if the intended effect of Mishkoff's expression was to cause economic damage, the First Amendment protects critical commentary when there is no confusion as to source. Since the complaint domain names were not commercially misleading, the court held that the plaintiff could not invoke the Lanham Act to prevent the use of those domain names.

***TY INC. V. PERRYMAN****306 F.3d 509 (7th Cir. 2002)*

The Seventh Circuit curbed the use of trademark law to impede secondary market sellers from using manufacturers' trademarks in their marketing efforts.

Ty Inc. ("Ty") is the maker of popular beanbag stuffed animals known as "Beanie Babies." Ruth Perryman was primarily marketing Ty's Beanie Babies, but also some "other beanies" on her Internet website, [www.bargainbeanies.com](http://www.bargainbeanies.com). Particularly concerned over the similarity of Perryman's domain name to Ty's own trademark, Ty filed suit claiming that Perryman violated 15 U.S.C. § 1125(c), the federal trademark antidilution statute. The district court granted summary judgment to Ty and granted an injunction forbidding Perryman from using the word "beanie" in her business dealings. She appealed from this decision and argued that "beanie" had become a generic word that could not be protected by trademark law.

Judge Posner, writing for the Seventh Circuit panel, vacated the lower court ruling and remanded for the formulation of a proper injunction, finding that a manufacturer cannot use trademark law to stop secondary market sellers from marketing the trademarked product. Citing reasons of impracticability and unfairness, the Seventh Circuit concluded that secondary market dealers need to use the trademarked name to sell a branded product. The court likened the prospect of barring Perryman from using the word "beanie" to that of a used car dealer not being able to use the word "Toyota" in its advertisements. Because Ty's trademark name is "suggestive" of the very nature of the product, the court also implied that the company may soon have to look for a new trademark. Finally, the court found that using the label "other beanies" to denote non-Ty products was false advertising and ruled that an injunction pertaining to those uses of "beanie" would be proper.



# DVD COPY CONTROL ASSOCIATION V. BUNNER: FREEDOM OF SPEECH AND TRADE SECRETS

By Alex Eaton-Salmers

## I. INTRODUCTION

An effective intellectual property regime maintains a delicate balance between the interests granted to creators (and their assignees) and the rights and interests of the public in those creations.<sup>1</sup> One of the tensions created by the expansion of intellectual property rights involves the First Amendment rights of the general public.<sup>2</sup>

The last few decades have witnessed numerous changes in intellectual property doctrines.<sup>3</sup> In this new millennium, advancements in technology and shifts in social norms require a reevaluation of our intellectual property regime.<sup>4</sup> Although the proliferation of efficient means of data transfer and storage, such as the Internet and the personal computer, advances the goal of universal, low-cost access to the total output of human knowledge, large companies are stymieing this goal by leveraging their stockpiles of intellectual property in order to generate profits. To prevent unauthorized use or dissemination of this information, such companies are turning to

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1. See, e.g., *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 146-47 (describing the balance contained in the Intellectual Property Clause of the Constitution).

2. See, e.g., Andrew Beckerman-Rodau, *Prior Restraints and Intellectual Property: The Clash Between Intellectual Property and the First Amendment from an Economic Perspective*, 12 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 1 (2001); Mark A. Lemley & Eugene Volokh, *Freedom of Speech and Injunctions in Intellectual Property Cases*, 48 DUKE L.J. 147 (1998).

3. Examples include the introduction of a quasi-perpetual copyright term, see *Sonny Bono Copyright Term Extension Act of 1998*, Pub. L. No. 105-298, 112 Stat. 2827 (codified as amended in scattered sections of 17 U.S.C.) (adding an additional twenty years to the copyright term), the allowance of software and business method patents, see *State St. Bank & Trust Co. v. Signature Fin. Group Inc.*, 149 F.3d 1368 (Fed. Cir. 1998) (ending the "business method" exception), and the expansion of trademark dilution rights in *Federal Trademark Dilution Act of 1995*, Pub. L. No. 104-98, 109 Stat. 985 (1996) (codified as amended at 15 U.S.C. §§ 1125(c), 1127 (2000)) (creating a federal trademark dilution cause of action).

4. Cf. *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 430 n.12 (1984) (quoting *Foreword to B. KAPLAN, AN UNHURRIED VIEW OF COPYRIGHT*, at vii-viii (1967) (describing how intellectual property doctrines reflect social change)).

contract law and technological protection measures to restrict how consumers can interact with the information they possess. Because form contracts and technological restrictions dictate what consumer behaviors are possible, they override many pre-existing statutory frameworks.<sup>5</sup> Against this background, courts are setting new precedents in trade secret law.

In August of 2003, the California Supreme Court reinstated a preliminary injunction enjoining the publication of information relating to the scheme used to encrypt the contents of DVDs.<sup>6</sup> The trial court had issued the preliminary injunction pursuant to California's trade secret law.<sup>7</sup> The California Supreme Court set aside the judgment of the court of appeal and remanded for further proceedings consistent with its opinion.<sup>8</sup> In so doing, the court rejected the defendant's First Amendment defense by finding that: the program DeCSS,<sup>9</sup> which decrypts DVDs, is not a matter of public concern; that an injunction prohibiting the publication of this program and related algorithms is content neutral; and that such an injunction is not a prior restraint on speech.<sup>10</sup>

After the submission of briefs on remand, the plaintiff, DVD Copy Control Association ("DVD-CCA"), judged that its case was too weak to be worth any additional litigation expenses and filed a motion in the trial court to voluntarily dismiss the underlying action against all defendants.<sup>11</sup>

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5. See generally LAWRENCE LESSIG, CODE AND OTHER LAWS OF CYBERSPACE (1999); Jacques De Werra, *Moving Beyond the Conflict between Freedom of Contract and Copyright Policies: In Search of a New Global Policy for On-Line Information Licensing Transactions*, 25 COLUM.-VLA J.L. & ARTS 239 (2003); J.H. Reichman & Jonathan A. Franklin, *Privately Legislated Intellectual Property Rights: Reconciling Freedom of Contract with Public Good Uses of Information*, 147 U. PA. L. REV. 875 (1999); Joel R. Reidenberg, *Lex Informatica: The Formulation of Information Policy Rules through Technology*, 76 TEX. L. REV. 553, 580-81 (1998).

6. DVD was originally an abbreviation for Digital Video Disc. Later groups created the alternate expansion Digital Versatile Disc to emphasize the other possible uses for DVDs. According to the DVD Forum, the letters officially stand for nothing at all. Jim Taylor, DVD Frequently Asked Questions (and Answers), DVD Demystified, at <http://www.dvddemystified.com/dvdfaq.html#1.1> (last updated Feb. 22, 2004) (§ [1.1.1.] What do the letters DVD stand for?).

7. DVD Copy Control Ass'n v. Bunner, 75 P.3d 1, 20 (Cal. 2003) [*hereinafter Bunner II*], rev'g 113 Cal. Rptr. 2d 338 (Cal. Ct. App. 2001) [*hereinafter Bunner I*].

8. *Id.*

9. The name DeCSS is a combination of the prefix "de-" meaning removal and "CSS" which is an abbreviation for the Content Scrambling System. See *infra* note 20.

10. *Bunner II*, 75 P.3d at 11-19.

11. Request for Dismissal, DVD Copy Control Ass'n v. McLaughlin (Cal. Super. Ct. Jan. 21, 2004) (No. 1-99-CV-786804), [http://www.eff.org/Legal/Cases/DVDCCA\\_case/20040121\\_dismissal.pdf](http://www.eff.org/Legal/Cases/DVDCCA_case/20040121_dismissal.pdf) (dismissal request appended to bottom of PDF file of DVD-CCA Notice of Motion to Dismiss Appeal for Mootness). Because the case was

The DVD-CCA then asked the court of appeal to dismiss the pending appeal as moot.<sup>12</sup> Andrew Bunner, the defendant, opposed this motion, and the court of appeal denied the request and conducted an independent review of the trial court's findings of fact.<sup>13</sup>

On remand, the appellate court rejected the assumption that the CSS algorithm and master keys were a trade secret and found that the trial court's issuance of a preliminary injunction was unjustified.<sup>14</sup> Indeed, the DVD-CCA likely tried to end the litigation precisely because its underlying trade secret case was so tenuous.

In Part II, this Note examines the historical background of *DVD Copy Control Ass'n v. Bunner*. Part III addresses the legal framework of the case and describes the California Supreme Court's analysis. Part IV assesses the strength of the trade secret claim underlying the trial court's issuance of the preliminary injunction and concludes, as did the court of appeal, that the DVD-CCA's case was very weak. In Part V, this Note analyzes the relationship between trade secrets and free speech and asserts that the court's formulation of the public concern doctrine was misguided. It further contends that DeCSS is a matter of public concern and that its publication should not have been enjoined.

## II. HISTORICAL BACKGROUND

In 1995, a consortium of ten companies announced the DVD format.<sup>15</sup> The term DVD refers to both physical formats such as DVD-ROM and to application formats such as DVD-Video.<sup>16</sup> The DVD standard includes many access control systems.<sup>17</sup> These systems perform various functions

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unilaterally dismissed, Andrew Bunner is entitled to collect any costs incurred during his four-year defense. Press Release, Matthew R. Pavlovich, DVD CCA Dismisses California DVD Case (Jan. 22, 2004), at <http://www.dvdcase.org/press.php>.

12. DVD Copy Control Association's Notice of Motion to Dismiss Appeal for Mootness at 2, *DVD Copy Control Ass'n v. Bunner*, 2004 WL 362414 (Cal. App. Jan. 21, 2004) (No. H021153), [http://www.eff.org/Legal/Cases/DVDCCA\\_case/20040121\\_dismissal.pdf](http://www.eff.org/Legal/Cases/DVDCCA_case/20040121_dismissal.pdf).

13. *DVD Copy Control Ass'n v. Bunner*, 10 Cal. Rptr. 3d 185, 187, 192 (Cal. Ct. App. 2004) [hereinafter *Bunner III*], <http://www.courtinfo.ca.gov/opinions/documents/H021153A.PDF>.

14. *Id.* at 196.

15. Taylor, *supra* note 6, § [6.1] (§ [6.1] Who invented DVD and who owns it? Whom to contact for specifications and licensing?).

16. Movies, for example are stored on DVDs in the DVD-Video application format while the base format for holding arbitrary data is DVD-ROM. *Id.* § [1.1] (§ [1.1] What is DVD?).

17. *Id.* at § [1.4] (§ [1.4] What are the disadvantages of DVD?).

such as disabling playback of DVDs purchased abroad<sup>18</sup> and preventing copying or sampling of content.<sup>19</sup> The Content Scrambling System (“CSS”) is an access control system that prevents digital copying or sampling of content from DVD-Video discs.<sup>20</sup>

CSS is a relatively weak encryption scheme that has a keylength of forty bits.<sup>21</sup> The poor design of the algorithm, along with the short keylength, render CSS susceptible to basic reverse engineering techniques, such as brute force and plaintext attacks.<sup>22</sup> As a result, CSS can easily be defeated without any access to the encryption keys.<sup>23</sup>

The underpinnings of CSS and its master keys were reverse engineered from a software-based DVD decoder sometime in 1999.<sup>24</sup> Using the results of the reverse engineering process, Norwegian teenager Jon Johansen wrote a new program called DeCSS that could overcome the CSS encryption.<sup>25</sup> Johansen published this DeCSS program on the Internet in October of 1999.<sup>26</sup>

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18. *Id.* at § [1.10] (§ [1.10] What are “regional codes,” “country codes,” or “zone locks”?).

19. *Id.* at § [1.11] (§ [1.11] What are the copy protection issues?).

20. *Id.* For a technical description of the CSS algorithm, see, for example, Eddie Edwards, *The Content Scrambling System (CSS)*, at <http://www.tinyted.net/eddie/css.html> (last visited Feb. 17, 2003); Frank A. Stevenson, *Analysis of DVD Contents Scrambling System*, at <http://www-2.cs.cmu.edu/~dst/DeCSS/FrankStevenson/analysis.html> (last updated Nov. 13, 1999).

21. Declaration of Roland Parviainen, *DVD Copy Control Ass’n v. McLaughlin* (Cal. Super. Ct. Nov. 28, 2001) (No. 1-99-CV-786804), [http://www.eff.org/IP/Video/DVDCCA\\_case/20011128\\_parviainen\\_decl.html](http://www.eff.org/IP/Video/DVDCCA_case/20011128_parviainen_decl.html). The keylength of an encryption scheme is one measure of its strength. A longer keylength usually corresponds to stronger encryption. Key Length, *Law-On-Line*, <http://www.law-on-line.com/cyberlaw/keylength.html> (last visited Mar. 10, 2004).

22. Edwards, *supra* note 20.

23. *Id.*

24. For a timeline of the events surrounding the reverse engineering of CSS and the creation of DeCSS, see *Informal DeCSS History Timeline*, Berkman Center for Internet & Society, at <http://cyber.law.harvard.edu/openlaw/DVD/research/chronology.html> (last visited Feb. 17, 2003).

25. *Bunner II*, 75 P.3d 1, 7 (Cal. 2003). Although Johansen was the author of the DeCSS program, the actual reverse engineering of the CSS algorithm was done by an anonymous programmer using the handle “the nomad” on Internet Relay Chat (IRC). Jon Bing, *The Norwegian DVD Case—Decision by Borgarting Appellate Court 5* (Dec. 22, 2003), at <http://www.ipjustice.org/johansen/DVD-Jon-Borgarting-1-eng.pdf> (unofficial translation of decision of Norwegian court). The results of the reverse engineering were passed on to Johansen through an anonymous source using the IRC handle “mdx.” *Id.*

26. *Bunner II*, 75 P.3d at 7. At the urging of the Motion Picture Association and the DVD-CCA, Jon Johansen was criminally tried under Norwegian law for his part in the DeCSS saga. Bing, *supra* note 25, at 3. He was acquitted of all charges in the Oslo City

In an effort to stop the dissemination of DeCSS and the many similar programs that followed, the DVD-CCA and the major motion picture studios filed suit against hundreds of people, known and unknown, who posted any form of the DeCSS program or who published the location of servers which provided DeCSS or related materials.<sup>27</sup> In addition to the suit against Bunner and his co-defendants, which the DVD-CCA brought under California trade secret law,<sup>28</sup> other plaintiffs also filed suits under the anti-circumvention provisions of the Digital Millennium Copyright Act (DMCA).<sup>29</sup> Despite these efforts, DeCSS and similar programs continue to proliferate.<sup>30</sup> In addition to websites which provide downloadable copies of DeCSS and similar programs, these programs can be found on tee shirts, contained in poems and music, as well as archived in mainstream publications such as MIT's *Technology Review*<sup>31</sup> and *Wired Magazine*.<sup>32</sup> Even the *Wall Street Journal* published one of the CSS encryption keys.<sup>33</sup>

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Court in January of 2003, and this ruling was unanimously upheld on appeal by the Borgia Appellate Court that December. *Id.* at 2, 11. The temporal proximity (less than one month) between the affirmation of Johansen's acquittal and the DVD-CCA's decision to drop its California trade secret case suggests that the outcome of Johansen's criminal case may have influenced the DVD-CCA's decision calculus.

27. *See, e.g., Universal City Studios, Inc. v. Reimerdes*, 111 F. Supp. 2d 294 (S.D.N.Y. 2000). *DVD Copy Control Ass'n v. McLaughlin* was the only suit brought under trade secret law. The other suits were brought under copyright law.

28. CAL. CIV. CODE § 3426 (West 1997).

29. 17 U.S.C. §§ 101-1205 (2000); *Bunner II*, 75 P.3d at 7.

30. At the time the injunction was entered, searches for DeCSS on the search engine Google revealed over 100,000 sites that provided DeCSS or information about it. Answer Brief of Respondent Andrew Bunner at 3, *DVD Copy Control Ass'n v. Bunner*, 75 P.3d 1 (Cal. 2003) (No. CV 786804), 2002 WL 1926020. As of March 11 2004, the number of hits was over 225,000. Google Search: DeCSS, Google, at <http://www.google.com/search?hl=en&ie=UTF-8&oe=UTF-8&q=DeCSS>.

31. Simson Garfinkel, *The Net Effect: The DVD Rebellion*, *TECH. REV.*, July-Aug. 2001, at 26. Unfortunately, the online version of the article, available at <http://www.technologyreview.com/articles/garfinkel0701.asp>, does not reproduce the code since it is contained in a side bar.

32. Victor C. Clarke, *DVD Hacking for Dummies*, *WIRED MAG.* 9.06, June 2001, at 78, available at <http://www.wired.com/wired/archive/9.06/mustread.html?pg=6>. A gallery of DeCSS Descramblers compiled by computer science professor David Tourstzky is a good starting point to explore these alternative embodiments of DeCSS. David Tourstzky, *Gallery of CSS Descramblers*, at <http://www.cs.cmu.edu/~dst/DeCSS/Gallery> (last modified Aug. 17, 2003). For a whimsical look at some of the many ways to distribute DeCSS, see Samuel Hocevar, *42 Ways to Distribute DeCSS*, at <http://decss.zoy.org> (last updated Aug. 30, 2000). For those interested, here is the short Perl script that *Wired Magazine* published with the same functionality as DeCSS:

```
s''$/=2048;while(<>){G=29;R=142;if((@a=unqT="C*",_)[20]&48){
D=89;_ =unqb24,qT,@ b=map{ord qb8,unqb8,qT,_ ^$a[--D]};@INC;s/
...$/1$&/;Q=unqV,qb25,_;H=73;O=$b[4]<<9|256|$b[3];Q=Q>>8^(P=
```

### III. LEGAL FRAMEWORK

#### A. Case Facts and Summary

After reading an article about DeCSS on the technology news and discussion site Slashdot, Andrew Bunner posted a copy of DeCSS on his website.<sup>34</sup> Based on this posting, the DVD-CCA named Bunner as a defendant when they filed their trade-secret suit in a superior court in Santa Clara, California.<sup>35</sup> The lawsuit sought to enjoin use, disclosure, and distribution of CSS-related trade secrets and to prohibit the disclosure of the location of websites that either disclosed such trade secrets or linked to other websites that disclosed CSS-related information.<sup>36</sup> Following the submission of written declarations by both sides, the trial court entered a preliminary injunction that applied to all defendants.<sup>37</sup> Since Bunner was the only defendant who appeared to contest the motions of the DVD-CCA, he was the only person to appeal the trial court's ruling.<sup>38</sup>

The court of appeal reversed on the grounds that the injunction was a violation of Bunner's rights to free speech as contained in the First Amendment and the related section of the California Constitution.<sup>39</sup> The DVD-CCA appealed and the California Supreme Court issued a narrow decision that examined the First Amendment defense identified by the court of appeal.<sup>40</sup> Both appeals courts assumed *arguendo* that the factual findings entered by the trial court were valid.<sup>41</sup> On remand, however, the court of appeal was instructed to independently evaluate the entire record

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(E=255)&(Q>>12^Q>>4^Q/8^Q))<<17,O=O>>8^(E&(F=(S=O>>14&
7^O)^S*8^S<<6))<<9,_(map{U=_%16orE^=R^=110&(S=(unqT,"xb
\ntd\xbz\x14d")[_/16%8]);E^=(72,@z=(64,72,G^=12*(U?0:S&17)),H^
=_%64?12:0,@z)[_%8]}(16..271))[_]^(D>>=8)+=P+(~F&E))for@a[1
28..$#a]}print+qT,@a}';s/[D-HO-U_]^\$&&/g;s/q/pack+/g;eval
```

Clarke, *supra*; Keith Winstein & Marc Horowitz, qrpff, at <http://www.2.cs.cmu.edu/~dst/DeCSS/Gallery/qrpff.pl>.

33. David Hamilton, *Banned Code Lives in Poetry and Song—Critics of DVD-Copyright Ruling Say the Constitution Protects Posting Program in All Forms*, WALL ST. J., Apr. 12, 2001, at B1, available at 2001 WL-WSJ 2860112.

34. *Bunner II*, 75 P.3d at 7.

35. *Id.* at 8.

36. *Id.*

37. *Id.*

38. *Id.*

39. *Id.* at 8-9 (citing CAL. CONST. art. I § 2(a)).

40. *Id.* at 10.

41. *Id.* at 9-10.

to determine if the injunction was an abuse of the trial court's discretion.<sup>42</sup> This Note next examines the reasoning of the California Supreme Court.

## B. California Trade Secret Law

The first question a court must answer in a trade secret misappropriation inquiry is whether there is a valid underlying trade secret to support the action.<sup>43</sup> California is one of many states that have substantially adopted the Uniform Trade Secrets Act.<sup>44</sup> Under California law, "information, including a formula, pattern, compilation, program, device, method, technique, or process" is protectable as a trade secret if it "(1) [d]erives independent economic value, actual or potential, from not being generally known to the public or to other persons who can obtain economic value from its disclosure or use; and (2) [i]s the subject of efforts that are reasonable under the circumstances to maintain its secrecy."<sup>45</sup> For the purposes of its opinion, the California Supreme Court assumed that the DVD-CCA would likely prevail on its claims that the CSS algorithm and master keys were protectable trade secrets and that the widespread publication of these trade secrets in many media did not destroy the secret nature of either the algorithm or the master keys.<sup>46</sup>

The next step of the inquiry is to determine if the underlying trade secret has been misappropriated. Under California law, one way to misappropriate a trade secret is to acquire, disclose or use "a trade secret of another" when one "knows or has reason to know that the trade secret was acquired by improper means."<sup>47</sup> The court assumed that DVD-CCA could

42. *Id.* at 19-20.

43. CAL. CIV. CODE § 3426.1(b) (West 1997).

44. *Bunner II*, 75 P.3d at 9. The Uniform Trade Secrets Act is codified at section 3426 of the California Civil Code. For a discussion of this law, see Jeff Danley, Note, *Cadence v. Avant! : The UTSA and California Trade Secret Law*, 19 BERKELEY TECH. L.J. 289 (2004).

45. CAL. CIV. CODE § 3426.1(d).

46. *Bunner II*, 75 P.3d at 9-10.

47. California law defines "misappropriation" as:

(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

(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 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;

show that the CSS trade secrets were improperly acquired and disclosed in the DeCSS program and that Bunner knew or should have known that the acquisition of the trade secrets was improper.<sup>48</sup>

### C. The First Amendment

Because the California Supreme Court assumed for the purposes of the appeal that there was trade secret misappropriation, the existence (or lack thereof) of the underlying trade secret was not at issue. Instead, the court's holding examined the interaction of trade secret law and the First Amendment.<sup>49</sup>

After affirming that computer code is speech for the purposes of the First Amendment, the court examined the level of scrutiny to be applied to the trial court's preliminary injunction.<sup>50</sup> To determine the appropriate level of scrutiny, courts distinguish between content and non-content based injunctions.<sup>51</sup> While content-based injunctions are subject to heightened scrutiny,<sup>52</sup> content-neutral injunctions receive a lower level of scrutiny.<sup>53</sup>

As applied to the facts of the case, the court found that the injunction was content neutral and would be subject to something less than heightened scrutiny.<sup>54</sup> The court reasoned, as discussed above, that since the underlying governmental purpose of the injunction was to protect the DVD-CCA's trade secrets, the incidental regulation of Bunner's speech remained content neutral.<sup>55</sup> The court determined that the governmental pur-

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(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.

CAL. CIV. CODE § 3426.1(b).

48. *Bunner II*, 75 P.3d at 9-10.

49. *Id.* Bunner also asserted a right to free speech originating from the relevant provision of the California Constitution. *See* CAL. CONST. art. I § 2(a). The court concluded that these two rights were substantially coterminous. *Bunner II*, 75 P.3d at 19.

50. *Bunner II*, 75 P.3d at 10. For more information on the speech aspects of computer code, see generally Lee Tien, *Publishing Software as a Speech Act*, 15 BERKELEY TECH. L.J. 629 (2000).

51. *Bunner II*, 75 P.3d at 11.

52. *See* *Perry Educ. Ass'n v. Local Educators Ass'n*, 460 U.S. 37, 45 (1983).

53. *Bunner II*, 75 P.3d at 11 (citing *Madsen v. Women's Health Care*, 512 U.S. 753, 765 (1994)).

54. *Id.*

55. *Id.*

pose behind the injunction was the legitimate enforcement of trade secret law based on the assumption that a violation of the trade secret misappropriation statute had occurred.<sup>56</sup>

The court next applied the reduced scrutiny test for content-neutral injunctions outlined in *Madsen v. Women's Health Care*.<sup>57</sup> The *Madsen* test asks "whether the challenged provisions of the injunction burden no more speech than necessary to serve a significant government interest."<sup>58</sup> Based on the same considerations which the court used in finding the injunction content neutral, the court found that the injunction "achieve[d] the requisite balance and burden[ed] 'no more speech than necessary to serve' the government interests at stake."<sup>59</sup> In other words, the court found that the government interest in the enforcement of trade secrets was compelling since the prevention of dissemination is the only way to maintain secrecy.<sup>60</sup> In addition, the court ruled that the assumption of Bunner's actual or constructive knowledge of the improper acquisition of the CSS trade secrets precluded him from distributing the DeCSS program because such distribution would be contrary to the standard of commercial ethics promulgated by trade secrecy.<sup>61</sup>

The court also held that the CSS algorithm and DeCSS were not matters of public importance or public concern.<sup>62</sup> The court reasoned that since the information embodied in CSS and DeCSS was "only technical information . . . [and] only computer encryption enthusiasts [would be in-

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56. *Id.* at 9-10.

57. *Id.* at 13 (citing *Madsen*, 512 U.S. at 765).

58. *Madsen*, 512 U.S. at 765.

59. *Bunner II*, 75 P.3d at 13 (quoting *Madsen*, 512 U.S. at 765).

60. *Id.* at 13-14. The court did not address the government interests in protecting fair use, encouraging the free flow of ideas, ensuring access to personal property, promoting system interoperability, or any other interests on the side of disclosure. Instead, the court glossed over the analysis of the strength of the government interest and assumed that the only interest was in upholding the statute. *Id.* In *Madsen*, for example, the combination of government interests that the Court found compelling enough to enjoin speech were (1) protecting the freedom to obtain lawful medical and counseling services; (2) maintaining public safety and order; (3) promoting the uninhibited flow of traffic on public sidewalks and streets; (4) protecting the real property rights of citizens; and (5) assuring residential privacy. 512 U.S. at 767-68.

61. *Bunner II*, 75 P.3d at 14. The court's recitation of a "venerable standard of commercial ethics" is inapt as a reason for enjoining Bunner's constitutional free speech rights. *See id.* Bunner is not in competition with DVD-CCA, has no commercial obligation or relationship to them, and is not even engaged in commerce.

62. *Id.* at 15-16.

terested] in the *expressive* content,” the trade secrets were matters of a “purely private concern.”<sup>63</sup>

Finally, the court applied a prior restraint analysis to the facts of the case.<sup>64</sup> Prior restraint can occur when an order by a government authority forbids speech before the speech act has been committed.<sup>65</sup> After finding that the content-neutral nature of the injunction and the prior publication of DeCSS by Bunner combined to overcome “the heavy presumption against prior restraints,” the court distinguished a line of cases in which injunctions constituted prior restraints by relying on the assumptions made by the trial court.<sup>66</sup>

#### IV. INVALIDITY OF THE TRADE SECRET

The California Supreme Court’s opinion ultimately had little practical impact on the final disposition of the case. On remand, the court of appeal found that the DVD-CCA was unable to prove its trade secret case. On the other hand, the California Supreme Court’s exposition of the interplay between trade secrets and the First Amendment may have a more lasting impact.

##### A. The Lack of an Underlying Trade Secret

As suggested by Justice Moreno’s concurring opinion, the underlying trade secret claim asserted by DVD-CCA was “patently without merit.”<sup>67</sup> On remand, the court of appeal determined that the plaintiffs failed to establish a likelihood of prevailing on their trade secret claim.<sup>68</sup>

Courts generally treat the secrecy requirement as a relative concept requiring a fact-intensive analysis.<sup>69</sup> By the time the trial court entered the preliminary injunction, the DeCSS program and other similar descriptions of the CSS algorithm had been widely distributed throughout the world for several months via the Internet.<sup>70</sup> Any trade secret that DVD-CCA may

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63. *Id.* (emphasis original).

64. *Id.* at 17.

65. *Alexander v. United States*, 509 U.S. 544, 550 (1993).

66. *Bunner II*, 75 P.3d at 17-19.

67. *Id.* at 21 (Moreno, J., concurring). Justice Moreno, whose concurring opinion was the only one to address the issue, found as a matter of law that “DVD-CCA did not establish a likelihood of prevailing on its trade secret claim.” *Id.*

68. *Bunner III*, 10 Cal. Rptr. 3d 185, 196 (Cal. Ct. App. 2004), available at <http://www.courtinfo.ca.gov/opinions/documents/H021153A.PDF>.

69. *Id.* at 192 (citing 1 MILGRIM ON TRADE SECRETS § 1.07[2], 1-343, 1-352 (2003)).

70. *Bunner I*, 113 Cal. Rptr. 2d 338, 341 (Cal. Ct. App. 2001), *rev'd*, 75 P.3d 1 (Cal. 2003).

have enjoyed was destroyed when the information became widely available.<sup>71</sup> The court of appeal found on remand that there was no underlying trade secret since DeCSS was “available to anyone interested in obtaining [it].”<sup>72</sup> If the litigation were to proceed to a full trial on the merits, the result would likely be favorable to the defendants. Since there was no enforceable trade secret at issue here, DVD-CCA could not prevail under California trade secret law.<sup>73</sup>

## B. Dearth of Evidence of Misappropriation

In addition to the lack of a valid underlying trade secret, it is doubtful that misappropriation occurred.<sup>74</sup> Assuming that the CSS algorithm and master keys are protectable under California trade secret law, the defendants must have misappropriated these trade secrets to be liable.<sup>75</sup> Misappropriation occurs when one acquires, discloses, or uses a trade secret with knowledge or reason to know that the trade secret had been acquired by improper means.<sup>76</sup>

In California, reverse engineering is explicitly allowed under the trade secret statute; it is not an improper means.<sup>77</sup> The CSS algorithm and one master key were reverse engineered from a computer program for DVD

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71. “[O]nce the secret is out, the rest of the world may well have a right to copy it at will.” *Bunner II*, 75 P.3d at 26 (quoting *Underwater Storage, Inc. v. U.S. Rubber Co.* 371 F.2d 950, 955 (D.C. Cir. 1996)). Posting information to the Internet in a non-minimal fashion destroys any trade secrets that may have existed. *Id.* at 27-28 (Moreno, J., concurring); see also, *Religious Tech. Ctr. v. Netcom On-Line Communication Servs., Inc.* 923 F. Supp. 1231, 1256 (N.D. Cal. 1995); *Religious Tech. Ctr. v. Lerma*, 908 F. Supp. 1362, 1368 (E.D. Va. 1995); *Religious Tech. Ctr. v. F.A.C.T.NET, Inc.*, 901 F. Supp. 1519, 1527 (D. Colo. 1995).

72. *Bunner I*, 2004 WL 362414, at \*7.

73. See *Bunner II*, 75 P.3d at 28 (Moreno, J., concurring). Even though the DVD-CCA admitted the hopelessness of its trade secret case by asking for a voluntarily dismissal, they are now trying to achieve the same results using patents instead of trade secrets. John Borland, *New Lawsuit Targets DVD Copying*, CNET NEWS.COM, Feb. 13, 2004, at <http://news.com.com/2100-1025-5159279.html>. On February 13, 2004, the DVD-CCA filed a patent infringement lawsuit against 321 Studios, Inc. in the Federal District Court for the Southern District of New York. *Id.*

74. See *Bunner II*, 75 P.3d at 28 n.5 (Moreno, J., concurring). The court of appeal did not decide on remand whether or not DeCSS was created by improper means, but characterized the evidence presented by the DVD-CCA as “thin [and] circumstantial.” *Bunner III*, 10 Cal. Rptr. 3d at 194.

75. CAL. CIV. CODE § 3426.1 (West 1997).

76. *Id.* § 3426.1(b).

77. *Id.* § 3426.1(a) (“Reverse engineering . . . alone shall not be considered improper means.”).

playback made by Xing Technology Corporation.<sup>78</sup> According to the DVD-CCA's complaint, which the trial court accepted, Xing released its DVD player with a click-through license that prohibited reverse engineering.<sup>79</sup> Thus, the license purportedly prohibited reverse engineering, making the initial acquisition of the CSS trade secrets improper. This license, however, does not conform to California law.<sup>80</sup>

Furthermore, Bunner had no reason to know that the reverse engineering of the Xing DVD player was improper. Even if it is assumed that the click-wrap license prohibiting reverse engineering was valid under the law of the country where the reverse engineer lived and not contrary to public policy considerations in the United States, Bunner's actual and or constructive knowledge of the impropriety of the discovery of the trade secrets would still be in doubt. Bunner was not in privity with the original reverse engineers.<sup>81</sup> He was, in fact, far removed from the original act of reverse engineering and learned of the DeCSS program from a popular news site.<sup>82</sup> It seems unlikely that Bunner meets the threshold of knowledge requisite for misappropriation.<sup>83</sup>

Assuming that the original reverse engineer did click on a screen containing a license prohibiting reverse engineering, a trade secret misappropriation case could likely be made against him or her. Courts and commentators, however, have long recognized reverse engineering as an important counterbalance to the rights of trade secret owners.<sup>84</sup> If courts allow private contract to trump trade secret law and confer an exclusive

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78. *Bunner II*, 75 P.3d at 7. The identity of the reverse engineer is still unknown. See *supra* note 25.

79. *Id.* In actuality, Xing's DVD player software did not always include a click-through license. Defendant Andrew Bunner's Supplemental Responding Brief on Remand from the Supreme Court of California at 15, DVD Copy Control Ass'n v. Bunner, 10 Cal. Rptr. 3d 185 (Cal. App. 2004) (No. H021153) [hereinafter Bunner's Supplemental Responding Brief], [http://www.eff.org/Legal/Cases/DVDCCA\\_case/20031222\\_bunner\\_reply\\_brief.pdf](http://www.eff.org/Legal/Cases/DVDCCA_case/20031222_bunner_reply_brief.pdf). For example, Xing sold its player to OEMs who pre-installed the software on systems. *Id.* A consumer who purchased such a computer would never have been presented with a click-through license. In addition, the anonymous reverse engineer probably did not even have a legal copy of the Xing program. Bing, *supra* note 25, at 10. Since the identity of the reverse engineer is not known, it is not possible to know if he or she ever clicked on a license agreement. *Id.*

80. CAL. CIV. CODE § 3426.1(a) (stating that "[r]everse engineering or independent derivation alone shall not be considered improper means").

81. *Bunner II*, 75 P.3d at 26 (Moreno, J., concurring).

82. *Id.* at 7.

83. See *Bunner III*, 10 Cal. Rptr. 3d at 194.

84. See generally Pamela Samuelson & Suzanne Scotchmer, *The Law and Economics of Reverse Engineering*, 111 YALE L.J. 1575 (2002).

right to prevent the reverse engineering of legitimately purchased goods by one who is under no special obligation to the trade secret holder, this balance is thrown askew.<sup>85</sup> A full exploration of this contract issue is beyond the scope of this Note, but even if there is a case against the original reverse engineer, Bunner did not have the knowledge of improper means required for trade secret misappropriation and he is under no circumstances bound by this assumed click-wrap license since he never clicked on it.

On the other hand, the DVD-CCA may be able to successfully assert the anti-circumvention provisions of the DMCA to achieve the same results as were sought in this case.<sup>86</sup> Given the outcome of similar litigation in the Second Circuit, such claims appear stronger.<sup>87</sup>

## V. ANALYSIS OF THE TENSION BETWEEN THE FIRST AMENDMENT AND TRADE SECRETS

In the course of its First Amendment analysis, the court ruled that there was no public interest at stake in the DeCSS source code or any CSS related trade secrets.<sup>88</sup> The court characterized the alleged trade secrets in

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85. *See, e.g.*, *Vault Corp v. Quaid Software, Ltd.*, 847 F.2d 255, 269-70 (5th Cir. 1988); *Bunner II*, 75 P.3d at 28 (Moreno, J., concurring); Samuelson & Scotchmer, *supra* note 84, at 1660. According to the Intellectual Property Clause, U.S. CONST. art. I, § 8, cl. 8, patent law is the only way to grant a statutory monopoly that prohibits the right to engage in reverse engineering. *See Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 480 U.S. 141, 155 (1989). The court of appeal reserved the question of whether the injunction violated the Intellectual Property Clause since they found the injunction invalid on other grounds. *Bunner III*, 10 Cal. Rptr. 3d at 196..

86. *Bunner II*, 75 P.3d at 29 (Moreno, J., concurring).

87. *See Universal Studios, Inc. v. Corley*, 273 F.3d 429, 459 (2d Cir. 2001) (upholding an injunction against the publication of DeCSS under the DMCA). Early in 2004, the DVD-CCA filed new litigation related to CSS. Instead of asserting a trade secret in CSS or using the anti-circumvention provisions of the DMCA as was done in *Corley*, the DVD-CCA is trying to use patent law to stop the sale of DVD copying software. *See Borland, supra* note 73.

88. *Bunner II*, 75 P.3d at 16. Ed Felten, a professor of computer science at Princeton University, is one of many commentators to disagree with the court's handling of the public concern distinction:

Information about Enron's finances is of public concern, even though only accountants can interpret it in its raw form. Information about the Space Shuttle wing structure is of public concern, even though only a few engineers understand it fully. CSS is a controversial technology, and information about how it works is directly relevant to the debate about it. True, many people who are interested in the debate will have to rely on experts to explain the relevant parts of DeCSS to them; but the same is true of Enron's accounting or the Shuttle's engineering.

CSS and DeCSS as “matters of *purely* private concern and not matters of public importance.”<sup>89</sup>

To the contrary, there has been immense public interest and concern regarding DeCSS and the CSS algorithm.<sup>90</sup> Furthermore, previous cases where courts have found that public concern existed in the disclosure of misappropriated trade secrets or other illegally obtained information demonstrate that the court’s formulation and application of the public concern doctrine was incorrect.<sup>91</sup>

### A. The Court’s Public Concern Test

The court based its examination of the public concern question on the “content, form, and context of a given statement, as revealed by the whole record.”<sup>92</sup> To apply this standard to the facts of the case, the court fashioned an implicit ad hoc test.<sup>93</sup> Without citing any authority for its rule,<sup>94</sup> the court suggested that a proper evaluation of whether a misappropriation meets the above criteria consists of two questions.<sup>95</sup> First, is the content of the trade secret technical or expressive as viewed by the general public?<sup>96</sup> Second, does the act of misappropriation alone comment on a public issue or debate?<sup>97</sup>

The court resolved the first question in the negative, holding that CSS and the related trade secrets were purely technical in the eyes of the general public and discounted the importance of the expressive nature of the information as viewed by “computer encryption enthusiasts.”<sup>98</sup> The court also answered the second question in the negative, holding that Bunner

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Odder still, in my view, is the notion that because DeCSS is directly useful to members of the public, it is somehow of less public concern than a purely theoretical discussion would be. It seems to me that the First Amendment protects speech precisely because the speech may have an effect on what people think and how they act. To suppress speech because of its impact seems to defeat the very purpose of the free speech guarantee.

Edward W. Felten, *Freedom to Tinker, Trade Secrets and Free Speech* (Aug. 26, 2003), at <http://www.freedom-to-tinker.com/archives/000428.html>.

89. *Bunner II*, 75 P.3d at 16.

90. *See infra* note 102.

91. *See infra* Part V.4.

92. *Bunner II*, 75 P.3d at 16 (quoting *Connick v. Myers*, 461 U.S. 138, 147-48 (1983)).

93. *See id.* at 15-16.

94. *See id.*

95. *Id.*

96. *Id.*

97. *Id.* at 16-17.

98. *Id.* at 15-16.

was not commenting on a public issue or participating in a public debate by posting DeCSS.<sup>99</sup> These questions and answers suggest that the court's focus was on the method of Bunner's speech and the public's ability to understand that speech.<sup>100</sup> Indeed, under this standard, the posting of any technical information that is not readily understood by the general public would likely be considered to be of a "purely private concern."<sup>101</sup>

## B. The Public Interest in DeCSS

There has been robust worldwide public interest and concern in the source code for DeCSS and related programs and in the underlying algorithm.<sup>102</sup> The court of appeal acknowledged that "the initial publication [of DeCSS] was quickly and widely republished to an eager audience."<sup>103</sup> The court also traced public discussion and interest in CSS as far back as July of 1999, before DeCSS was even released.<sup>104</sup> Further indications of the public interest include the mainstream popularity of DeCSS and related programs, the academic interest in the underlying CSS algorithm, and the campaign of civil disobedience generated by the DVD-CCA's lawsuit.

The ubiquity and availability of something can be a useful gauge of public interest in that thing. The CSS algorithm is included on every DVD-Video compatible player and the valid player keys are included on every DVD-Video disc that is sold.<sup>105</sup> As discussed above, DVDs and DVD players are relatively easy to reverse engineer and use.<sup>106</sup> Furthermore, CSS, DeCSS, and other programs that function like DeCSS have been extensively distributed and are freely available over the Internet, in

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99. *Id.* at 16-17.

100. *See id.* at 15-17.

101. *See id.* at 16 ("Disclosure of this highly technical information adds nothing to the public debate . . .").

102. *Bunner III*, 10 Cal. Rptr. 3d 185, 189 (Cal. Ct. App. 2004). Such interest is manifested in the many websites that provide DeCSS, the many creative ways that people have used DeCSS to generate expression, and the publication of the DeCSS algorithm in many trade and mainstream publications. *See* discussion and footnotes *supra* Part II.

103. *Bunner III*, 10 Cal. Rptr. 3d at 194.

104. *Id.* at 193.

105. Bunner's Supplemental Responding Brief, *supra* note 79, at 7-12. The number of DVD players (hardware) and DVD discs (software) sold to the general public is in the millions. *Id.* This hardware and software was sold to consumers without any kind of end user licensing restriction or effective technological protection measure. *Id.*

106. *See supra* Part II.

print publications, and even on tee shirts.<sup>107</sup> For an alleged trade secret, CSS and its keys are particularly widespread and accessible.<sup>108</sup>

Another indicator of public interest in a topic is related academic study and research. The CSS algorithm has been the subject of computer science courses and technical papers.<sup>109</sup> These activities depend on the availability of this information to the public. There are also many public policy goals that were met by the disclosure of CSS and the creation of the DeCSS program.<sup>110</sup> It is difficult to understand why the Supreme Court of California was so reticent to acknowledge the deep interest of the academic community and the public at large in DeCSS.

In addition to mainstream popularity and academic interest, the campaign of civil disobedience that arose in response to the lawsuit also demonstrates the public concern that exists in CSS and DeCSS. Many people were outraged by the DVD-CCA's decision to sue everyone who posted or linked to DeCSS.<sup>111</sup> These people channeled their outrage into an organized campaign of civil disobedience.<sup>112</sup> Tactics used included spreading DeCSS as widely as possible before trial and refusing to remove DeCSS from websites.<sup>113</sup> Other people came to the courthouse and distributed disks and fliers containing the source code of DeCSS, while still others made and distributed DeCSS tee shirts with the source code written on the back.<sup>114</sup> This campaign of civil disobedience shows the intense public interest in DeCSS and related programs and further belies the court's holding.

### C. Recent Prior Restraint Cases

There is a long history of courts upholding the First Amendment right to publish lawfully acquired information which was initially misappropriated by a third party. Supreme Court decisions such as the Pentagon Papers case (*New York Times Co. v. United States*)<sup>115</sup> and *Bartnicki v. Vop-*

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107. *Bunner III*, 10 Cal. Rptr. 3d at 190; see *supra* note 32.

108. On the other hand, as shown by the discussion above, there is likely no longer any valid trade secret in CSS. See *supra* notes 67-73 and accompanying text.

109. See, e.g., Declaration of Computer Scientist Gregory Kesden at 2-3, DVD Copy Control Ass'n v. McLaughlin (Cal. Super. Ct. Nov. 28, 2001) (No. 1-99-CV-786804) (describing a computer science course using CSS keys and algorithms), [http://www.eff.org/IP/Video/DVDCCA\\_case/20011128\\_kesden\\_decl.html](http://www.eff.org/IP/Video/DVDCCA_case/20011128_kesden_decl.html); Stevenson, *supra* note 20 (an in-depth technical look at the CSS algorithm); Parviainen, *supra* note 21.

110. See discussion *supra* note 60.

111. *Bunner III*, 10 Cal. Rptr. 3d at 189-91.

112. *Id.* at 190.

113. *Id.*

114. *Id.* For more creative embodiments of DeCSS, see *supra* note 32.

115. 403 U.S. 713 (1971) (per curiam).

*per*,<sup>116</sup> although not strictly trade secret misappropriation cases, are useful in understanding the dynamics of publishing factually correct information that was initially obtained by the illegal activity of a third party.<sup>117</sup>

The Pentagon Papers case concerned the publication of classified government documents about the Vietnam War stolen from the U.S. Department of Defense.<sup>118</sup> *The New York Times* and *The Washington Post* received the documents from Daniel Ellsberg, who had stolen them while working at the Rand Corporation and had directly contacted the newspapers about getting papers published.<sup>119</sup> In a *per curiam* opinion, the Supreme Court ruled that the *Times* and the *Post* should not be enjoined from publishing the documents.<sup>120</sup>

As in the Pentagon Papers case, the information at issue in *Bartnicki v. Vopper* was illegally obtained by a third party.<sup>121</sup> In *Bartnicki*, the cell phone conversation of two members of a teacher's union was intercepted and recorded by an anonymous person.<sup>122</sup> The conversation, which had to do with contentious collective-bargaining negotiations the union was engaged in, was later replayed on Vopper's radio show despite his knowledge that the tape had been illegally obtained.<sup>123</sup> The Supreme Court ruled that the First Amendment allowed the on-air publication of the conversation since it was "newsworthy."<sup>124</sup>

The court in *Bunner* made much of what it characterized as the United States Supreme Court's decision to "expressly decline[] to extend *Bartnicki* to 'disclosures of trade secrets or domestic gossip or other information of purely private concern.'"<sup>125</sup> This characterization is not only misleading, it is also incorrect. First, the court uses this out of context quote to support the unstated proposition that all trade secrets are of a *purely* pri-

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116. 532 U.S. 514 (2001).

117. See Pamela Samuelson, Resolving Conflicts Between Trade Secrets and the First Amendment 22 (Mar. 20, 2003) (working draft), available at <http://www.sims.berkeley.edu/~pam/papers/TS%201st%20A%203d%20dr.pdf>.

118. *Times*, 403 U.S. at 714. The study was called "History of U.S. Decision-Making Process on Viet Nam Policy." *Id.*

119. Samuelson, *supra* note 117, at 22.

120. *Times*, 403 U.S. at 714.

121. *Bartnicki*, 532 U.S. at 517.

122. *Id.* at 518-19.

123. *Id.* at 519.

124. *Id.* at 525. In the opinion the court equates matters of public concern with those matters that are newsworthy. See *id.* This formulation of the public concern doctrine is different from that of the *Bunner* court. See *supra* section V.1.

125. *Bunner II*, 75 P.3d 1, 15 (Cal. 2003) (quoting *Bartnicki*, 532 U.S. at 533) (emphasis omitted).

vate concern.<sup>126</sup> This proposition is not only ludicrous, it is also contrary to case law. When examined in the context of the decision, the *Bartnicki* Court was only illustrating possible examples of situations where there might be no public interest in the disclosure of information. Although some trade secrets may be of a purely private nature, many trade secrets implicate public concern in at least some minimal amount. Second, the reason the Court did not extend *Bartnicki* to cover matters of even purely private concern, a standard so broad that it would render disclosure of *any* information permissible, was that the facts of *Bartnicki* presented at least a modicum of public interest. Therefore, the issue was not properly before the Court to begin with.

#### D. Public Concern in Other Trade Secret Cases

Other courts have ruled against enjoining the publication of misappropriated trade secrets on First Amendment grounds. The underlying trade secrets in these cases are, perhaps with the exception of *CBS, Inc. v. Davis*, of less public concern than the CSS trade secrets at issue in *Bunner*.<sup>127</sup>

In *Proctor & Gamble Co. v. Bankers Trust Co.* the Sixth Circuit ruled that both a temporary restraining order and a permanent injunction issued against *Business Week* magazine were unconstitutional prior restraints on speech.<sup>128</sup> The trade secrets at issue there were confidential business documents that the magazine knew or had reason to know had been leaked by one of the parties involved in separate commercial litigation in viola-

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126. *Id.* at 15 (characterizing all trade secrets as purely private information and not matters of public concern).

127. *CBS, Inc. v. Davis*, 510 U.S. 1315 (1994) (Blackmun, Circuit Justice). In *Davis*, Justice Blackmun, writing as Circuit Justice, stayed a preliminary injunction against CBS that allegedly would have revealed the trade secrets of Federal Beef Processors, Inc. *Id.* at 1318. Justice Blackmun decided that the underlying trade secrets in the case, the "confidential and proprietary practices and processes" employed at the Federal Beef meat processing plant could not overcome the strong prohibitions against prior restraints. *Id.* at 1317-18. He did not feel that Federal Beef had the burden of asking for a preliminary injunction even though it had shown that it faced "significant economic harm" and that CBS had engaged in "calculated misdeeds." *Id.* at 1318. Therefore, Justice Blackmun did not need to characterize the nature of the public interest at stake in the case. Arguably, however, the public interest in *Davis*, that of public health with respect to the sanitary practices of the meat processing industry is greater than that present in *Bunner*.

128. 78 F.3d 219 (6th Cir. 1996). The court found that "the private litigants' interest in protecting their vanity or their commercial self-interest simply does not qualify as grounds for imposing a prior restraint." *Id.* at 225. Instead, the court held that a prior restraint on pure speech could only be justified if the "publication . . . threaten[s] an interest more fundamental than the First Amendment itself." *Id.* at 227.

tion of a discovery order.<sup>129</sup> The public concern or interest in these “standard litigation filings”<sup>130</sup> is likely much less than that present in *Bunner*. Indeed, there is no record of any organized civil disobedience accompanying the *Proctor & Gamble* trial.

Another case where an injunction was struck down as a prior restraint despite an underlying trade secret with little public interest is *State of Oregon ex rel. Sports Management News, Inc. v. Nachtigal*.<sup>131</sup> In that case, the Oregon Supreme Court overturned a preliminary injunction against a weekly sports trade newsletter issued on behalf of Adidas America, Inc.<sup>132</sup> The underlying trade secret was the design of a new tennis shoe.<sup>133</sup> Surely this is of less public interest than the technology that prohibits the play-back of purchased DVDs on non-approved devices. The latest model of tennis shoes does not inspire hundreds of thousands of websites, coverage by mainstream press, or new courses in colleges and universities.

A third case where an injunction was struck down despite a trade secret of less public concern than *Bunner* was *Ford Motor Co. v. Lane*.<sup>134</sup> In that case the district court overturned a preliminary injunction which had been issued against a website operated by Robert Lane.<sup>135</sup> The court decided that the posting of the misappropriated trade secrets could not be enjoined since it constituted a prior restraint on speech.<sup>136</sup> The misappropriated trade secrets in this case were internal Ford documents such as “Powertrain Council Strategy & Focus” and a paper concerning quality issues regarding the Ford Mustang Cobra engine.<sup>137</sup> The public interest in such documents is much less than the trade secret in *Bunner*. Papers concerning the quality of a Ford Engine do not inspire poetry and Powertrain Council Strategy & Focus is not reproduced on mass-marketed tee shirts.

Although these courts did not need to rely on the public concern doctrine to find that the speech at issue could not be enjoined, applying the

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129. *Id.* at 222-23.

130. *Id.* at 225.

131. 921 P.2d 1304 (Or. 1996).

132. *Id.* at 1310. The court based its finding of a prior restraint on the relevant portions of the Oregon Constitution. *Id.* at 1307-08. Although the court did not decide if the free speech guarantees in the Oregon Constitution were co-terminus with those of the First Amendment, the analysis made by the court was conceptually similar to that of a classic First Amendment prior restraint. *Id.*

133. *Id.* at 1305-06.

134. 67 F. Supp. 2d 745 (E.D. Mich. 1999).

135. *Id.* at 754.

136. *Id.* at 753. The court was not persuaded by “Ford’s commercial interest in its trade secrets and Lane’s alleged improper conduct in obtaining the trade secrets.” *Id.*

137. *Id.* at 747.

test crafted by the Supreme Court of California to these examples would require the opposite outcome in each. This inconsistency is further evidence that the test created by the *Bunner* court is not workable.

## VI. CONCLUSION

*DVD Copy Control Ass'n v. Bunner's* holding, while narrow, has implications for trade secret law in California and the exercise of free speech rights. While these changes affect holders of trade secrets and people who wish to engage in speech related to such "secrets," the opinion of the court of appeal on remand indicates that *Bunner* and his co-defendants likely stand a good chance of winning on the merits. On the other hand, the court's formulation and application of the public concern doctrine suggests that the threshold for finding trade secrets and technical information to be of public concern in California is very high. Thus, the *Bunner* court has created an unresolved tension between trade secret jurisprudence and the First Amendment.

## CADENCE V. AVANT!: THE UTSA AND CALIFORNIA TRADE SECRET LAW

*By Jeff Danley*

Trade secret law performs an important and useful function in the protection of intellectual property. For instance, it offers a limited amount of protection for information that may lack the requisite novelty or nonobviousness requirements needed to obtain patent protection.<sup>1</sup> As a result, a large company that identifies efficiencies within its structure or develops new technologies can protect them as trade secrets even if these discoveries lack the requisites necessary to become patented.<sup>2</sup> Furthermore, protecting information as a trade secret may cost less money than protecting it through the patent process—an important fact especially to small business ventures.<sup>3</sup> Yet, despite their value, trade secrets, unlike patents or copyrights, have never enjoyed the protection of federal law. Because of the vagaries of state law, the trade secret regime lacks the unifying rationale present in these other systems.

Despite the lack of a unifying rationale in trade secret law, the California Supreme Court, in *Cadence Design Systems, Inc. v. Avant! Corp.*,<sup>4</sup> resolved any uncertainty as to the basis of California's trade secret regime by holding that the Uniform Trade Secrets Act ("UTSA") provides this underlying foundation in California. The court resolved this uncertainty in two ways. First, the court adhered solely to the definitions of the UTSA and the comments in the original uniform act in rendering its decision.<sup>5</sup> Second, the court clarified the underlying rationale for California trade secret law by expressly rejecting the alternative arguments advanced by both parties.<sup>6</sup> The court refused to apply the former common law rationale, which focuses upon the actions of the defendant when determining liabil-

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1. See generally ROBERT MERGES ET AL., *INTELLECTUAL PROPERTY IN THE NEW TECHNOLOGICAL AGE* 31-33 (2d ed. 2000).

2. Steven Wilf, Commentary, *Trade Secrets, Property, and Social Relations*, 34 CONN. L. REV. 787, 792 (2002).

3. MERGES ET AL., *supra* note 1, at 29; see also Wilf, *supra* note 2, at 792 (discussing the importance of trade secret law to start ups and bio-tech companies).

4. 29 Cal. 4th 215 (2002).

5. See *id.* at 221-23 ("In order to answer the certified question, we must examine the pertinent language of the UTSA."):

6. See *id.* at 220-21 (describing the arguments of Cadence and Avant! and stating that "[a]s will be discussed, neither Cadence's nor Avant!'s position is entirely correct").

ity.<sup>7</sup> It pointed out that the California legislature rejected this common law approach when it adopted the UTSA in 1984.<sup>8</sup> Furthermore, even though the court acknowledged that trade secrets have property-like elements, it refused to base California trade secret law solely upon this property rationale.<sup>9</sup> Instead, the court stated that the UTSA, as enacted in California, provided the underlying basis for trade secrets in California.<sup>10</sup>

This Note considers the implications of the *Cadence* decision. In doing so, the Note first compares and contrasts three different regimes that courts have advanced in attempts to provide a unifying basis for trade secret decisions. Second, this Note discusses the holding in *Cadence v. Avant!*. The third part concludes that the California Supreme Court's decision promotes economic efficiency in the trade secret regime in two ways: first, it increases the value of trade secrets by allowing trade secret holders to more easily protect their proprietary information; second, the decision provides guidance to both parties as to the scope of trade secret laws, thus encouraging parties to enter into settlement agreements as opposed to resolving their disputes through litigation.

## I. UNDERLYING THEORIES OF TRADE SECRETS AND ATTEMPTS AT UNIFICATION

Courts and commentators have proposed at least three different systems to attempt to unify trade secret law. First, in the "property system," each new misuse of the trade secret by the defendant gives rise to a new claim, since each is a violation of the property right in the trade secret.<sup>11</sup> Each new claim, then, has its own statutory period during which the plaintiff may bring suit. The trade secret laws of New York operate as an example of this property view of trade secret law.<sup>12</sup> Second, in the "tort system," the harm to the trade secret holder's interest occurs when the defendant breaches a duty of trust that has developed between the plaintiff and

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7. *See id.*

8. *See id.* at 221.

9. *See id.* at 222.

10. *See id.* at 226.

11. *See Underwater Storage Inc. v. U.S. Rubber Co.*, 371 F.2d 950, 955 (D.C. Cir. 1966) (holding that "where the secret has been misappropriated the wrongdoer and his privies are amenable to suit for any use of the secret").

12. Robert T. Neufeld, Note, *Mission Impossible: New York Cannot Face the Future Without a Trade Secret Act*, 7 *FORDHAM INTELL. PROP. MEDIA & ENT. L.J.* 883, 912-16 (1997) (describing the state of New York's trade secret law).

defendant.<sup>13</sup> Thus, only one claim arises—at the initial act of improper disclosure or use. The drafters of the RESTATEMENT (FIRST) OF TORTS (1939) (Restatement) sought to unify state trade secret law around this system. Finally, in the UTSA,<sup>14</sup> applied by the California Supreme Court in *Cadence*, a claim arises upon the improper acquisition of the trade secret;<sup>15</sup> this regime, although similar to the tort system in certain respects, tempers some of the harsh results that may occur under the Restatement approach.

## A. Differing Definitions of Trade Secret, Misappropriation, and Claim

### 1. “Trade Secret”

Though the property-based jurisdictions use the same definition for what constitutes a trade secret as that used in the Restatement,<sup>16</sup> the Restatement provides a narrower definition of a trade secret than the UTSA. The Restatement defines a trade secret to mean a process or device “for continuous use” in the course of business.<sup>17</sup> As a result, it excludes mere “ephemeral events” from its definition of a trade secret.<sup>18</sup> In doing so, the Restatement focuses upon business processes and practices actually used by a company instead of any information that could bring economic benefit to a company. The UTSA, however, provides a more expansive definition of a trade secret by including all information from which a person obtains economic value.<sup>19</sup> The drafters of the UTSA reasoned that trade secret law should protect people who have not “had an opportunity or acquired the means to put a trade secret to use.”<sup>20</sup> The drafters also wanted

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13. See *Monolith Portland Midwest Co. v. Kaiser Aluminum & Chem. Corp.*, 407 F.2d 288, 292-93 (9th Cir. 1969) (rejecting the rationale applied by the court in *Underwater Storage* because California, at the time, based its trade secret laws upon the relationship of the parties, not the property-like qualities of the secret).

14. California adopted the UTSA with little comment or change in 1984. See Historical and Statutory Notes, CAL CIV. CODE § 3426 (West 1997) (recognizing the similarity between each provision in this section and the corresponding section in the UTSA); see also *Cadence*, 29 Cal. 4th at 220.

15. UNIF. TRADE SECRETS ACT § 1 (amended 1985), 14 U.L.A. 437 (1990).

16. See, e.g., *Integrated Cash Mgmt. Servs., Inc. v. Digital Transactions, Inc.*, 920 F.2d 171, 173 (2d Cir. 1990) (applying New York trade secret law); *Ashland Mgmt. Inc. v. Janien*, 82 N.Y.2d 395, 407 (1993) (stating that while no “generally accepted” definition of a trade secret exists, the definition provided in § 757 comment b of the Restatement (First) of Torts “has been cited with approval from this and other courts”).

17. RESTATEMENT (FIRST) OF TORTS § 757 cmt. b (1939).

18. *Id.*

19. UNIF. TRADE SECRETS ACT § 1, 14 U.L.A. 437.

20. *Id.* § 1, cmt.

trade secret protection to extend to "negative information" that showed that a particular practice or device does not work.<sup>21</sup> Thus, a trade secret includes any proprietary information that gives a company an economic advantage.

## 2. "Misappropriation"

Although some property-based systems, such as that of New York, also use the Restatement definition for misappropriation,<sup>22</sup> the two systems rely upon different underlying rationales for punishing misappropriation. While both systems focus upon the improper use or disclosure of a trade secret, the Restatement imposes a duty to protect the information that parties share in a confidential relationship.<sup>23</sup> This duty focuses upon the relationship between the parties and may arise through either contract or tort. Thus, under the Restatement, a party breaches this duty and commits misappropriation only when it *first* discloses or uses the information in an unauthorized manner.<sup>24</sup>

The property system, however, recognizes a property interest that the trade secret holder possesses in the trade secret.<sup>25</sup> This system, seeks to protect this property interest instead of any relationship.<sup>26</sup> Accordingly, *each* unauthorized use or disclosure of the trade secret causes a separate injury to the property itself and gives rise to an act of misappropriation.<sup>27</sup>

The UTSA expands the definition of misappropriation to include the improper acquisition of the trade secret. Consequently, under the UTSA, a trade secret holder may seek an injunction against another party that has improperly acquired its trade secret even before that other party has used or disclosed it.<sup>28</sup> Although nothing appears in the comments to explain this change, one commentator reasons that, under this definition, the plaintiff

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21. *Id.*

22. *Integrated Cash Mgmt. Servs., Inc. v. Digital Transactions, Inc.*, 920 F.2d 171, 173 (2d Cir. 1990) (citing the Restatement when determining the definition of trade secret misappropriation in New York).

23. *See* RESTATEMENT (FIRST) OF TORTS § 757.

24. *Monolith Portland Midwest Co. v. Kaiser Aluminum & Chem. Corp.*, 407 F.2d 288, 292 (9th Cir. 1969). Courts also may base the duty upon reasonable standards of commercial morality. *See E.D. duPont deNemours & Co. v. Christopher*, 431 F.2d 1012, 1015-16 (5th Cir. 1970) (stating that Texas law forbids as improper the taking of trade secret information from another when the holder takes reasonable precautions to protect the information).

25. *See* JAMES POOLEY, TRADE SECRETS § 1.02[1] (1997).

26. *See id.*

27. *Underwater Storage Inc. v. U.S. Rubber Co.*, 371 F.2d 950, 953 (D.C. Cir. 1966).

28. UNIF. TRADE SECRETS ACT § 2 (amended 1985), 14 U.L.A. 437 (1990).

can more easily detect the improper acquisition of a trade secret because the defendant usually must obtain the secret by taking it from the plaintiff.<sup>29</sup> The defendant, however, may go to great lengths to conceal its use and disclosure of the trade secret.<sup>30</sup> As a practical matter, the improper acquisition of a trade secret violates either a confidential relationship between the parties or general commercial ethics as much as the improper use and disclosure.

### 3. "Claim"

While the Restatement and property systems define the same acts as misappropriation, claims for trade secret misappropriation arise similarly under the Restatement and UTSA. Under the UTSA and the Restatement, a claim arises once: at the time of the initial misappropriation of the trade secret.<sup>31</sup> As a result, while continuing misuse and improper disclosure of the trade secret by the defendant may augment the damages recovered by the plaintiff, the court considers only one claim for misappropriation.<sup>32</sup> Under the property view, each new misuse gives rise to a new claim for misappropriation.<sup>33</sup> Consequently, the plaintiff must state a claim for a particular act of misappropriation before the court will compensate the plaintiff for that misappropriation.

Thus, before the court will compensate the plaintiff for all injuries incurred by the defendant's actions, the plaintiff must state a claim for each act of misappropriation.

## B. Differing Statutes of Limitations

Although each system uniquely implements its statute of limitations provision, the systems sometimes share certain elements.

### 1. *Number of Statutory Periods for a Continuing Misappropriation*

A continuing misappropriation gives rise to only a single claim under both the UTSA and Restatement, while each act of misappropriation by the defendant under the property system gives rise to its own statutory pe-

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29. Milton E. Babirak, Jr., *The Virginia Uniform Trade Secrets Act: A Critical Summary of the Act and Case Law*, 5 VA. J.L. & TECH. 15, 16 (2000).

30. *Id.*

31. *See* Cadence Design Sys., Inc. v. Avant! Corp., 29 Cal. 4th 215, 226 (2002); *see also* Monolith Portland Midwest Co. v. Kaiser Aluminum & Chem. Corp., 407 F.2d 288, 293 (9th Cir. 1969) (holding that claim arose once upon initial misappropriation).

32. *See* Cadence, 29 Cal. 4th at 226.

33. *See* Underwater Storage Inc. v. U.S. Rubber Co., 371 F.2d 950, 955 (D.C. Cir. 1966).

riod. Both the Restatement and UTSA focus upon the relationship between the parties.<sup>34</sup> Because the defendant cannot abuse this relationship further after the initial misappropriation, only one claim for trade secret misappropriation accrues.<sup>35</sup> Thus, the plaintiff need only look at the date of the initial misappropriation under the Restatement and the date of discovery under the UTSA to determine when the statute of limitations began to run on the claim for misappropriation. The property view, however, focuses upon the property right that the plaintiff possesses in the trade secret. Thus, each act of misappropriation gives rise to a new claim<sup>36</sup> because each act causes damage to this property right. Each claim, then, has its own statutory period.<sup>37</sup> Hence, a plaintiff will have to investigate the date of each misappropriation to determine if the statute of limitations will bar that claim.

## 2. *The Discovery Provision in the UTSA*

Because the Restatement provided no independent statute of limitation provision for trade secret claims, states have applied their own statute of limitation provisions. Before the enactment of the UTSA, California courts used the general statute of limitations for actions upon a contract.<sup>38</sup> Since this statute of limitations provided no discovery provision, the statutory period started as soon as the initial misappropriation occurred.<sup>39</sup> Similarly, the statute of limitation provisions in property-oriented systems do not provide for a discovery provision.<sup>40</sup> The UTSA, however, does contain a specific provision tolling the statutory period until the plaintiff knows or reasonably should have known of the misappropriation by the defendant.<sup>41</sup> Chart 1 summarizes the different implementations of the statute of limitations and the discovery provisions in the UTSA, tort, and property systems.

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34. See *Monolith*, 407 F.2d at 293; see also *Cadence*, 29 Cal. 4th at 226.

35. See *Monolith*, 407 F.2d at 293; see also *Cadence*, 29 Cal. 4th at 226.

36. See *Underwater Storage*, 371 F.2d at 955.

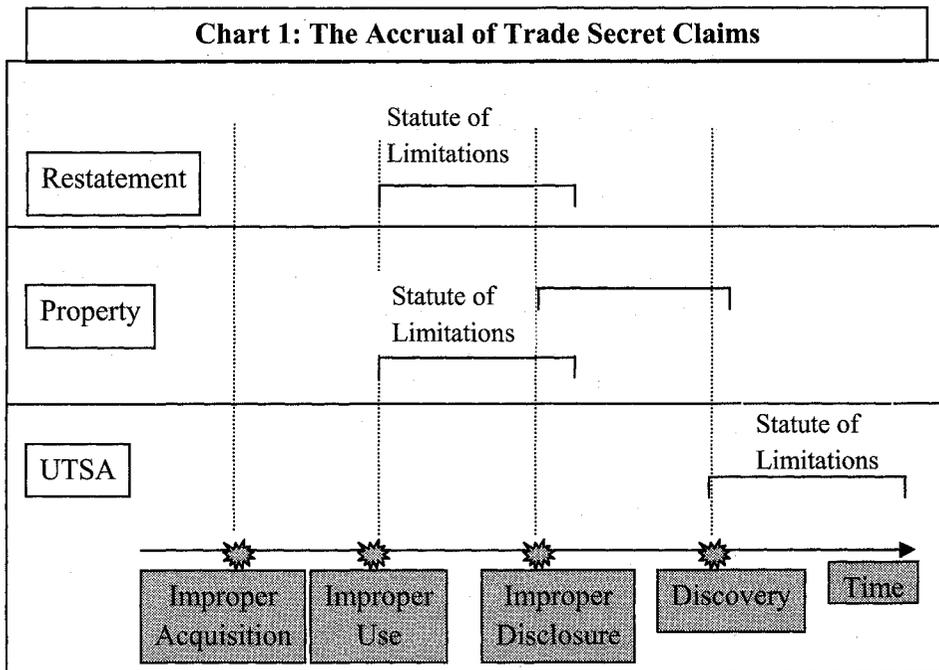
37. *Id.*

38. See *Monolith*, 407 F.2d at 293 (imposing the statute of limitations for an unwritten contract).

39. *Id.*

40. See N.Y. C.P.L.R. § 214(4) (McKinney 1962) (providing the statute of limitations for an action based upon an "injury to property"); see also *id.* § 213(2) (providing the statute of limitations for an action based upon a "contractual obligation").

41. See UNIF. TRADE SECRETS ACT § 6 (amended 1985), 14 U.L.A. 437 (1990).



## II. THE *CADENCE* DECISION

In *Cadence v. Avant!*, the parties and the court discussed the applicability of all three of these trade secret systems. Cadence argued that the court should use the property-based system, which not coincidentally would allow Cadence to press any claims for misappropriation arising after a release agreement went into effect. Avant!,<sup>42</sup> conversely, argued that the court should look to earlier, pre-UTSA California cases that relied upon the Restatement. Under such a view, the release agreement would cover all of Avant!'s actions, even those occurring after the signing of the release agreement. In resolving a certified question from the Ninth Circuit, the California Supreme Court applied the UTSA to hold that a claim for trade secret misappropriation arises only once, which is at the time of the initial misappropriation. In the process, the court rejected the alternative Restatement and property-oriented rationales advanced by the parties.

### A. Facts

This case began, like most every other trade secret case, when four former Cadence employees left to form Avant! in 1991.<sup>43</sup> Both companies

42. Pronounced as "uh-vahn-tee."

43. Peter Burrows, *Does Crime Pay?*, BUS. WK., Sept. 3, 2001, ¶ 11, available at 2001 WL 26534462.

produce “place and route” software that automates integrated circuit design.<sup>44</sup> At this time, one of the four Avant! founders brought with him, without authorization, 30,000 lines of Cadence database code that Avant! incorporated into its first commercial product.<sup>45</sup> By combining this database code with its own technology, Avant! quickly began attracting business from some large corporations, such as Intel and Motorola.<sup>46</sup>

Despite this initial theft, the lawsuit might never have developed if not for the events surrounding the departure several years later of a Cadence vice president, Gerald Hsu, to become Avant!’s CEO. Concerned that Hsu might use trade secret information at Avant!, Cadence drafted a claim for trade secret misappropriation and named Hsu and Avant! as defendants.<sup>47</sup> After lengthy negotiations, the three parties—Hsu, Avant!, and Cadence—signed a general release agreement in which Cadence waived any claim for trade secret misappropriation that it may have against either Hsu or Avant!.<sup>48</sup> Most importantly, this waiver applied regardless of whether Cadence knew that any claim existed, even if such knowledge would have “materially affected” the decision to sign.<sup>49</sup> As a result, this waiver effectively precluded Cadence from bringing a suit based upon any actions by Hsu or Avant! that occurred before June 1994—the time at which the parties signed the release.<sup>50</sup>

At this same time, Avant!, under Hsu’s leadership as CEO, began taking actions to improve the competitiveness of Avant!’s products. These actions, however, led to the discovery by Cadence of the 1991 theft. Soon after taking over as CEO, Hsu learned that Avant!’s competitors had developed technology that they had incorporated into an improved product.<sup>51</sup>

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44. Cadence Design Sys., Inc. v. Avant! Corp., 29 Cal. 4th 215, 217 (2002).

45. Burrows, *supra* note 43, ¶ 11.

46. *Id.*

47. *Cadence*, 29 Cal. 4th at 218.

48. *Id.* The release agreement stated:

Cadence, [Avant!], and Hsu . . . hereby forever release and discharge each other . . . of and from any and all manner of action, claim or cause of action . . . which they may have against each other at the time of the execution of this Agreement, known or unknown, including . . . any claims arising out of, or in connection with, . . . any anticompetitive activity or unfair competition or trade secret misappropriation.

*Id.* at 218-19.

49. The “waiver” language read as follows: “THESE RELEASES EXTEND TO CLAIMS WHICH THE PARTIES DO NOT KNOW OR SUSPECT TO EXIST IN THEIR FAVOR, WHICH IF KNOWN BY THEM WOULD HAVE MATERIALLY AFFECTED THEIR DECISION TO ENTER INTO THIS RELEASE.” *Id.* at 219.

50. *Id.*

51. Burrows, *supra* note 43, ¶ 13.

After a failed attempt at buying a start-up that possessed this improved technology, Avant! stole two batches of Cadence software through two former Cadence employees.<sup>52</sup> Cadence remained unaware of either the original theft in 1991 by the Avant! founder or the theft later under Hsu until a former Cadence programmer noticed a slight flaw in Avant!'s products—a flaw that the programmer had inadvertently created while working for Cadence.<sup>53</sup> The programmer informed Cadence management, which then contacted the Santa Clara District Attorney's office regarding the possible theft by Avant! of its trade secrets.<sup>54</sup> In December, 1995, the district attorney's office raided Avant!'s corporate headquarters, where it discovered a log that detailed the 1991 copying of Cadence code.<sup>55</sup>

### B. The Decision by the California Supreme Court

The California Supreme Court held that Cadence's claim for trade secret misappropriation arose only once, when Avant! initially misappropriated the trade secret.<sup>56</sup> The court stated that each subsequent misuse or unauthorized disclosure by Avant! augmented Cadence's initial claim for trade secret misappropriation but did not give rise to a new claim.<sup>57</sup> The court rejected arguments from Cadence that the agreement should not cover misuse that occurred *after* the parties signed the release. The court stated that "a *claim* for misappropriation of a trade secret arises for a given plaintiff against a given defendant only once, at the time of the initial misappropriation, subject to the discovery rule provided in California Civil Code § 3426.6."<sup>58</sup> Because this claim existed at the time the parties signed the release agreement, and the release agreement covered all claims then existing, the court's opinion likely precludes any further litigation based upon the 1991 acquisition of this trade secret.<sup>59</sup>

In reaching its decision, the court relied almost exclusively upon the wording of California's implementation of the UTSA and the Commissioners' comments in the original Uniform Act.<sup>60</sup> The court initially cited

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52. *Id.* ¶ 14.

53. *Id.* ¶ 15.

54. *Id.*

55. *Cadence*, 29 Cal. 4th at 218.

56. *Id.* at 227.

57. *Id.*

58. *Id.* at 222 (emphasis original).

59. *Id.* at 225. The California Supreme Court issued an answer to a certified question by the Ninth Circuit. The Ninth Circuit never applied this ruling to the case because the parties settled before the court could do so.

60. *Cf. Glue-Fold, Inc. v. Slautterback Corp.*, 82 Cal. App. 4th 1018, 1024-26 (2000) (citing the *Monolith Portland Midwest Co. v. Kaiser Aluminum & Chem. Corp.*,

the definitions in the California statute for “misappropriation” and “improper means.”<sup>61</sup> The statute includes in its definition of misappropriation the “[d]isclosure or use of a trade secret of another without express or implied consent by a person who . . . [u]sed improper means to acquire knowledge of the trade secret.”<sup>62</sup> The statute defines improper means as including “theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means.”<sup>63</sup> Furthermore, the statute defines other activities, such as reverse engineering or independent derivation, as defenses against a claim for trade secret misappropriation.<sup>64</sup> Consequently, the court noted that the scope of protection differs fundamentally from that in patent law, in which the patent holder receives a short-term monopoly to exclude all others from using the patented invention.<sup>65</sup>

The court then looked to the Commissioners’ comments to the UTSA to aid its interpretation of § 3426.6,<sup>66</sup> which sets forth the statute of limitations for trade secret claims. In affording the Commissioners’ comments substantial weight when interpreting this section, the court noted that the legislature derived it almost verbatim from the UTSA with little debate.<sup>67</sup> In the comments to the analogous section of the UTSA, the Commissioners explicitly rejected the property view that a separate statute of limitations period arises each time the defendant misuses a trade secret.<sup>68</sup> They instead adopted the view that a continuing misappropriation gives rise to a single statute of limitations period for a claim of trade secret misappropriation.

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407 F.2d 288 (9th Cir. 1969), decision and federal court decisions in support of its decision instead of using the UTSA). The National Conference of Commissioners on Uniform State Laws recommended the UTSA for enactment by all states in 1979. 1 ROGER M. MILGRIM, *MILGRIM ON TRADE SECRETS* § 1.01[2] (2003). The American Bar Association approved the draft of the UTSA in 1980. *Id.* California adopted the provisions of the UTSA with little comment. *See* Historical and Statutory Notes, CAL. CIV. CODE § 3426 (West 1997) (recognizing the similarity between each provision in this section and the corresponding section in the UTSA).

61. *Cadence*, 29 Cal. 4th at 221.

62. CAL. CIV. CODE § 3426.1(b)(2)(A).

63. *Id.* § 3426.1(a).

64. *Id.* § 3426.1(a).

65. *Cadence*, 29 Cal. 4th at 221.

66. CAL. CIV. CODE § 3426.6 (stating that “[a]n action for misappropriation must be brought within three years after the misappropriation is discovered or by the exercise of reasonable diligence should have been discovered. For the purposes of this section, a continuing misappropriation constitutes a single claim”).

67. *Cadence*, 29 Cal. 4th at 221.

68. *Id.* at 222.

priation.<sup>69</sup> The court then noted that defining a continuing misappropriation as possessing a single statute of limitations period implies defining a continuing misappropriation as giving rise to a single claim for litigation in general.<sup>70</sup> Finally, without contrary indications from the legislature, the court applied the same meaning to the term “claim” in cases of both litigation and contractual releases.<sup>71</sup> Under the UTSA, then, this claim accrues upon discovery of the misappropriation by the plaintiff.<sup>72</sup>

The court also used the wording of the statute to distinguish between the terms “misappropriation” and “claim.” A party may *misappropriate* a trade secret under the UTSA definition multiple times, not only with the initial improper acquisition of the trade secret but also with each subsequent misuse and improper disclosure of the trade secret.<sup>73</sup> A *claim* for trade secret misappropriation under the UTSA, however, arises only once—at the time of the initial misappropriation. Each additional misuse or improper disclosure augments the damages that the plaintiff may recover for this one claim of continuing misappropriation.<sup>74</sup> To hold that a continuing misappropriation gives rise to multiple claims for trade secret misuse would contradict the comments in the original Uniform Act, in which the Commissioners expressly rejected the property view that a continuing misappropriation gives rise to multiple claims.<sup>75</sup>

Throughout its opinion, the court reaffirmed the role of the UTSA as a guide to interpretation of California’s trade secret law. For instance, it rarely relied upon California precedent in the part of the opinion that explains the rationale for its holding. In fact, when reaching its conclusion on the definition of a continuing misappropriation, the court referred to only one case, on two separate occasions—once when according significant weight to the Commissioners’ comments<sup>76</sup> and again when asserting that the California statute views a continuing misappropriation as a single claim for statute of limitations purposes.<sup>77</sup> As a result, the court indicated the significance of the UTSA in California trade secret law.

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69. *Id.*

70. *Id.*

71. *Id.*

72. *Id.*

73. *Id.*

74. *Id.*

75. *Id.*

76. *Id.* at 221-22 (citing to *Glue-Fold, Inc. v. Slautterback Corp.*, 82 Cal. App. 4th 1018 (2000)).

77. *Id.* at 222-23.

In another portion of its opinion the court explicitly acknowledged the role of the UTSA. Although acknowledging the fact that “trade secrets are a form of property,” the court reminded the parties that the State defines the scope of the property interest and the methods by which a property holder can vindicate this interest.<sup>78</sup> In this case, the State allows a trade secret holder to have only one claim for a continuing misappropriation—based upon the Commissioners’ comments in the UTSA.<sup>79</sup> Thus, presumably, the UTSA helps define this area of the California trade secret law.

### III. DISCUSSION

This decision by the California Supreme Court demonstrates that the UTSA, as implemented in California, improves both the rights of trade secret holders and the clarity of the application of trade secret laws when compared to both the Restatement and the property systems. This improvement in the rights of trade secret holders will encourage the creation of trade secret information. In addition, this increased clarity will encourage settlement and simplify litigation. This Part explores both of these salutary changes by examining hypothetical situations similar to the events leading to the *Cadence* litigation.

#### A. California Trade Secret Statutes Improve the Rights of Trade Secret Holders

Notwithstanding the decision in this case, trade secret holders will benefit from the California statutes when compared to the Restatement and property systems. First, the California statutes expand the scope of the terms “trade secret” and “misappropriation.” Second, the statutes implement a discovery provision when bringing a trade secret claim which permits a trade secret owner to more reliably bring suit against misappropriators. Finally, the statutes better protect trade secret information by forbidding innocent parties from using trade secret information that they have obtained—provided they have not materially relied upon this information. Consequently, these benefits to trade secret holders should encourage investment in the research and development of new products and business

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78. *Id.* at 224. Interestingly, in this same section, the California Supreme Court also acknowledged the property-like features of a trade secret claim. The court stated: “[I]t appears indisputable that trade secrets are a form of property. But the nature of the property interest and the means by which the interest can be vindicated are matters of state law. The UTSA defines an act of continuing misappropriation for litigation purposes as a single claim.” *Id.*

79. *Id.*

practices, as misappropriation of such information will be more likely redressable.

1. *Expanding the Scope of "Trade Secret" and "Misappropriation"*

When compared to the Restatement, the California statutes reduce the burden of protecting trade secrets for software companies, such as Cadence, by expanding the definition of misappropriation to include the improper acquisition of a trade secret.<sup>80</sup> As a result, Cadence could have proven a trade secret misappropriation claim if it had discovered that one of the Avant! founders had taken Cadence trade secret information with him when he left Cadence without having to wait for Avant! to improperly use the computer code.<sup>81</sup> This distinction becomes important upon realizing that Avant! concealed the theft of the code by releasing its product in object code, which no one, including Cadence, could decipher.<sup>82</sup>

The California statutes also employ a more expansive definition of a trade secret. This definition allows entities to protect a broader range of information than that protected by the Restatement. While the Restatement requires that the information be in continuous use before acquiring protection as a trade secret,<sup>83</sup> the UTSA protects any information that derives independent economic value from not being publicly known.<sup>84</sup> Thus, California extends its protection to information that a party has acquired but not put to use.<sup>85</sup> Although not at issue in this case, the expanded definition

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80. See RESTATEMENT (FIRST) OF TORTS § 757 (1939) (stating that "one who discloses or uses another's trade secret, without privilege to do so, is liable to the other").

81. *Cadence*, 29 Cal. 4th at 218.

82. *Id.* at 217 n.3.

83. RESTATEMENT (FIRST) OF TORTS § 757 cmt. b (stating that "a trade secret may consist of any formula, pattern, device, or compilation which is used in one's business" and that a trade secret "differs from other secret information in business in that it is not simply information as to single or ephemeral events in the conduct of business").

84. California defines 'trade secret' as:

information, including a formula, pattern, compilation, program, device, method, technique, or process, that:

- (1) Derives independent economic value, actual or potential, from not being generally known to the public or to other persons who can obtain economic value from its disclosure or use; and
- (2) Is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

CAL. CIV. CODE § 3426.1(d) (West 1997).

85. See Laurence H. Reece III, *Trade Secret Misappropriation: A Review and Analysis of Massachusetts Law*, 71 MASS. L. REV. 171 (1986); see also *Continental Car-Na-Var Corp. v. Moseley*, 24 Cal. 2d 104, 109 (1944) (refusing to protect a list of former customers as a trade secret absent a showing that the plaintiff made regular sales to the

would have provided protection for Cadence's information while Cadence was developing it but before it became incorporated into any product. If the Avant! founder took the computer code in this sensitive stage, the Restatement would have provided no protection while California statutes would have allowed Cadence to bring suit.

With this change, California statutes provide an incentive for companies to create trade secrets by assuring them that the law will provide protection. Under the old approach, companies like Cadence would fear investing in the development of new technologies, for fear that, before the information was used in an actual product, their new ideas could be stolen without any legal means of redress. Moreover, by including the improper acquisition of a trade secret under the definition of "misappropriation," the USTA lowers the risk of maintaining and protecting trade secrets. This increases the value of the secrets, and thus encourages their development.

## 2. *The Discovery Provision of the California Trade Secret Statutes*

The California statutes also favor the plaintiff by implementing a discovery provision. The discovery provision tolls the statutory period until the innocent party learns or should have learned of the misappropriation.<sup>86</sup> Because the Restatement does not contain its own statute of limitations provision for trade secret cases, states apply their own statutory period. In the pre-UTSA California, this period accrued at the time of the misappropriation.<sup>87</sup> If the misappropriator could conceal his actions until the statutory period ran, then the statute of limitations would bar a trade secret holder from bringing a claim.<sup>88</sup> Compared to the Restatement, the discovery provision in the California trade secret statutes relieves the trade secret holder of the burden of detecting all improper uses and disclosures of its

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customers on the list); *Cal Francisco Inv. Corp. v. Vrionis*, 14 Cal. App. 3d 318, 322 (Cal. App. 1971) (citing the Restatement in stating that a business must continuously use information for it to qualify as a trade secret).

86. CAL. CIV. CODE § 3426.6 (stating that "an action for misappropriation must be brought within three years after the misappropriation is discovered or by the exercise of reasonable diligence should have been discovered").

87. *Monolith Portland Midwest Co. v. Kaiser Aluminum & Chem. Corp.*, 407 F.2d 288, 292 (9th Cir. 1969).

88. *See id.* (stating that § 339 of the California Code of Civil Procedure sets forth a two-year statute of limitation for actions based "upon a contract, obligation, or liability not founded upon an instrument of writing" and that this statutory period begins as soon as the misappropriation occurs regardless of when the innocent party learns of the misappropriation).

trade secrets. Instead, companies such as Cadence need only take reasonable measures to ensure that they will receive legal protection.<sup>89</sup>

By including the discovery provision, the law reduces the burden on the trade secret holder in protecting its information. This, in turn, encourages entities to create more trade secrets, since the risk of losing the value of the investment (by having a lawsuit precluded by the statute of limitations) is lower.

### 3. *Protecting Information From Use by Innocent Parties*

Finally, California favors trade secret holders by forbidding innocent parties from using misappropriated information unless they have materially relied upon it. This type of situation would have arisen if Avant! had sold or given the information stolen from Cadence to an innocent third party. Under the Restatement, if an innocent party paid for the trade secret in good faith, then no cause of action would exist, even if the trade secret owner only sought an injunction.<sup>90</sup> The Restatement arrived at this conclusion because the innocent party did not subvert any confidential relationship.<sup>91</sup> In California under the UTSA, however, if an innocent party learns that it possesses a misappropriated trade secret, even in good faith, the court may issue an injunction against the innocent party (provided it has not materially relied upon the trade secret).<sup>92</sup> In weighing the interests of the trade secret holder in protecting the trade secret and the innocent party in using the information for which it has paid, California favors the trade secret holder.

Such a result may seem at odds with the focus on confidential relationships and commercial ethics in the California statutes and the UTSA since the innocent party has broken neither.<sup>93</sup> Only after recognizing the property rights that accrue in trade secret information does the right to enjoin an innocent party make sense. Although the innocent party neither subverts a confidential relationship nor breaches acceptable commercial ethics by using the trade secret information acquired in good faith, this use does damage the value of the property right that the trade secret holder possesses in keeping this information a secret. Because of this damage to the property right of the trade secret holder, the UTSA allows the court to en-

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89. CAL. CIV. CODE § 3426.6 (stating that “an action for misappropriation must be brought within three years after the misappropriation is discovered or by the exercise of reasonable diligence should have been discovered”).

90. See RESTATEMENT (FIRST) OF TORTS § 757 (1939).

91. See *id.*

92. CAL. CIV. CODE § 3426.1(b)(2)(C).

93. *Id.* § 3426.1(b).

join the use of the information by the innocent party. Because the California Supreme Court has recognized this property element in trade secrets in its *Cadence* decision, California courts in the future should use these property-like elements to favor the rights of trade secret holders over innocent parties.

Favoring the trade secret holder also increases the value of trade secret information, which encourages companies to invest in research leading to the creation of new trade secrets. Much like the provisions discussed above, the increased legal protection available to trade secret information makes investment in creation of such information less risky and thus the secrets more valuable. The net effect of these changes is likely to be a substantial increase in the creation of new, innovative business practices and products.

## **B. Clarifying the Rules Governing Trade Secret Misappropriation**

In addition to favoring plaintiffs, the California statutes also will allow parties to settle disputes more efficiently by clarifying the rules that govern trade secret misappropriation. In *Cadence*, for instance, the parties could have settled much more quickly had they known how the courts would apply the California UTSA. First, these statutes provide greater clarity for issuing injunctions when compared to the Restatement and property systems, neither of which provide guidance to courts in deciding whether to issue an injunction in a trade secret dispute. California further provides direction to the court in deciding the duration of an injunction: guidance that the Restatement and property systems lack. The ability to combine multiple misappropriations into a single claim also leads to greater clarity in California trade secret law when compared to the property system, since the parties will realize that the defendant may be liable for all of the damages resulting from misappropriation. At the same time, this knowledge will allow parties to draft tighter release agreements in the future, such that parties situated similarly to *Cadence* may better protect their trade secret information in settlement negotiations.

### *1. Greater Clarity in the Issuing and Duration of Injunctions*

California provides for greater clarity and efficiency by guiding the court in its decision both in issuing an injunction and in deciding the length of the injunction in the case of an actual or threatened misappropriation.<sup>94</sup> The Restatement did not provide for the application of an injunction in the particular instance of trade secret misappropriation. Instead, it contained a general provision for issuing an injunction applicable

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94. *Id.* § 3426.2(a).

to all torts.<sup>95</sup> California, by comparison, contains an explicit provision to govern the length of the injunction, thereby guiding the court in its decision making process.<sup>96</sup> By doing so, the California UTSA helps assure that both parties will realize the possible remedies that the court may issue: a fact that increases the possibility that the two sides may settle before a trial. In addition to encouraging settlement, it will further improve the efficiency of the court system by reducing the number of possible issues about which the two sides may argue.

Had Cadence not signed the release agreement, this provision would have become important because it would have guided the court in deciding whether to issue an injunction as well as deciding the length of the injunction. In this hypothetical case, the court probably would have issued an injunction because of the actual and threatened continued misappropriation by Avant!. Furthermore, because the information remained a trade secret even after Avant! acquired it, the statute would have directed the court to issue an open-ended injunction against further use by Avant! until such time as the information lost its trade secret status. As a result, the statutes provide both parties with an opportunity to realistically assess their position and negotiate a settlement before going through with costly litigation.

## 2. *Combining Multiple Misappropriations into a Single Claim*

California also provides for greater clarity and efficiency, when compared to property based systems such as the one used by New York, by combining instances of continuing misappropriation into a single claim.

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95. RESTATEMENT (FIRST) OF TORTS §§ 933-43. In this vacuum, three different approaches arose. In one approach, the court enjoined the defendant from ever using the trade secret. *Shellmar Prods. Co. v. Allen-Qualley Co.*, 87 F.2d 104, 107-108 (7th Cir. 1936). Another court held that once trade secrets have been disclosed to the public, the court will no longer enforce the injunction. *Conmar Prods. Co. v. Universal Slide Fastener Co.*, 172 F.2d 150, 156 (2d Cir. 1949). In a compromise holding, a third court enjoined the defendant from using the trade secret for the length of time the court determined the defendant would have taken to legally discover the trade secret. *Winston Research Corp. v. Minn. Mining & Mfg. Co.*, 350 F.2d 134, 142 (9th Cir. 1965).

96. CAL. CIV. CODE § 3426.2(a). The California statute states:

Actual or threatened misappropriation may be enjoined. Upon application to the court, an injunction shall be terminated when the trade secret has ceased to exist, but the injunction may be continued for an additional period of time in order to eliminate commercial advantage that otherwise would be derived from the misappropriation.

*Id.* § 3426.2(a).

Each improper use or disclosure in New York gives rise to a new claim.<sup>97</sup> Each claim in a property system possesses a different date on which the statute of limitation will run.<sup>98</sup> Under the California statutes, by contrast, one claim would arise for all acts of trade secret misappropriation in instances of a continuing misappropriation.<sup>99</sup> This claim accrues upon the initial act of misappropriation, but the discovery provision tolls the statute of limitations. The tolling provision, then, prevents the parties from litigating over the date of the initial misappropriation and allows the innocent party to recover on all misappropriations; in New York, the statute of limitations may bar certain claims and allow others. This situation in New York may encourage parties to litigate the dates of different misappropriations, especially those falling close to the cut off date of the statute of limitations, a situation that discourages settling. Thus by giving both parties better information regarding the defendant's potential liability, the California statutes will allow some parties to settle out of court when they otherwise would not under New York's trade secret laws.

California also provides for greater clarity when compared to New York's property-based system by providing a single statute of limitations period applicable to all trade secret claims. In New York, differing statutes of limitations exist depending upon whether the underlying cause of action for the misappropriation claim arises under property law or contract.<sup>100</sup> A party in New York must commence a claim for an injury to property within three years,<sup>101</sup> while a party must commence a claim based upon a contractual obligation within six years.<sup>102</sup> Furthermore, neither the label used in the cause of action nor manner in which the plaintiff pleads its claim restricts the type of statutory period the New York court may apply.<sup>103</sup> In California, however, a three-year statute of limitations, subject to the discovery provision, applies to all claims for trade secret misappropriation.<sup>104</sup> By providing a single statutory period applicable to all trade secret

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97. Michael Hutter, *The Case for Adoption of a Uniform Trade Secrets Act in New York*, 10 ALB. L.J. SCI. & TECH. 1, 48 (1999).

98. *Gen. Precision v. Ametek, Inc.*, 20 N.Y.2d 898, 899 (1967) (stating that a cause of action arises each time the defendant used the plaintiff's secret).

99. *Cadence Design Sys., Inc. v. Avant! Corp.*, 29 Cal. 4th 215, 226 (2002).

100. Hutter, *supra* note 97, at 7.

101. N.Y. C.P.L.R. § 214(4) (McKinney 1962).

102. *Id.* § 213(2).

103. *See Petnel v. Am. Tel. & Tel. Co.*, 280 A.D. 706, 709 (N.Y. App. Div. 1952) (dismissing certain claims that the plaintiff had brought as fraud, which tolls the statute of limitation until discovery, because the improper use of the plaintiff's trade secret represented the gravamen of the cause of action).

104. CAL. CIV. CODE § 3426.6 (West 1997).

claims, the California statutes remove one further issue that the parties must litigate in New York. This greater clarity again provides both parties with better information regarding the potential liability of the accused, which will also encourage the parties to settle before litigation begins.

Some may criticize the situation in California as creating a rush to the courthouse in that the statutory period begins as soon as the trade secret holder discovers the misappropriation. Consequently, the trade secret owner must file suit before the statutory period runs regardless of whether the particular misappropriation resulted in harm sufficient enough to persuade the trade secret holder to file claim absent the statute of limitations. In essence, the trade secret holder must file suit soon after learning of the misappropriation to protect his future interest in the trade secret information or risk forever being barred by the statute of limitations of doing so.

This argument, however, misses the point that the state protects this information precisely because it is a *secret*; if a competitor gains access to this information, then the trade secret holder has a duty to vindicate the secrecy of this information by obtaining an injunction from the court forbidding the other company from using this information. By waiting until some sufficient misappropriation occurs to vindicate its rights, the trade secret holder may lull the misappropriator into a false sense of security that the trade secret owner does not plan to press a claim. Furthermore, this issue provides the parties with a further issue to litigate—even more so if the court decides to implement a policy similar to the doctrines of laches and estoppel in which the court would prohibit a claim precisely because the trade secret holder failed to vindicate its rights in a reasonable period of time. Finally, as the *Cadence* court noted, the state defines the trade secret owner's interest in the trade secret and the method by which he may vindicate his rights in this interest.<sup>105</sup> If the state requires the trade secret holder to maintain the secrecy of its information, then trade secret holder should not complain when he fails to do so.

#### IV. CONCLUSION

The California Supreme Court in *Cadence v. Avant!* demonstrated that the UTSA, as implemented in California, both provides an improvement in the rights of trade secret holders and creates greater clarity in the application of trade secret laws when compared to both the Restatement and the property system. Although *Cadence* probably would have lost its claim against *Avant!* had the parties not settled, trade secret holders gain with

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105. *Cadence Design Sys., Inc. v. Avant! Corp.*, 29 Cal. 4th 215, 224 (2002).

the enactment of the UTSA in California. This gain comes from the expanded definition of “trade secret” and “misappropriation” as well as from the ability of trade secret holders to enjoin innocent third parties that have obtained the trade secret holder’s proprietary information. As a result, the increased rights of trade secret holders will encourage the creation of trade secret information. Finally, the California statutes will allow parties to settle disputes more efficiently by clarifying the rules that govern trade secret misappropriation. This efficiency will allow parties in trade secret disputes to better negotiate a resolution—with reduced involvement by the court system—by drafting more robust settlements that better protect trade secret information.

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## RAMBUS V. INFINEON: PATENT DISCLOSURES IN STANDARD-SETTING ORGANIZATIONS

By David Alban

Standard-setting<sup>1</sup> activity permeates modern-day life.<sup>2</sup> The most compelling factor driving the rise of standard-setting is product interoperability.<sup>3</sup> Interoperability facilitated by standards has significant consumer benefits.<sup>4</sup> This is especially true in “network markets,” where the value of a product to a particular consumer is a function of how many other consumers use a compatible product.<sup>5</sup> While standards may have many pro-competitive and other beneficial effects, group standards can present a risk to competition. The standards process can at times deny consumers the benefits of technological competition.<sup>6</sup> In nonnetwork markets, economists presume that consumers fare best when many companies compete to offer a variety of products. To the extent that standards dictate a single product to consumers and reduce consumer choice, the standard may be undesirable.<sup>7</sup>

An analysis of standard-setting is complicated by the fact that the technology underlying the standard may be protected by intellectual prop-

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1. For the purposes of this article, the term “standard” will be defined rather broadly as any set of technical specifications that either provides or is intended to provide a common design for a product or process. See Mark A. Lemley, *IP Rights and Standard-Setting Organizations*, 90 CALIF. L. REV. 1889 (2002).

2. For example, one or more hardware or software standards govern practically every aspect of using a computer. Larry Seltzer, *The Standards Industry: Corporate Consortia are Supplanting Traditional Rule-Making Bodies*, INTERNET WORLD, Apr. 15, 2001, at 50, available at <http://www.internetworld.com/magazine.php?inc=041501/04.15.01internettech1.html>.

3. See generally Michael G. Cowie & Joseph P. Lavelle, *Patents Covering Industry Standards: The Risks to Enforceability Due to Conduct Before Standard-Setting Organizations*, 30 AIPLA Q.J. 95 (2002); Janice Mueller, *Patent Misuse Through the Capture of Industry Standards*, 17 BERKELEY TECH. L.J. 623 (2002).

4. See Daniel J. Gifford, *Developing Models for a Coherent Treatment of Standard-Setting Issues Under the Patent, Copyright, and Antitrust Laws*, 43 IDEA 331, 336-38 (2003).

5. See, e.g., Lemley, *supra* note 1. For additional literature on network effects, see Michael Katz & Carl Shapiro, *Network Externalities, Competition, and Compatibility*, 75 AM. ECON. REV. 424 (1985); Mark A. Lemley & David McGowan, *Legal Implications of Network Economic Effects*, 86 CALIF. L. REV. 479 (1998).

6. Cowie & Lavelle, *supra* note 3, at 99.

7. Lemley, *supra* note 1, at 1899.

erty (IP) rights.<sup>8</sup> While granting IP rights may foster innovation, IP law should encourage the benefits of network effects and provide appropriate incentives for the development of improved standards.<sup>9</sup> Granting IP rights in a standardized technology may allow the IP owner to exclude others from obtaining the benefits of the standard.<sup>10</sup> In order to realize the benefits of network markets, many commentators have argued for weaker IP protection with respect to the elements that are required to facilitate interoperability.<sup>11</sup>

To address the problems presented by IP rights in network standards, many standard-setting organizations (“SSOs”) have implemented policies outlining a spectrum of obligations for owners of IP covered by the standard. Such policies provide a contractual safe harbor designed to prevent IP owners from unfairly leveraging their IP and capturing a network standard.<sup>12</sup> In the recent case of *Rambus v. Infineon*, the Federal Circuit interpreted an SSO’s IP policy very narrowly, holding that the members of the SSO only had to disclose patent applications that read on the final proposed standard, as opposed to those applications that disclosed the proposed standard, and that members did not have to disclose these applications until members actually sat down to vote on the final proposed standard.<sup>13</sup>

This Note aims to address two issues. First, it compares the Federal Circuit’s interpretation of the SSO’s IP policy in *Rambus v. Infineon* to various other courts’ interpretations of other IP policies to see if the Federal Circuit’s interpretation is consistent with the interpretation of previous

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8. See generally Michael J. Schallop, *The IPR Paradox: Leveraging IP Rights to Encourage Interoperability in the Network Computing Age*, 28 AIPLA Q.J. 195 (2000).

9. Peter S. Menell, *An Epitaph for Traditional Copyright Protection of Network Features of Computer Software*, 43 ANTITRUST BULL. 651, 673 (1998).

10. Lemley & McGowan, *supra* note 5, at 523.

11. See, e.g., *id.* at 533 (suggesting that denying all forms of intellectual property protection to software interfaces would truly permit competition within de facto standards); Mark A. Lemley & David W. O’Brien, *Encouraging Software Reuse*, 49 STAN. L. REV. 255 (1997) (suggesting that the threshold for patentability for programming interfaces should be raised to promote interoperability); Peter S. Menell, *Tailoring Legal Protection for Computer Software*, 39 STAN. L. REV. 1329 (1987) (suggesting that due to, *inter alia*, considerations of network externalities, network features of computer software should not receive direct protection under copyright, and that Congress should adopt a hybrid form of patent law); Pamela Samuelson et al., *A Manifesto Concerning the Legal Protection of Computer Programs*, 94 COLUM. L. REV. 2308 (1994) (arguing for the creation of a period of automatic anticloning protection for technical innovations).

12. Schallop, *supra* note 8, at 200-01.

13. 318 F.3d 1081, 1100, 1106 (Fed. Cir. 2003).

courts. Second, this Note discusses the benefits of SSOs' IP policies as a form of private governance. Along these lines, it suggests that a broad duty to disclose facilitates technological competition within the standard-setting process while having little impact on the incentive to invent. To accomplish this, Part I provides some background regarding network effects, types of standards, and the risks presented by standards. Part II provides an overview of the *Rambus v. Infineon* litigation. Part III addresses the implications of such a narrow holding on the policies of the IP laws, concluding that such a narrow holding is inconsistent with precedent and will weaken the effectiveness of the SSOs' IP policies as a contractual safe-harbor.

## I. NETWORK EFFECTS AND THEIR INTERACTION WITH STANDARDS

Network effects exist, in general, where purchasers find a good more valuable as additional purchasers buy the same good.<sup>14</sup> Standardization provides consumers with significant benefits in network markets. If consumers were in doubt about the compatibility of a telephone jack with the existing telephone sockets in their homes or with the sockets in their future homes, they would hesitate to purchase a telephone. Similarly, if consumers doubted the ability of their ATM cards to work at a variety of ATMs, they might hesitate to obtain an ATM card. Standards, therefore, serve to provide consumers with information concerning the compatibility of their products allowing producers to increase demand for those products.

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14. There are essentially two types of network markets: actual networks and virtual networks. The classic example of an actual network market is the market for telephones. The value that any consumer places on a telephone increases with each additional telephone purchaser. The value of the telephone increases with the number of other people that can be contacted with the telephone. Thus, the benefit to the consumer is additional access to other purchasers.

Virtual networks exist where the products do not actually connect with each other, but instead the value of the product increases with the number of consumers purchasing identical or interoperable goods. Operating system software is a paradigmatic example of a virtual network. The value consumers place on an operating system increases with the number of application programs the operating system is able to run. At the same time, application developers will develop applications for the more popular operating systems. Consumers are therefore more likely to buy the more popular operating systems. Similar effects are evident in the markets for a variety of goods. Some of the most popular examples include application programs that enable users to share files, ATM cards and the automatic teller machines they can access, and credit cards and the vendors who accept them. For a more thorough description of actual and virtual network markets, see generally Lemley, *supra* note 1; Menell, *supra* note 9.

Many commentators argue that in the absence of technological differences between standards, consumers generally prefer one nonproprietary or “open” standard. This argument is premised on the notion that a single standard in a network market that is open to competition will generate competition among firms in supplying products, lowering prices, and preventing monopolies.<sup>15</sup> Interoperability increases consumer welfare not only by enhancing consumer choice and reducing the costs of goods,<sup>16</sup> but also by allowing consumers to exchange information with others who use the same standard.<sup>17</sup> Thus, for interoperability standards, the intrinsic value of the technology chosen as the standard is only part of the social benefit of standard-setting. Simply agreeing on a standard—any standard—for two products to interact has independent value in a network market. This additional value has been labeled the standard’s “coordination” value.<sup>18</sup>

#### A. Types of Standards

Standards may take a variety of forms. Specifically, it is important to distinguish between *de facto* and *de jure* standards. *De facto* standards are not promulgated by a particular body, but evolve as a result of network effects.<sup>19</sup> A technology becomes a standard by virtue of significant market share in a particular network market. For example, consider the market for computer operating systems. The costs of developing application software across multiple platforms can be prohibitively expensive. These pressures generally cause development to focus on one particular platform, which in turn makes that platform more desirable for consumers—a phenomenon known as “tipping.”<sup>20</sup> This suggests that network markets will tend toward one or a limited number of standards. Such standards, chosen by the market, are called *de facto* standards.

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15. Menell, *supra* note 9, at 673; see also Daniel A. Farber & Brett H. McDonnell, *Why (and How) Fairness Matters at the IP/Antitrust Interface*, 87 MINN. L. REV. 1817 (2003) (arguing that there should be a legal presumption in favor of open standards except where efficiency concerns clearly dictate otherwise); Douglas D. Leeds, *Raising the Standard: Antitrust Scrutiny of Standard-Setting Consortia in High Technology Industries*, 7 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 641, 648 (1997) (“[I]f a single accepted and open standard exists, consumers can adopt compatible technological improvements without surrendering network externalities.”).

16. See Cowie & Lavelle, *supra* note 3, at 99.

17. See Lemley, *supra* note 1, at 1896.

18. See Gifford, *supra* note 4, at 351.

19. Mueller, *supra* note 3, at 633; Schallop, *supra* note 8, at 215.

20. Lemley, *supra* note 1, at 1897; Schallop, *supra* note 8, at 208.

In contrast, *de jure* standards are rules for implementing a technology that are set by some official body. That official body may be a government or a private industry SSO.<sup>21</sup> This Note is primarily concerned with private, consensual *de jure* standards: standards set by private industry organizations open to all companies. Generally, if the members of such a group collectively have a significant market share, their adoption of a standard may produce the “tipping” effect discussed above. Other industry members will be inclined to gear their production to work with the accepted standard, rather than a different product or standard that has only a small market share.<sup>22</sup> This in turn reinforces the desire of consumers to buy the product with the dominant market share.

## B. Risk of Standards

While standards may have many pro-competitive and other beneficial effects, group standards can present a risk to competition. The standards process can at times deny consumers the benefits of technological competition.<sup>23</sup> In nonnetwork markets, economists presume that consumers fare best when many companies compete to offer a variety of products. To the extent that standards dictate a single product to consumers and reduce consumer choice, the standard may be undesirable.<sup>24</sup> Where an IP owner is able to incorporate her technology into a dominant industry standard, the IP owner has greater ability to raise prices and is able to capture the coordination value of the standard itself. The presence of IP rights can therefore cause industry participants to compete for domination of an industry standard to maximize their revenue stream to the detriment of consumers.

The network externalities driving adoption of a single industry standard can trap the industry into a standard based on obsolete and inferior technology, undermining IP law’s goal of encouraging innovation.<sup>25</sup>

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21. Lemley, *supra* note 1, at 1898; Mueller, *supra* note 3, at 634.

22. Lemley, *supra* note 1, at 1896-97.

23. Cowie & Lavelle, *supra* note 3, at 99; *see also* James J. Anton & Dennis A. Yao, *Standard-Setting Consortia, Antitrust, and High-Technology Industries*, 64 ANTITRUST L.J. 247, 261 (1995) (noting that standards can imbue technology with market power it previously lacked, increasing the potential for monopolization); Mark A. Lemley, *Antitrust and the Internet Standardization Problem*, 28 CONN. L. REV. 1041, 1059-60 (1996) (suggesting that standards that allow a company to set whatever price it wants prevents widespread adoption of the standard).

24. Lemley, *supra* note 1, at 1900.

25. Menell, *supra* note 9, at 677; *see also* Joseph Farrell & Garth Saloner, *Installed Base and Compatibility: Innovation, Product Preannouncements, and Predation*, 76 AM. ECON. REV. 940 (1986) (arguing that the presence of an installed base will cause consumers to not adopt a new superior technology, stifling innovation); Sean P. Gates, *Standards, Innovation, and Antitrust: Integrating Innovation Concerns into the Analysis*

Through control of a dominant industry standard, an IP owner can exercise substantial control over innovation in that platform. The adverse affect on innovation may be enhanced because monopolists often have less incentive to develop improvements in their technology, as such improvements may serve to displace their monopoly profits.<sup>26</sup>

In addition, technology may develop rapidly as a result of periodic minor improvements. Since rapid change undermines the value of capital invested in existing technology, opposition to adoption of a new technology that decreases the value of an existing investment is to be expected.<sup>27</sup> This is true whether a single IP owner or a consortium of members controls the standard, as collusion in the SSO could prevent the adoption of beneficial technology.<sup>28</sup>

### C. SSOs' Policies

SSOs increasingly face situations in which one or more companies claim to own proprietary rights that cover a proposed standard, preventing the industry from adopting the standard without the permission of the IP owner.<sup>29</sup> To counter this problem, many SSOs have implemented IP policies outlining a spectrum of contractual obligations for holders of patents and other IP rights in the subject matter of the standard. The terms of these policies are critical, yet the terms of the numerous SSOs' policies are very diverse.<sup>30</sup> The most burdensome policies require the owner of any patent deemed essential to practicing the standard to grant a royalty-free license to any user of the standard. Such "open" standards may be freely practiced by anyone. At the other end of the spectrum are SSOs that allow completely "closed" standards. These organizations generally have no policy regarding IP rights. The majority of SSOs are somewhere in the middle and usually include two types of provisions in their IP policies: disclosure

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*of Collaborative Standard Setting*, 47 EMORY L.J. 583, 595-96 (1998) (arguing that network effects create a first-mover advantage, locking in a particular technology); Michael L. Katz & Carl Shapiro, *Technology Adoption in the Presence of Network Externalities*, 94 J. POL. ECON. 822, 825 (1986) ("Our analysis supports the conventional view that the technology that is superior today has a strategic, first-mover advantage: it can become locked in as the standard."); Steven A. Lippman & John W. Mamer, *Preemptive Innovation*, 61 J. CON. THEORY 104, 105 (1993) (suggesting that industries can become trapped in an intrinsically inferior technology as a result of network effects).

26. See Menell, *supra* note 9, at 674.

27. See Gifford, *supra* note 4, at 363-64 (discussing the number of ways changes in technology will impact standards).

28. Cowie & Lavelle, *supra* note 3, at 99.

29. Lemley, *supra* note 1, at 1893.

30. See *id.* (surveying a number of different SSOs and analyzing their varied IP policies).

requirements and licensing terms. The licensing provisions usually require that patent owners grant licenses under terms that are “reasonable and nondiscriminatory.” There is greater variation in the disclosure provisions. Most SSOs consider only issued patents. A few, however, like that of the Joint Electronic Devices Engineering Council in the *Rambus* case, require disclosure of all pending patent applications.<sup>31</sup> Some SSOs have adopted an intermediate policy requiring the disclosure of only published patent applications.<sup>32</sup>

#### D. Enforceability of SSOs’ IP Policies

An SSO’s IP policy is only useful to the extent that it is enforceable. This section focuses on three bodies of rules that may apply when a patent owner has failed to comply with an SSO’s disclosure requirement: anti-trust laws, IP laws, and fraud-based common law doctrines.

##### 1. Antitrust Laws

In the standard-setting context, antitrust claims against IP owners usually concentrate on any competitive advantage received by an IP owner by misleading the SSO members to adopt a particular standard covered by the owner’s IP rights. This section will focus on one of the most common anti-trust mechanisms used to enforce SSOs’ policies: section 5 of the FTC Act.<sup>33</sup>

##### a) Unfair Competition—Section 5 of the FTC Act

Section 5 of the FTC Act prohibits unfair methods of competition. The Federal Trade Commission (FTC) invoked this section in its seminal case against Dell. In *In re Dell*, the FTC prohibited Dell from enforcing its pat-

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31. *Rambus, Inc. v. Infineon, Techs. AG*, 318 F.3d 1081, 1096-97 (Fed. Cir. 2003).

32. *See id.*

33. Another common antitrust doctrine used to enforce the SSOs’ policies is section 2 of the Sherman Act. An action for attempted monopolization under section 2 of the Sherman Act requires (1) a specific intent to monopolize; (2) anticompetitive conduct; (3) a dangerous probability of successful monopolization; and (4) harm to consumers. *Spectrum Sports, Inc. v. McQuillen*, 506 U.S. 447, 456 (1993). In practice, the requirement for a showing of market power precludes enforcement against many IP owners. The mere fact that a firm owns a patent on an industry standard does not demonstrate market power in the antitrust sense. Mueller, *supra* note 3, at 654. In addition, an antitrust plaintiff must establish that the SSO would not have adopted the standard in question but for the misrepresentation or omission. This requirement is needed because if the SSO would have adopted the standard had it known about the IP right, then the failure to disclose could not have inflicted harm to the market. That is, the marketplace would be the same as it would be had the IP owner properly disclosed the existence of their IP. Lemley, *supra* note 1, at 1931.

ent against those using the adopted standard.<sup>34</sup> The *Dell* case involved an effort by the SSO to identify potentially conflicting patents and to avoid creating standards that would infringe those patents.<sup>35</sup> To achieve this goal, the SSO had a policy that required members to certify that they did not own any patent rights that covered the standard.<sup>36</sup> Dell certified that it had no such IP rights.<sup>37</sup> Nonetheless, Dell owned a patent that covered the standard, and after the SSO adopted the standard, Dell sought to enforce its patent against firms planning to conform to the standard.<sup>38</sup> Seeking to prevent harm to the competitive process, the FTC entered a decree prohibiting Dell from enforcing its patent against companies implementing the standard.<sup>39</sup>

The *Dell* decision has been widely criticized for muddling the requirements for bringing an action under section 5. For example, the consent order held that enforcement was appropriate where there was evidence that (1) Dell failed to act in good faith to disclose its patents, and (2) the association would have implemented a different, non-proprietary standard had it been informed of the patent conflict.<sup>40</sup> The dissent sharply criticized the majority for ignoring the traditional antitrust test. Namely, the dissent argued that the majority should have focused on two issues: whether Dell intentionally misled the SSO into adopting a standard covered by Dell's patent; and whether, as a result of the adoption of such a standard, Dell obtained market power beyond that lawfully conferred by the patent.<sup>41</sup> As a result of the *Dell* decree, it is unclear what level of intent and market power must be shown when bringing an action under section 5.

## 2. IP Laws

Another avenue available to SSO members to enforce the SSO's IP policy is the IP laws. At least two patent law doctrines may apply when a participant in an SSO violates the disclosure requirement: equitable estoppel and patent misuse.

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34. *In re Dell Computer Corp.*, 121 F.T.C. 616, 624 (1996).

35. *Id.* at 623.

36. *Id.*

37. *Id.* at 624.

38. *Id.*

39. *Id.*

40. *Id.*

41. *Id.* at 628-33 (Azcueña, Comm'r, dissenting).

a) Equitable Estoppel

Equitable estoppel is a judge-made doctrine that permits a court to refuse to enforce a patent when inequitable to do so.<sup>42</sup> Equitable estoppel applies where “a patentee, through misleading conduct, leads the alleged infringer to reasonably infer that the patentee does not intend to enforce its patent against the alleged infringer. Conduct may include specific statements, action, inaction, or silence where there was an obligation to speak.”<sup>43</sup> To use equitable estoppel as a defense in a patent infringement suit, the alleged infringer must show (1) misleading conduct, either by words or silence; (2) reliance on the misleading conduct; and (3) that it will be materially prejudiced if the patent is enforced.<sup>44</sup>

Courts have applied equitable estoppel in a number of standard-setting cases.<sup>45</sup> For example, in *Stambler v. Diebold, Inc.*, the court found estoppel on the basis of conduct before an SSO, even in the absence of an SSO rule requiring disclosure.<sup>46</sup> In *Stambler*, the plaintiff sat on the standards

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42. *Hemstreet v. Computer Entry Sys. Corp.*, 972 F.2d 1290, 1295 (Fed. Cir. 1992).

43. *A.C. Aukerman Co. v. R.L. Chaides Constr. Co.*, 960 F.2d 1020, 1028 (Fed. Cir. 1992) (en banc).

44. *Id.* There are a few things worth noting about the equitable estoppel doctrine. First, equitable estoppel does not require affirmatively misleading statements. In the standard-setting context, an SSO member’s failure to disclose a patent or patent application when required to do so by the SSO’s patent disclosure policy may give rise to estoppel. *Cowie & Lavelle, supra* note 3, at 105; *Lemley, supra* note 1, at 1918. Second, it is unnecessary to prove specific intent to mislead or deceive. *Aukerman*, 960 F.2d at 1028. Generally, all that is required is that the patent owner’s conduct reasonably gave rise to an inference that it would not enforce the patent. *Id.* Yet the Federal Circuit has indicated that the conduct must rise to the level of bad faith. *Hemstreet*, 972 F.2d at 1295; *see also Hottel Corp. v. Seaman Corp.*, 833 F.2d 1570, 1574 (Fed. Cir. 1987) (“[S]ome evidence must exist to show that the silence was sufficiently misleading to amount to bad faith.”). Therefore, it appears that estoppel would not apply in those situations in which a patent owner’s failure to disclose was inadvertent or merely negligent.

In addition, to establish estoppel the defendant must show reliance on the misleading conduct. In general, a defendant ought not to be required to show direct communication with the patent owner. Alleged infringers should be able to rely on representations made to the SSO where the representations are publicly available. However, in most cases the accused infringer will probably be required to show that the SSO would have adopted a different standard had they known about the patent. *See Cowie & Lavelle, supra* note 3, at 109; *Lemley, supra* note 1, at 1920.

45. *Wang Labs. Inc. v. Mitsubishi Elecs. Am. Inc.*, 103 F.3d 1571 (Fed. Cir. 1997); *Stambler v. Diebold, Inc.*, No. 90-CV-3014, 1988 WL 95479 (E.D.N.Y. Sept. 2, 1988), *aff’d*, 878 F.2d 1445 (Fed. Cir. 1989) (unpublished); *Potter Instrument Co. v. Storage Tech. Corp.*, 207 U.S.P.Q. 763, 766-67 (E.D. Va. 1980), *aff’d*, 641 F.2d 190 (4th Cir. 1981).

46. *Stambler*, 1988 WL 95479, at \*5-6.

committee after concluding that the proposed standard infringed his patent, and subsequently left the committee without notifying it of the alleged infringement.<sup>47</sup> The court found that the plaintiff had a duty to inform the committee about his patent and “could not remain silent while an entire industry implemented the proposed standard and then when the standards were adopted assert that his patent covered what manufacturers believed to be an open and available standard.”<sup>48</sup> Therefore, plaintiff was estopped from bringing the infringement suit.<sup>49</sup>

b) Patent Misuse

Like equitable estoppel, patent misuse is an affirmative defense to patent infringement. Patent misuse is generally understood to apply when the patent owner uses the patent to secure rights beyond the scope of the patent, in violation of public policy.<sup>50</sup> In practice, the courts have modified the patent misuse doctrine to apply only in situations where the patent owner has “impermissibly broadened the . . . scope of the patent grant with anticompetitive effects.”<sup>51</sup> It therefore appears possible that the courts could apply the patent misuse doctrine to enforce an SSO’s disclosure policy.

No court, however, has used the patent misuse doctrine to invalidate a patent due to behavior in front of an SSO. This is probably due, in part, to the requirement that the plaintiff demonstrate anticompetitive effects. For example, in *Townshend v. Rockwell*, the court refused to apply the patent misuse doctrine, based in part on a failure to allege anticompetitive practices.<sup>52</sup> In *Townshend*, the counter-plaintiff alleged that the counter-defendant lobbied an SSO to adopt an industry standard that embodied the counter-defendant’s technology.<sup>53</sup> After the standard was adopted, the

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47. *Id.* at \*6.

48. *Id.* at \*5-6.

49. Some commentators have criticized *Stambler* as going too far in applying estoppel based on silence even in the absence of an express duty to speak. See, e.g., Lemley, *supra* note 1, at 1920. While a ruling of estoppel may seem harsh in the absence of an IP policy requiring disclosure, it is important to note that the plaintiff in *Stambler* waited ten years before bringing the infringement suit. *Stambler*, 1988 WL 95479, at \*6.

50. Mueller, *supra* note 3, at 672; Robin Feldman, Should We Breathe Life into Patent Misuse? 15 (2003) (unpublished manuscript, on file with the Berkeley Center for Law and Technology), at [http://www.law.berkeley.edu/institutes/bclt/ipsc/papers/IPSC\\_2003\\_Feldman.pdf](http://www.law.berkeley.edu/institutes/bclt/ipsc/papers/IPSC_2003_Feldman.pdf).

51. *Windsurfing Int’l Inc. v. AMF Inc.*, 782 F.2d 995, 1001 (Fed. Cir. 1986).

52. *Townshend v. Rockwell Int’l Corp.*, No. C99-0400SBA, 2000 WL 433505, at \*11 (N.D. Cal. Mar. 28, 2000) (unpublished order granting motion to dismiss patent misuse counterclaim).

53. *Id.* at \*2.

counter-defendant asserted that the standard incorporated proprietary technology.<sup>54</sup> The counter-plaintiff argued that this assertion, combined with the counter-defendants' lobbying activities before the SSO and their proposed licensing terms, constituted anticompetitive conduct.<sup>55</sup> The court found that the counter-plaintiff had not stated allegations of anticompetitive conduct because the counter-defendant notified the SSO of the pending patent applications and submitted proposed licensing terms prior to the adoption of the standard.<sup>56</sup> In addition, the counter-plaintiff's allegations did not state that the conduct threatened an incipient violation of the anti-trust laws or otherwise significantly threaten or harm competition.<sup>57</sup>

In dismissing the patent misuse counterclaim, the court distinguished the case from *Dell* on three grounds.<sup>58</sup> First, the counter-defendant's patents issued after the SSO had adopted the standard, whereas in *Dell*, the patent owner had an issued patent at the time the standard-setting proceeding took place.<sup>59</sup> Second, the counter-defendant informed the SSO that it had pending patent applications, while the patent owner in *Dell* did not disclose the existence of the patent to the standard-setting organization.<sup>60</sup> Finally, the counter-plaintiff had not asserted that the SSO could have adopted a standard that did not encompass counter-defendant's technology, whereas in *Dell*, the standard-setting body was choosing among options, and there was a possibility that they could have adopted a standard which did not incorporate Dell's patent.<sup>61</sup>

### 3. Common-law Fraud

Another potential defense for an alleged infringer is common law fraud, caused by an IP owner's violation of a duty to disclose. In general,

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54. *Id.* at \*11.

55. *Id.*

56. *Id.*

57. *Id.* at \*12. The court also held that the counter-plaintiff had not demonstrated any injury to competition resulting from the counter-defendant's conduct, or that the counter-defendant's "deception" in front of the SSO rose to the level of anticompetitive behavior.

58. *Id.* at \*11 (referring to *In re Dell*, No. 931-0097, 60 Fed. Reg. 57870 (Fed. Trade Comm'n Nov. 22, 1995)).

59. *Id.*

60. *Id.*

61. *Id.* The court's order centered around the counter-plaintiff's allegation that counter-defendant voluntarily proposed licensing terms for the patents at issue to the SSO prior to the SSO's adoption of the standard. The court stated that "where [counter-defendant] notified the [SSO] of the . . . pending patent applications and submitted proposed licensing terms prior to the adoption of the standard," the counter-plaintiff had not stated allegations of anticompetitive conduct. *Id.* at \*15.

fraud requires (1) a specific intent to mislead, (2) a false statement or omission in the face of a duty to disclose, and (3) detrimental reliance.<sup>62</sup> This cause of action will be discussed further in the context of the *Rambus v. Infineon* suit, *infra*.

## II. RAMBUS V. INFINEON

### A. Factual Background

Rambus develops and licenses memory technology for high-speed chip manufacturers, such as defendant Infineon.<sup>63</sup> In April 1990, Rambus filed U.S. Patent Application Serial No. 07/510,898 (“the ’898 Application”) with claims directed towards dynamic random access memory (“DRAM”).<sup>64</sup> While prosecuting the ’898 application, the United States Patent and Trademark Office (PTO) issued an eleven-way restriction requirement.<sup>65</sup> In response, Rambus filed numerous divisional and continuation applications based on the original ’898 application.<sup>66</sup> In addition, Rambus filed a patent application under the Patent Cooperation Treaty (“PCT”) claiming priority to the ’898 application.<sup>67</sup>

From December 1991 through June 1996, Rambus was either a member of, or “participating guest” in, the Joint Electron Device Engineering Council (“JEDEC”).<sup>68</sup> In early 1993, during Rambus’s membership on committee JC-42.3,<sup>69</sup> the JEDEC adopted and published a standard for synchronous dynamic random access memory (“SDRAM”).<sup>70</sup> In December 1996, after Rambus officially withdrew from the JEDEC, the JEDEC voted on a standard for double data rate-SDRAM (“DDR-SDRAM”).<sup>71</sup> The JEDEC DDR-SDRAM standard, adopted and published in 2000, incorporated four technologies that had been discussed in general before Rambus’s withdrawal in June 1996.<sup>72</sup>

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62. See, e.g., *Rambus, Inc. v. Infineon Techs. AG*, 318 F.3d 1081, 1096 (Fed. Cir. 2003).

63. *Id.* at 1084.

64. *Id.*

65. *Id.*

66. *Id.*

67. *Id.* at 1084-85.

68. *Id.* at 1085.

69. The JEDEC is an SSO, and committee JC-42.3 drafts standards for random access memory (RAM). *Id.*

70. *Id.*

71. *Id.*

72. *Id.*

In September 1993, Rambus disclosed to the JEDEC committee its first issued Rambus DRAM (“RDRAM”) patent, U.S. Patent No. 5,243,703 (“the ’703 patent”), a divisional of the ’898 application.<sup>73</sup> At that time, the JEDEC’s patent policy required members to disclose patents and patent applications “related to” the standardization work of the committees.<sup>74</sup> At that same meeting, another JEDEC member also disclosed Rambus’s PCT application to the committee.<sup>75</sup> Rambus did not disclose any patent applications to JEDEC.<sup>76</sup> After leaving JEDEC, Rambus filed more divisional and continuation applications based on the ’898 application.<sup>77</sup> At least four of the patents issued from these applications are directed towards SDRAM and DDR-SDRAM.<sup>78</sup> Like the ’703 patent, the written description of each of these applications is substantially identical to the written description in the ’898 application.<sup>79</sup>

## B. District Court Litigation

In late 2000, Rambus sued Infineon for patent infringement and alleged infringement of fifty-seven claims in the four SDRAM and DDR-DRAM patents.<sup>80</sup> Infineon counterclaimed, alleging that Rambus committed fraud under Virginia state law by not disclosing its patents and patent applications “related to” the SDRAM and DDR-SDRAM standards.<sup>81</sup> After construing the claims, the district court granted judgment as a matter of law (JMOL) of non-infringement in favor of Infineon.<sup>82</sup> Infineon’s fraud counterclaims were tried before a jury, which ruled against Rambus.<sup>83</sup> Rambus moved for JMOL of no fraud on both the SDRAM and DDR-SDRAM verdicts.<sup>84</sup> The district court denied JMOL on the SDRAM fraud verdict on the ground that the jury reasonably could have believed that the public PCT application was not sufficient to satisfy the duty to disclose because its written description gave no indication that Rambus intended to expand its patent applications to cover SDRAMs.<sup>85</sup> The court granted the

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73. *Id.*

74. *Id.* The specifics of this policy are discussed in Part III.C.1, *infra*.

75. *Id.*

76. *Id.*

77. *Id.*

78. *Id.*

79. *Id.*

80. *Id.* at 1086.

81. *Id.*

82. *Id.*

83. *Id.*

84. *Id.*

85. *Rambus, Inc. v. Infineon Techs. AG*, 164 F. Supp. 2d 743, 755-56 (E.D. Va. 2001). In addition, the court found that the disclosure of the ’703 patent related only to

JMOL on the DDR-SDRAM fraud verdict, however, as there was insufficient evidence to support the jury's verdict because Rambus left JEDEC before work officially began on the DDR-SDRAM standard.<sup>86</sup> Both parties appealed to the United States Court of Appeals for the Federal Circuit.<sup>87</sup>

### C. Federal Circuit's Majority Opinion

The majority held that the district court erred in denying JMOL of no fraud on the SDRAM verdict because the policy only required Rambus to disclose patent applications that read on the final proposed standard, not those applications that disclosed the proposed standard.<sup>88</sup> Furthermore, the majority upheld JMOL of no fraud on the DDR-SDRAM verdict because Rambus had no duty to disclose before the JEDEC began formal balloting on the DDR-SDRAM standard.<sup>89</sup> In reaching its decision, the majority first defined the bounds of the JEDEC's duty of disclosure and the point at which the duty arose in the standardization process.<sup>90</sup> The majority then reviewed the record for substantial evidence to support the jury's verdict that Rambus breached the JEDEC duty during both SDRAM and DDR-SDRAM standardization.<sup>91</sup>

#### 1. JEDEC Members' Duty to Disclose

The majority found that Appendix E of the JEDEC policy manual imposed and defined the scope of the duty of disclosure.<sup>92</sup> The majority de-

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RDRAM; there was no evidence indicating that one would discover the SDRAM related patents if one traced the '703 patent tree. *Id.*

86. *Id.* at 767.

87. Rambus appealed the denial of JMOL on the SDRAM verdict and Infineon cross-appealed the grant of JMOL on the DDR-SDRAM verdict. *Rambus, Inc. v. Infineon Techs. AG*, 318 F.3d 1081, 1086 (Fed. Cir. 2003).

88. *Id.* at 1104-05.

89. *Id.* at 1105.

90. *Id.* at 1096-1102.

91. *Id.* at 1102-05.

92. *Id.* at 1098. The relevant portion of Appendix E reads: "Standards that call for the use of a patented item or process may not be considered by a JEDEC committee unless all of the relevant technical information covered by the patent or pending patent is known to the Committee, subcommittee, or working group."

The majority rejected the notion that the JEDEC Manual of Organization and Procedure included a directive that supported a broader duty because only the language of Appendix E was shown to members. Nevertheless, according to the October 1993 JEDEC Manual of Organization and Procedure, section 9.3.1, titled "Committee Responsibility Concerning IP":

The Chairperson of any JEDEC committee, subcommittee, or working group must call to the attention of all those present the requirements

terminated that Appendix E identified a duty to disclose claimed inventions that would cover any discussed potential standard and cause those who used the standard to infringe.<sup>93</sup> In so finding, the majority focused on the part of the Appendix that prohibited standards calling for “use of a patented item or process” and encouraged disclosure of information “covered by the patent or pending patent.”<sup>94</sup>

The majority noted that the JEDEC policy required disclosure of patents and patent applications “related to” the standardization work of the committee.<sup>95</sup> This concerned situations in which a license under the claims of the patent reasonably might be required to practice the standard.<sup>96</sup> A JEDEC member’s duty to disclose, therefore, did not encompass patents and patent applications that merely described technologies under discussion by the JEDEC.<sup>97</sup> Rather, the inquiry was claim specific and standard specific.<sup>98</sup> The duty included disclosure of any patent or patent application with claims that a competitor or other JEDEC member reasonably would construe as covering the standardized technology.<sup>99</sup>

The majority concluded that the duty to disclose did not arise until the beginning of the formal standard-setting process.<sup>100</sup> As the JEDEC policy itself did not state when a committee member’s duty arose, the majority relied on trial testimony from, among others, the committee’s chairman, who testified that the duty arose at formal balloting of a proposed standard.<sup>101</sup> The court held that the most a reasonable jury could have concluded was that the disclosure duty was triggered when work formally began on a proposed standard, or, in other words, at formal balloting.<sup>102</sup>

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contained in the EIA Legal Guides, and call attention to the obligation of all participants to inform the meeting of any knowledge they may have of any patents, or pending patents, that might be involved in the work they are undertaking.

93. *Id.* at 1098.

94. *Id.*

95. *Id.*

96. *Id.* at 1100.

97. *Id.*

98. *Id.*

99. *Id.* The majority found that this test did not require a formal infringement analysis. Members were not required to perform a limitation-by-limitation comparison or conduct an equivalents analysis.

100. *Id.* at 1102.

101. *Id.* at 1101.

102. *Id.* at 1102. The majority also held that the JEDEC’s patent policy did not imply a duty to disclose a member’s plans or intentions to file patent applications. Instead, the majority emphasized that the JEDEC discouraged members from revealing their future plans.

## 2. *Breach of Duty to Disclose*

The majority continued by reviewing the record for substantial evidence to support the jury's verdict that Rambus breached the JEDEC duty during both SDRAM and DDR-SDRAM standardization.<sup>103</sup> The question for the court was whether the claims in the applications pending before Rambus's 1996 withdrawal from the JEDEC reasonably read on or covered the particular standard under consideration by JEDEC.<sup>104</sup> In other words, the question was whether there was clear and convincing evidence of a reasonable expectation that the standard could not be practiced without a license under the undisclosed claims.<sup>105</sup>

### a) SDRAM Standard

The majority concluded that because the undisclosed claims did not cover the SDRAM standard, they did not "relate to" it.<sup>106</sup> No manufacturer following the SDRAM standard would need a license under any of Rambus's undisclosed patents or applications.<sup>107</sup> In so finding, the majority rejected the argument that Rambus's duty encompassed these patents and applications because at the time Rambus was a JEDEC member, Rambus believed that the patents and applications covered the SDRAM standard.<sup>108</sup> A member's subjective beliefs are irrelevant, as JEDEC's disclosure duty creates an objective standard.<sup>109</sup> The court's sole inquiry here was whether sufficient evidence existed to show a reasonable expectation that the identified patents and applications covered the SDRAM standard.<sup>110</sup> Since the majority found no such evidence, the majority granted JMOL of no fraud on the SDRAM verdict.<sup>111</sup>

### b) DDR-SDRAM Standard

The majority upheld the district court's grant of JMOL of no fraud on the DDR-SDRAM verdict.<sup>112</sup> Despite the "building-block" nature of standard-setting activities, Rambus's duty did not arise before legitimate proposals were directed to and formal consideration began on the DDR-

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103. *Id.*

104. *Id.*

105. *Id.* at 1102-03.

106. *Id.* at 1105.

107. *Id.*

108. *Id.* at 1104.

109. *Id.*

110. *Id.* at 1103-04.

111. *Id.* at 1105.

112. *Id.*

SDRAM standard.<sup>113</sup> As formal work on the DDR-SDRAM standard did not begin until December 1996, and Rambus formally withdrew from the JEDEC in June 1996, Rambus did not breach its duty to disclose.<sup>114</sup>

#### D. Dissent

The dissent held that the evidence supported a broader duty than that applied by the majority.<sup>115</sup> The JEDEC Manual of Organization and Procedure instructed the chairperson to “call attention to the obligation of all participants to inform the meeting of any knowledge they may have of any patents, or pending patents, that might be involved in the work they are undertaking.”<sup>116</sup> The dissent found the manual created a duty that differed in two ways from the one applied by the majority.<sup>117</sup> First, the dissent interpreted the language “might be involved in” as creating a duty much broader than mere disclosure of claims reading on the standard.<sup>118</sup> Second, the dissent found that the manual required disclosure based on the “work they are undertaking,” which the dissent interpreted more expansively than simply referring to the final, completed standard.<sup>119</sup>

The dissent argued that the JEDEC’s policy required disclosure of patent applications that disclosed the subject matter being discussed by the SSO, as the work undertaken by the SSO involved the subject matter of the patent applications. Responding to the majority’s objection that the JEDEC’s manual gave rise to an unbounded and amorphous duty, the dissent argued that it was up to the JEDEC to formulate its desired duty and it was not the court’s job to rewrite or reinterpret the duty.<sup>120</sup> The dissent argued that the evidence supported a finding that JEDEC chose to define its duty of disclosure as open, avoiding bright line rules, such as the one set forth by the majority.<sup>121</sup>

The dissent further criticized the majority for not recognizing that during the course of its work, the committee considers, debates, rejects, and amends various proposals as the standard evolves.<sup>122</sup> The dissent presented evidence from the record that supported a broader duty to disclose, and admonished the majority for reweighing evidence and determining de

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113. *Id.*

114. *Id.*

115. *Id.* at 1110 (Prost, J., dissenting in part).

116. *Id.* (Prost, J., dissenting in part).

117. *Id.* (Prost, J., dissenting in part).

118. *Id.* (Prost, J., dissenting in part).

119. *Id.* at 1110-11 (Prost, J., dissenting in part).

120. *Id.* at 1115 (Prost, J., dissenting in part).

121. *Id.* (Prost, J., dissenting in part).

122. *Id.* at 1111 (Prost, J., dissenting in part).

novo how the duty should be defined when evidence supported a sufficiently broad duty of disclosure to support the jury's verdict.<sup>123</sup>

The dissent continued by pointing to an abundance of evidence that supported a finding that Rambus knew its pending and issued patents might be involved in the development of the SDRAM standard.<sup>124</sup> For example, Rambus's business plan stated that SDRAMs "infringe claims in Rambus'[s] filed patents and other claims that Rambus will file in updates later in 1992."<sup>125</sup> The dissent criticized the majority for ignoring such clear admissions by Rambus and characterized the majority's opinion as requiring a formal infringement analysis to determine if the claims of the undisclosed patents cover the standard.<sup>126</sup>

### III. IMPLICATIONS OF THE *RAMBUS* DECISION

#### A. A Broad Duty to Disclose is Consistent with Precedent

SSOs' IP policies vary widely and can be seen to exist on a spectrum from most proprietary, or closed, to most open.<sup>127</sup> The most proprietary policies do not require SSO members to disclose their IP, nor do they require that members license the technology at a reasonable and non-discriminatory rate.<sup>128</sup> The most open policies mandate that members give up their IP rights in the technology covered by the standard.<sup>129</sup> The JEDEC's policy is somewhere in the middle. This section seeks to place the JEDEC's policy on this spectrum and to determine whether the court's treatment of this policy is consistent with other courts' treatment of similar policies.

In *In re Dell*, Dell certified that it had no IP rights that covered the standard in violation of a policy requiring members to disclose such IP. Seeking to prevent harm to the competitive process, the FTC prohibited Dell from enforcing its patent against those using the adopted standard.<sup>130</sup> The FTC found this holding consistent with the equitable estoppel cases.<sup>131</sup> One such equitable estoppel case is *Stambler*, in which the court found estoppel on the basis of conduct before an SSO even in the absence

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123. *Id.* at 1112 (Prost, J., dissenting in part).

124. *Id.* (Prost, J., dissenting in part).

125. *Id.* at 1115 (Prost, J., dissenting in part).

126. *Id.* at 1117 (Prost, J., dissenting in part).

127. *See* Lemley, *supra* note 1, at 1904-09.

128. *See id.*

129. *See id.*

130. *In re Dell Computer Corp.*, 121 F.T.C. 616, 624 (1996).

131. *Id.* at 624-25.

of an SSO rule requiring disclosure.<sup>132</sup> By stating that the plaintiff could not remain silent while an entire industry implemented the proposed standard, the court indicated unwillingness to allow an SSO member to expand the value of its patent absent a showing that the technology disclosed is worth the risk.

Similar to the policy set forth in *In re Dell*, the JEDEC's policy was designed to discourage standards covered by patented items or processes unless the committee knew the technical information was covered by the patent and the patentee agreed to license the patented technology under reasonable terms.<sup>133</sup> Clearly, the JEDEC did not want to adopt a standard covered by a proprietary patent owned by one of its members unless other members had a chance to review the patent-holder's protected technology. So why then did the court in *Rambus v. Infineon* find that members had to disclose only if the members' protected technology actually read on the final standard? Perhaps the Federal Circuit erroneously concluded that this case was more like *Townshend* than *Dell*, in that there was no evidence that the JEDEC would have enacted a different standard had Rambus disclosed its pending patent applications. Such a finding, however, is not necessary for making a case of fraud. Unlike patent misuse, which requires a finding of anticompetitive conduct, fraud merely requires an omission and reliance. In *Rambus*, as in *In re Dell*, the defendant failed to disclose a patent application that it believed covered the final standard. Rambus's patent did not actually read on the proposed standard—unlike *Dell*'s patent—but JEDEC's policy required disclosure of all pending patents that might be involved in the work of the committee, not merely patents that read on the proposed standard. It appears, therefore, that *Rambus* was more like *Dell*, in that Rambus “failed to act in good faith to identify and disclose patent conflicts.”<sup>134</sup>

*Rambus* may be seen as the Federal Circuit's reaction to *Dell*. *Dell* was criticized for creating an impractical duty, due to the numerous and ran-

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132. *Stambler v. Diebold, Inc.*, No. 90-CV-3014, 1988 WL 95479, at \*6 (E.D.N.Y. Sept. 2, 1988), *aff'd*, 878 F.2d 1445 (Fed. Cir. 1989) (unpublished).

133. The JEDEC's policy stated that “[t]he Chairperson . . . must . . . call attention to the obligation of all participants to inform the meeting of any knowledge they may have of any patent, or pending patent, that might be involved in the work they are undertaking.” *Rambus v. Infineon Techs. AG*, 318 F.3d 1081, 1097 (Fed. Cir. 2003). The policy further stated that the Chairperson should use Appendix E for the purpose of calling attention to this obligation. Appendix E stated that “[s]tandards that call for the use of a patented item or process may not be considered by a JEDEC committee unless all of the relevant technical information covered by the patent or pending patent is known to the committee, subcommittee or working group.” *Id.*

134. *Dell*, 121 F.T.C. at 624.

dom participation in SSOs by company employees and companies' potentially large, diverse IP portfolios. Participants in standard-setting are often not aware of their companies' full patent portfolios, nor are they often aware of the repercussions for failure to disclose. Commentators reacting to *Dell* argued that the broad duty it created would scare companies away from participating in SSOs.<sup>135</sup> *Rambus* may be seen as the Federal Circuit's attempt to limit the duty to disclose to only those situations in which a single IP owner could hold an entire industry hostage.

By creating such a narrow duty to disclose, however, the court has provided SSO participants various means to avoid disclosure and attempt to capture industry standards. The court interpreted JEDEC's policy to only require disclosure of patent applications with claims reading on the final proposed standard. Such a narrow reading, combined with the court's finding that the duty does not arise until the members sit down to vote on the final standard, creates a large loophole that allows companies to later add claims that read on the standard to patents that disclose the standard. For example, consider the following hypothetical: Company A, a member of a standard-setting body, has a pending patent application disclosing but not claiming two of the four proposed standards before the SSO. Company A does not disclose this patent application to the SSO. After the members vote to adopt one of the proposed standards disclosed by Company A's pending patent application, Company A adds a claim which reads on the adopted standard. Under the Federal Circuit's interpretation, Company A has done nothing wrong because at the time the members voted on the standard, Company A did not have a pending patent application that contained a claim which read on the proposed standard. This result is antithetical to the stated purpose of the JEDEC's policy, namely to force companies to disclose pending applications that might be involved in the work of the committee. Even worse, allowing companies to capture a standard in this way undermines the effectiveness of SSOs' IP policies as contractual safe harbor mechanisms.

In addition, *Rambus* has given SSOs little guidance as to how they might overcome this capture problem. This is due, in part, to the court's holding that the SSO members do not have to disclose their IP until it comes time to vote on the final standard. Thus, SSO participants are free to join an SSO, lobby for the adoption of proprietary technology, and then drop out before the final vote. While SSOs can and should take great care in drafting clear IP policies, courts interpreting such policies should recognize the possibility of industry capture and act to avoid it.

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135. Schallop, *supra* note 8, at 284.

## **B. A Broad Duty to Disclose Facilitates Technological Competition within the Standard-Setting Process**

SSOs' IP policies only work as a means to contract around patent rights if the SSO participants have the proper information. Courts interpreting these contracts, and SSOs drafting these contracts, should encourage disclosure, ensuring that standards capture the benefits of the network effects. While a broader duty to disclose would require participants to conduct a costly search of their patent portfolios, the burden arguably is properly placed on participants that can absorb the transaction cost as part of the benefit of being able to influence and take advantage of the standard.<sup>136</sup> Encouraging disclosure facilitates technological competition within the standard-setting process. Such competition should increase the chance that the SSO adopts the most beneficial technology.

Imposing a broad duty to disclose does not indicate a bias against proprietary standards. On the contrary, a broad duty to disclose just works to ensure that the SSO has the appropriate information on which to base its decision. SSOs are still free to impose whatever licensing requirements they see fit. The broad duty to disclose serves to protect consumers from IP owners seeking to capture the coordination value of a standard by, at a minimum, encouraging SSO members to weigh the risks of a proprietary standard with the benefits of the particular proprietary technology.

## **C. A Broad Duty to Disclose Has Little Effect on the Incentive to Invent**

The court's narrow reading of the duty to disclose indicates a bias for strong IP rights. Strong IP rights in network markets may, however, suppress more technology than they encourage and prevent a better standard from being developed.<sup>137</sup> It is therefore useful to place the court's decision in a larger context.

Two sets of considerations should guide the analysis of the proper scope of IP protection for network features. First, IP law should provide an

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136. Schallop, *supra* note 8, at 284.

137. In industries in which continual innovation is important to social welfare, IP can be pro-competitive on balance insofar as it encourages more innovation than it restrains. Interfering with IP rights can harm social welfare in the long run by reducing innovation. If IP is pro-competitive, SSOs might violate the antitrust laws by compelling licenses of patents, or worse, forcing a company to forgo enforcement altogether. On the other hand, as shown above, IP rights can sometimes impede innovation. This is especially true where innovation is cumulative, because granting strong IP rights to initial innovators restricts the options available to improvers. Thus, IP rights might hinder the optimal development of technology. See Lemley, *supra* note 1, at 1938-39.

incentive to innovate. Second, IP law should consider the effect it has on interoperability, as consumers benefit from interoperability in network markets. Although it is important for IP law to promote innovation, it should also promote the adoption of uniform standards to foster network externalities.<sup>138</sup>

Practically all commentators who have addressed IP protection for network features have argued for weaker protection to promote interoperability.<sup>139</sup> This does not mean that IP rights are necessarily antithetical to interoperability, but it does indicate that conflicting policy considerations underlie the correct scope of IP protection. SSOs' policies balance these conflicting concerns by weakening IP rights, providing a form of private governance that protects and promotes interoperability.<sup>140</sup>

Granting IP rights in standardized technology ensures that the IP owner is rewarded for his time, effort, and investment. Network effects, however, tend to drive the market to adopt a single standard. This may encourage firms to leverage their existing IP into a standard to extract maximum revenue, thereby hindering interoperability. The SSOs' IP policies prevent such abuses and encourage interoperability. By narrowing the duty to disclose, the Federal Circuit has removed the teeth from such policies, and placed the future of interoperability at risk.

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138. See Menell, *supra* note 9, at 668-69.

139. See sources cited *supra* note 11.

140. To understand why SSOs' IP policies provide a contractual safe harbor, it is useful to look first at the competing concerns of the open and proprietary approaches to IP policy. The open or "commons" model reflects the notion that proprietary control is not necessary or desirable to encourage innovation. Philip J. Weiser, *The Internet, Innovation, and IP Policy*, 103 COLUM. L. REV. 534, 570 (2003). A large number of innovations would occur even in the absence of IP protection. The open or "commons" model advocates argue that network industries function best when the standards are open, as a standard's openness not only enables firms to introduce innovations without worrying about gaining access to the basic platform, but also generates competition among firms supplying products. On the other side, advocates of a proprietary control model embrace the notion that without an appropriate incentive, inventors will not create new innovations. This view places a premium on ensuring that firms reap proprietary rewards for innovating. In network markets, however, a purely proprietary approach runs the risk of entrenching inferior technology and allowing monopolists to charge monopoly prices. In addition, some commentators have taken issue with the notion that forced sharing of a dominant industry standard would undermine the incentive to invent. *Id.* at 591. These commentators point out that a "talented kid can be quite motivated by rents in the low tens of millions, trifling as those might seem." *Id.* (quoting Timothy F. Bresnahan, *New Modes of Competition: Implications for the Future Structure of the Computer Industry*, in COMPETITION, INNOVATION AND THE MICROSOFT MONOPOLY: ANTITRUST IN THE DIGITAL MARKETPLACE 155, 192 (Jeffrey A. Eisenach & Thomas M. Lenard eds., 1999)).

Strengthening IP rights also tends to further entrench existing standards. Existing IP rights may discourage potential innovators from devoting time and energy to improvements. The stronger the IP right in the existing technology, the more potential innovators may be deterred from developing alternative and superior technologies. While the IP owner may be willing to accept the new technology at a reasonable royalty rate, with a strong IP right and a dominant market position, the IP owner will have little incentive to do so. At a minimum, by including a broad duty to disclose, courts can ensure that SSOs include the best available technology in the standard, as a broad duty to disclose increases the competition among technologies within the standard. A broad disclosure provision will not, however, have a dramatic impact on the incentive to invent, as the SSO is free to dictate the parameters of the licensing provision.

#### IV. CONCLUSION

Courts should give broad deference to SSOs' IP policies as a means of private governance. These policies serve to prevent abuse of the standard-setting process and encourage interoperability. While interoperability standards in network markets provide significant consumer benefits, granting IP rights in the technology underlying an interoperability standard poses a risk to competition and may entrench inferior technology. As a result, standard-setting organizations have adopted a number of IP policies to weaken IP protection. These policies allow consumers to capture the benefits of network effects while providing technology producers with the sufficient incentive to invent.

The Federal Circuit's recent *Rambus v. Infineon* decision weakened the effectiveness of these policies by creating a very narrow disclosure duty. Such a narrow duty will allow standard-setting participants to capture industry standards. Sufficiently robust disclosure provisions are needed to ensure that SSOs' various technologies compete within the standard-setting process. Such competition increases the likelihood that an optimum technology will be adopted. While a broad disclosure duty will impose a burden on the SSO participants, the disclosure provisions have minimal effect on incentives to invent, and the burden of searching for proprietary technology is better placed upon the IP owner, as it is the IP owner who stands to benefit from the SSO's adoption of the technology.

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## SURVEYING THE MICROSOFT ANTITRUST UNIVERSE

*By Amanda Cohen*

Over the past decade, antitrust actions against Microsoft have brought to light the problems of applying traditional antitrust law to a high-technology industry.<sup>1</sup> Weighing harm to innovation against a desire to enable competition with a monopolist, courts have grappled with how much of its intellectual property Microsoft should share with the rest of the industry, and on whose terms. The cases against Microsoft have underscored the disconnect between a legal system that works over the course of years and an industry in which a shift in the technology standard can set in motion the downfall of a monopolist in a matter of months. At the same time, private litigants and crafters of settlement terms have found that the network effects that prevent entry into the platform software market make it difficult to craft effective remedies that are less drastic than a forced shift in the industry standard. This challenge faced the federal government and numerous state plaintiffs during the antitrust action they brought against Microsoft in 1998 (“*Microsoft IIP*”).<sup>2</sup> After several years of trial and appeals, the government prevailed. That action spurred a wave of private an-

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1. The Microsoft antitrust saga began in July 1994, when the United States Department of Justice Antitrust Division charged the company with using restrictive terms in its MS-DOS Original Equipment Manufacturer (“OEM”) licensing and software developer nondisclosure agreements to maintain a monopoly in the operating systems market. The suit ended with a consent decree, leaving the merits of the charges undecided. *United States v. Microsoft Corp.*, 56 F.3d 1448 (D.C. Cir. 1995) [hereinafter *Microsoft I*]. In 1997, believing that Microsoft had violated a provision of the consent decree, the Justice Department filed a civil contempt action against the company. *United States v. Microsoft Corp.*, 980 F. Supp. 537 (D.D.C. 1997). Although the trial court in that case granted a preliminary injunction against Microsoft, the United States Court of Appeals for the District of Columbia held that the consent decree did not prohibit the technological bundling of Internet Explorer and Windows under the integrated products exception clause. *United States v. Microsoft Corp.*, 147 F.3d 935 (D.C. Cir. 1998) [hereinafter *Microsoft II*]. In this action (*Microsoft II*), the court declined to render an opinion as to whether the bundling violated the Sherman Act. *Id.*

The Microsoft antitrust litigation has generated many court decisions, published and unpublished; the case name short citation for all actions involving Microsoft will be “*Microsoft*” unless otherwise designated.

2. *United States v. Microsoft Corp.*, 87 F. Supp. 2d 30 (D.D.C. 2000) [hereinafter *Microsoft III*].

titrust suits against Microsoft in the United States, as well as a European Commission investigation.

This Note surveys the current status of the public and private enforcement actions against Microsoft in the United States and in Europe. It will assess some probable effects of these actions from both legal and economic perspectives. Part I details the domestic actions against Microsoft, including the content of and challenges to the 2002 settlement that, in large part, ended *Microsoft III*. Part I also covers the private domestic actions filed as a result of the government investigation. Part II will describe the ongoing investigation in the European Union. Part III criticizes some applications of traditional antitrust doctrine in the cases against Microsoft, and examines the new, high-technology antitrust institutions that have grown out of the actions. This Part then looks beyond the courtroom to whether market forces will check Microsoft's monopoly power before the legal system can. Part IV concludes that the first round of high technology-driven modifications to antitrust doctrine is nearing a close, and that the next round will evaluate the new tools that have arisen from the Microsoft cases.

## I. ANTITRUST ACTIONS IN THE UNITED STATES

### A. Overview of U.S. Antitrust Law

In *Microsoft III*, the district court found Microsoft liable for violations of both section 1 and section 2 of the Sherman Act.<sup>3</sup> Section 1 governs combinations, and prohibits those that restrain trade.<sup>4</sup> Agreements to fix prices, divide markets, and tie unrelated goods are most likely in violation of section 1. When a company forces the sale of two separate products together, it is liable for a section 1 tying violation, as long as the company has market power in the tying product market (the market of the principal good, to which another good is attached), offers consumers no option to purchase the products separately, and affects a significant share of commerce with its arrangement.<sup>5</sup>

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3. *Id.* at 35.

4. Sherman Antitrust Act, 15 U.S.C. § 1 (2000). Section 1 prohibits "[e]very contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several States, or with foreign nations." *Id.*

5. See *United States v. Microsoft Corp.*, 253 F.3d 34, 85 (D.C. Cir. 2001). To violate § 1, a tying arrangement must have the following characteristics: "(1) the tying and tied goods are two separate products; (2) the defendant has market power in the tying product market; (3) the defendant affords consumers no choice but to purchase the tied product from it; and (4) the tying arrangement forecloses a substantial volume of com-

Section 2 proscribes certain behavior by monopolists, companies that can profitably charge a supra-competitive price in a defined market.<sup>6</sup> Under section 2, monopolists may not intentionally garner their market power, nor may they willfully maintain market power achieved by superior business sense or accident.<sup>7</sup> Finally, a firm is liable for attempted monopolization if, intending to monopolize, it engages in anticompetitive behavior and has a dangerous probability of success.<sup>8</sup>

## B. United States v. Microsoft Corporation

In November 2001, the U.S. Department of Justice (DOJ) and nine states<sup>9</sup> reached a settlement with Microsoft that imposed penalties much more conservative than were initially imposed by the district court in June 2000.<sup>10</sup> The most important change in the approach of the settling plaintiffs was their decision not to pursue structural relief that would break Microsoft into two companies. District Court Judge Colleen Kollar-Kotelly issued her consent decree<sup>11</sup> in November 2002, approving the substantive provisions of the settlement, but rejecting terms that would have prevented

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merce." *Id.*; see also *Eastman Kodak Co. v. Image Tech. Servs., Inc.*, 504 U.S. 451, 461-62 (1992); *Jefferson Parish Hosp. Dist. No. 2 v. Hyde*, 466 U.S. 2, 12-18 (1984). Tying generally is not analyzed under the rule of reason because "certain tying arrangements pose an unacceptable risk of stifling competition and therefore are unreasonable 'per se.'" *Jefferson Parish*, 466 U.S. at 9.

6. Sherman Antitrust Act, 15 U.S.C. § 2. Section 2 states that "every person who shall monopolize, or attempt to monopolize, or combine or conspire with any other person or persons, to monopolize any part of the trade or commerce among the several States, or with foreign nations, shall be deemed guilty of a felony." *Id.*

7. See *United States v. Grinnell Corp.*, 384 U.S. 563, 570-71 (1966). Monopolization has two elements: "(1) the possession of monopoly power in the relevant market and (2) the willful acquisition or maintenance of that power as distinguished from growth or development as a consequence of a superior product, business acumen, or historic accident." *Id.*

8. See *Spectrum Sports, Inc. v. McQuillan*, 506 U.S. 447, 456 (1993). A successful claim of attempted monopolization requires a showing "(1) that the defendant has engaged in predatory or anticompetitive conduct with (2) a specific intent to monopolize and (3) a dangerous probability of achieving monopoly power." *Id.*

9. These states [hereinafter "the settling states"] are Illinois, Kentucky, Louisiana, Maryland, Michigan, New York, North Carolina, Ohio, and Washington. See *New York v. Microsoft Corp.*, 231 F. Supp. 2d 203 (D.D.C. 2002) (approving settling states' joining the settlement reached by the United States and Microsoft).

10. See *United States v. Microsoft Corp.*, 97 F. Supp. 2d 59 (D.D.C. 2000), *aff'd in part and rev'd in part*, 253 F.3d 34 (D.C. Cir. 2001).

11. Under the Tunney Act, 15 U.S.C. § 16(b)-(h), a settlement between the federal government and a defendant found liable for antitrust violations must be reviewed by a federal judge to ensure that it is in the best interests of the public and is not politically motivated. See 15 U.S.C. § 16(e).

close, continuous judicial monitoring of the implementation process.<sup>12</sup> Nine other states<sup>13</sup> and the District of Columbia declined to join the settlements, and litigated the remedy issue.<sup>14</sup> The court ultimately decreed a final judgment paralleling the DOJ consent decree.<sup>15</sup> Massachusetts has appealed that verdict.<sup>16</sup>

### 1. *History of the Case*

In 2001, in a per curiam decision, the Court of Appeals for the District of Columbia Circuit reversed a district court ruling that Microsoft had unlawfully attempted to monopolize the market for "Internet browsers" and that Microsoft's alleged tying of Internet Explorer to Windows was per se unlawful.<sup>17</sup> The court found that the government had neither defined the "Internet browser" market nor demonstrated substantial barriers to entry in that market that would give Microsoft a dangerous probability of success in a monopolization attempt.<sup>18</sup>

The court remanded the tying claim to the trial court for reconsideration under the rule of reason, rather than treating it as a per se violation

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12. *United States v. Microsoft Corp.*, 231 F. Supp. 2d 144 (D.D.C. 2002).

13. These states, hereinafter known as the "litigating states," are California, Connecticut, Florida, Iowa, Kansas, Massachusetts, Minnesota, Utah, and West Virginia. See *New York v. Microsoft Corp.*, 224 F. Supp. 2d 76 (D.D.C. 2002) (memorandum opinion regarding litigating states' proposed remedies).

14. See *Non-Settling States Remedies Proceedings*, at <http://www.microsoft.com/presspass/legal/nonsettling.asp> (last visited Dec. 18, 2003) (containing transcripts and other documents related to the spring 2002 trial on the remedies conducted by the litigating states).

15. See *Microsoft*, 224 F. Supp. 2d at 76; *New York v. Microsoft Corp.*, No. 98-1233 (CKK), 2002 WL 31961461, 2002-2 Trade Cas. (CCH) ¶ 73, 854 (D.D.C. Nov. 1, 2002) (order giving final judgment in litigating states' action).

16. *New York v. Microsoft Corp.*, No. 98-1233 (CKK), 2002 WL 31961461 (D.D.C. Nov. 1, 2002), *appeal docketed sub nom. Massachusetts v. Microsoft Corp.*, No. 02-7155 (D.C. Cir. Nov. 4, 2003).

17. *United States v. Microsoft Corp.*, 253 F.3d 34 (D.C. Cir. 2001). The district court held that Microsoft's tying of Internet Explorer to Windows violated section 1 of the Sherman Act. *United States v. Microsoft Corp.*, 87 F. Supp. 2d 30, 35 (D.D.C. 2000). The district court also held that Microsoft violated section 2 of the Sherman Act by (1) maintaining a monopoly in Intel-compatible PC operating systems and (2) attempting to monopolize "Internet browsers." *Id.* Based on its findings of antitrust liability, the district court ordered that Microsoft be split into two separate companies. *United States v. Microsoft Corp.*, 97 F. Supp. 2d 59, 64-65 (D.D.C. 2000).

18. *Microsoft*, 253 F.3d at 81-83. Although the court could have remanded the fact-intensive market definition inquiry, it reversed the district court's holding because plaintiffs offered neither a coherent theory about how network effects would act as a substantial barrier to entry nor evidence that Microsoft would likely erect significant barriers to entry once it gained a dominant market share. *Id.* at 84.

because the novelty of the case made a facial analysis of Microsoft's conduct inappropriate.<sup>19</sup> Because the allegedly illegal tying conduct differed from that in typical tying cases,<sup>20</sup> the court allowed consideration of possible pro-competitive justifications for the conduct.<sup>21</sup> Under the rule of reason analysis, the government would have to show that Microsoft's conduct unreasonably restrained competition.<sup>22</sup> More broadly, the decision carved out an exception to the per se tying rule for platform software.<sup>23</sup>

The D.C. Circuit affirmed the district court's holding that Microsoft had unlawfully maintained a monopoly in Intel-compatible PC operating systems.<sup>24</sup> The court reversed the district court, however, on its holding that Microsoft's course of conduct as a whole constituted a separate violation of section 2,<sup>25</sup> and found that the district court erred in finding certain

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19. *Id.* at 84.

20. Departing from a classic since-rejected justification that tying is necessary to control the quality of the tied product, Microsoft argued that Internet Explorer and Windows were actually an integrated product that improved the value of the operating system (the tying product) to both users and third-party software makers. *See id.* at 90-91. The court of appeals found lower courts had never completed a full efficiency analysis of software bundling ostensibly justified similarly to Microsoft's argument. *Id.* at 91-92.

21. *Id.* at 92.

22. A rule of reason analysis would allow for "consideration of the benefits of bundling in software markets, particularly those for OSs, and a balancing of these benefits against the costs to consumers whose ability to make direct price/quality tradeoffs in the tied market may have been impaired." *Id.* at 94.

23. *See id.* at 89-96 ("[I]ntegration of new functionality into platform software is a common practice and . . . wooden application of per se rules in this litigation may cast a cloud over platform innovation in the market for PCs, network computers and information appliances.").

24. *Id.* at 58-78. The court determined that a particular Microsoft business practice was exclusionary if (1) it harmed the competitive process and thereby consumers, (2) it harmed competition, not just a competitor, (3) no pro-competitive justification was offered, and (4) if a justification was offered, the anticompetitive harm resulting from the conduct outweighed the pro-competitive benefit. *Id.* at 58-59. The court applied this test to the four types of behavior held by the district court to violate section 2:

(1) the way in which [Microsoft] integrated [Internet Explorer] into Windows; (2) its various dealings with Original Equipment Manufacturers ("OEMs"), Internet Access Providers ("IAPs"), Internet Content Providers ("ICPs"), Independent Software Vendors ("ISVs"), and Apple Computer; (3) its efforts to contain and to subvert Java technologies; and (4) its course of conduct as a whole.

*Id.* at 58.

25. *Id.* at 78. The Court of Appeals reversed because the district court had not identified a series of specific acts by Microsoft, the cumulative effect of which was significant harm to competition. *Id.* Rather, the district court based its holding, "with one exception," on "broad, summarizing conclusions." *Id.*

Microsoft actions exclusionary.<sup>26</sup> Citing Microsoft's reduced liability, the Court of Appeals vacated the breakup order issued by the district court.<sup>27</sup>

On remand, the settling states and the DOJ dropped the tying claim<sup>28</sup> and proceeded to negotiate a settlement based on Microsoft's liability for unlawfully maintaining its Intel-compatible PC operating systems monopoly.<sup>29</sup> After some revisions to the initial agreement's compliance procedures, Judge Kollar-Kotelly<sup>30</sup> approved the settlement in her consent decree.<sup>31</sup>

**Table 1: Microsoft's Liability after Appeals Court Verdict**

Plaintiffs' Claim	District Court Holding	Appeals Court Holding
Monopoly Maintenance	Microsoft violated § 2	Affirmed
Tying	Microsoft violated § 1	Vacated and Remanded
Attempted Monopolization	Microsoft violated § 2	Reversed

## 2. Requirements of the November 2002 Settlement

The consent decree approved by the district court in November 2002 adhered to the substantive remedies negotiated by Microsoft and the government plaintiffs to ameliorate the effects of Microsoft's anticompetitive behavior.<sup>32</sup> The goals of the settlement are to end Microsoft's restrictions

26. *Id.* at 58-78.

27. *Id.* at 107. For a more in-depth discussion of the D.C. Circuit's holdings, see Samuel Noah Weinstein, Note, *United States v. Microsoft Corp.*, 17 BERKELEY TECH. L.J. 273 (2002).

28. Competitive Impact Statement, Part III, § A.3, at 8, *United States v. Microsoft Corp.*, Nos. 98-1232(CKK) & 98-1233(CKK), filed Nov. 15, 2001, available at <http://www.usdoj.gov/atr/cases/f9500/9549.htm>.

29. *See id.*; Stipulation and Revised Proposed Final Judgment, *U.S. v. Microsoft Corp.*, Nos. 98-1232(CKK) & 98-1233(CKK), filed Nov. 6, 2001, available at <http://www.usdoj.gov/at/cases/f9400/9495.htm>. This settlement was submitted by United States and settling states for Tunney Act review by Judge Kollar-Kotelly.

30. In the course of its review of the district court ruling, the D.C. Circuit found district court judge Thomas Penfield Jackson had acted inappropriately by speaking to reporters during the trial. *See United States v. Microsoft Corp.*, 253 F.3d 34, 107-19 (D.C. Cir. 2001). Upon remanding the case, the court appointed Judge Colleen Kollar-Kotelly to handle the proceedings.

31. *United States v. Microsoft Corp.*, 231 F. Supp. 2d 144 (D.D.C. 2002).

32. *Id.*; *see* Final Judgment, *United States v. Microsoft Corp.*, CA No. 98-1232 (CKK), filed Nov. 12, 2002 (D.D.C. 2002) [hereinafter *United States' & Settling States' Settlement*] (judgment adopting plaintiffs' Third Revised Proposed Final Judgment), available at <http://www.usdoj.gov/atr/cases/f200400/200457.htm>.

on middleware,<sup>33</sup> to prevent the company from impeding similar threats to its dominance in the future, and to restore the competitive conditions thwarted by Microsoft's anticompetitive conduct.<sup>34</sup> These goals are specifically focused on the entry of middleware into the market, as that is the extent of Microsoft's liability.<sup>35</sup>

a) Anti-Retaliation and Uniform Licensing Provisions

Microsoft threatened to support the "3DX" technology of AMD, an Intel competitor, if Intel did not stop aiding Sun Microsystems by developing a fast, cross-platform virtual machine using Sun's Java standards.<sup>36</sup> Microsoft also threatened to stop supporting and developing its Mac Office program, used by ninety percent of Macintosh users running an office suite, if Apple Computer continued to include Netscape as its default browser.<sup>37</sup> As the appellate court found these and other threats to be anticompetitive in violation of section 2 of the Sherman Act, the *United States' and Settling States' Settlement* (or "*Settlement*") bars Microsoft from retaliating against original equipment manufacturers ("OEMs") and independent hardware and software vendors for distributing, supporting, promoting, or developing software that competes with Microsoft Platform Software.<sup>38</sup> Microsoft must also provide uniform licenses to OEMs to

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33. Middleware is software that allows two applications to exchange data without either application being equipped to communicate with the other. Each application is programmed to send data to the middleware, and middleware acts as a translator to facilitate the exchange. Without middleware, software developers must create several different versions of their software that can communicate directly with different operating systems (e.g., Windows, Macintosh, GNU/Linux). But with middleware, a software developer writes only one version of the software that can communicate with the middleware, and that middleware can then relay data to any operating system. The existence of middleware would lower the applications barrier to entry in the operating systems market, as consumers would not have to sacrifice availability of software for a preferred operating system. In *Microsoft III*, Microsoft's business practices came under scrutiny in relation to two kinds of middleware: Netscape Navigator Web browsing software and Sun Microsystems' Java technologies. For a more thorough explanation of middleware, see Derek Slater, *What Is Middleware?*, DARWIN MAG., Apr. 4, 2001, at <http://www.darwinmag.com/learn/curve/column.html?ArticleID=93> (last visited Dec. 17, 2003); "Middleware," WEBOPEDIA.COM, at <http://www.webopedia.com/TERM/M/middleware.html> (last visited Dec. 17, 2003).

34. See U.S. Department of Justice, Competitive Impact Statement, Part IV, § B, submitted Nov. 15, 2001, available at <http://www.usdoj.gov/atr/cases/f9500/9549.htm> (last visited Dec. 18, 2003).

35. See Table 1 *supra* p.334.

36. *United States v. Microsoft Corp.*, 253 F.3d 34, 77 (D.C. Cir. 2001).

37. *Id.* at 72-74.

38. See *United States' & Settling States' Settlement*, *supra* note 32, §§ III.A, F.1.

promote simpler licensing terms and prevent the company from compelling OEMs to use its products.<sup>39</sup>

b) Flexibility for OEMs in Licensing and Technology

Microsoft's restrictive licensing agreements with OEMs were found to be anticompetitive because, by forcing the inclusion of the Internet Explorer icon on the desktop, Microsoft deterred the OEMs from installing a second browser for fear of consumer confusion caused by the presence of two browser icons on the desktop. By deterring OEMs from putting rival browsers on desktops, Microsoft was closing off one of the most effective means of distribution of the software. The *Settlement* addresses this problem by specifically prohibiting the restrictions identified by the district court and affirmed by the appeals court as causing the deterrence. Under the *Settlement*, OEMs must be free to install and display icons, shortcuts and menu entries for competing software in any size or shape, and, along with end users, can designate the competing software as a default.<sup>40</sup> OEMs can use the initial boot sequence to promote the services of the Internet access providers they select and may also choose to launch competing operating systems with no interference by Microsoft.<sup>41</sup>

Like the licensing agreements, Microsoft's commingling of Internet Explorer and Windows code prevented OEMs from pre-installing a rival browser, as that browser would necessarily be the second one on the desktop, thus increasing product testing costs and wasting valuable hard drive space. Although the commingling was found to violate section 2 of the Sherman Act, the consent decree does not require the company to "uncommingle" the code by removing its browser. Giving OEMs and end users the ability to replace Internet Explorer with a competing browser was sufficient, as the liability was based on the anticompetitive effect of the commingling (deterring OEMs from installing a non-Microsoft browser), not on the commingling itself.<sup>42</sup>

Microsoft also integrated Internet Explorer and Windows in violation of section 2 by excluding Internet Explorer from the Add/Remove Programs utility. To address the integration liability, the *Settlement* provides that on the desktop or in the Start menu, OEMs and end users must be free to enable or remove access to both Microsoft's and competing software by

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39. *See id.* § III.B.

40. *Id.* § III.C.1-2.

41. *Id.* § III.C.3-4.

42. *See United States v. Microsoft Corp.*, 231 F. Supp. 2d 144, 179-181 (D.D.C. 2002).

altering icons, shortcuts, or menu entries.<sup>43</sup> In addition, Microsoft is prohibited from using its operating system software to automatically alter the configuration implemented by the OEM or end user without seeking confirmation from the user at least two weeks after the computer's initial use.<sup>44</sup> The *Settlement* also prevents Microsoft from restricting through licensing terms an OEM's ability to exercise any of these technological options.<sup>45</sup>

In its condemnation of the restrictive licensing terms, the appellate court excepted Microsoft's restrictions on the automatic launch of an alternative user interface. The court accepted Microsoft's justification of protecting the company's copyrighted material from "drastic alteration." Although the court made only this narrow exception for "drastic alterations," the *Settlement* still gives only limited protection to the automatic launch of non-Microsoft programs in an OEM's original configuration that do not drastically alter Microsoft's copyrighted material. Section III.C.3 of the settlement allows Microsoft to restrict the automatic launching of any non-Microsoft Middleware Product at the conclusion of boot sequences and connections to the Internet, regardless of whether the product interferes with the Microsoft user interface.<sup>46</sup> The automatic launching of the non-Microsoft product is protected only where it replaces the launch of a Microsoft Middleware Product, and the program must provide either no user interface or a user interface that resembles that of the equivalent Microsoft Middleware Product.<sup>47</sup> Judge Kollar-Kotelly noted that this provision would empower Microsoft to control innovation in these middleware products, as all non-Microsoft developers writing for Windows would have to keep in step with Microsoft programs or risk being shut out of an OEM's original configuration by Microsoft asserting its interest in providing consistent product characteristics.<sup>48</sup> Judge Kollar-Kotelly did not, however, find the provision to be contrary to the public interest. She noted that the settlement process necessitated negotiation, and that such a provision was permissible for the government plaintiffs to offer in exchange for another, more pro-plaintiff restriction.<sup>49</sup> Critics of the settlement charge that this provision will allow Microsoft to block development of a new technology—or stall the new development long enough to create its own

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43. *United States' & Settling States' Settlement*, *supra* note 32, § III.H.1.

44. *Id.* § III.H.3.

45. *Id.* § III.C.6.

46. *Id.* § III.C.3.

47. *Id.*

48. *United States v. Microsoft Corp.*, 231 F. Supp. 2d 144, 173-74 (D.D.C. 2002).

49. *Id.* at 174.

version of the product—so that its monopoly power will never be disrupted by a surprise shift of the industry standard to some new innovation.<sup>50</sup>

- c) Agreements with Internet Access Providers (“IAPs”), Internet Content Providers (“ICPs”), and Independent Software Vendors (“ISVs”)

The appellate court found that Microsoft’s exclusive contracts with fourteen of the top fifteen IAPs in North America constituted illegal monopoly maintenance because the contracts foreclosed the most valuable distribution channel for a browser besides OEM pre-installation. In addition, Microsoft required ISVs to promote Microsoft’s Java Virtual Machine (a potential Windows competitor) in exchange for the release of Windows technical information the ISVs needed to develop their software. To remedy the effects of these anticompetitive dealings, the *Settlement* provides that Microsoft cannot enter into any exclusive or fixed-percentage agreements with IAPs, ICPs, ISVs, hardware vendors, or OEMs, with the exception of bona fide joint ventures for new products, technologies or services, and the licensing of intellectual property from third parties.<sup>51</sup> The intellectual property exception concerns those who support the enforcement action because Microsoft could evade the non-exclusivity requirement of any agreement simply by adding an intellectual property license to an otherwise prohibited contract.<sup>52</sup>

Microsoft cannot condition placement of IAP or ICP icons on the desktop on a promise to refrain from distribution, promotion, or use of competing software, unless that agreement is a joint venture or joint development or services arrangement.<sup>53</sup> Similarly, Microsoft cannot withhold consideration from an ISV pending that ISV’s refraining from developing, using, distributing or promoting competing software, unless that agreement is “reasonably necessary to . . . a bona fide contractual obligation” to promote Microsoft’s software or develop software in conjunction with Microsoft.<sup>54</sup> This exception allows Microsoft to pay an ISV to pro-

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50. Timothy F. Bresnahan, *A Remedy that Falls Short of Restoring Competition*, 16 ANTITRUST 67, 69 (2001).

51. *United States’ & Settling States’ Settlement*, *supra* note 32, § III.G.

52. *See Microsoft Begins Implementing Antitrust Settlement*, 16 SOFTWARE L. BULL. 3 (2002).

53. *United States’ & Settling States’ Settlement*, *supra* note 32, § III.G.2.

54. *Id.* § III.F.2

mote Microsoft software and enforce that contract by forcing the ISV to deal exclusively with Microsoft.<sup>55</sup>

d) Required Disclosures

The *Settlement* requires Microsoft to disclose some technology to potential competitors to lower barriers to entry in an attempt to restore the competitive conditions that might exist absent Microsoft's anticompetitive behavior. The decree requires Microsoft to disclose interfaces and other technical information used by its middleware to interoperate with its operating system.<sup>56</sup> In a provision designed to be forward-looking, Microsoft must license any communications protocol used to interoperate or communicate with any of its server operating products, despite this exceeding the scope of the company's liability.<sup>57</sup> "Server operating products" are not defined in the settlement, however, leaving Microsoft free to claim that this provision does not require the disclosure of protocols used by the browser to communicate with Web servers.<sup>58</sup>

Microsoft is not required to license intellectual property rights in its operating system royalty-free, despite the liability for monopoly maintenance in that market; instead, it must only make such communications protocols available on reasonable and nondiscriminatory terms.<sup>59</sup> Due to the strong network effects of the operating systems market, the court found too tenuous a causal connection between Microsoft's exclusionary conduct and its market power to try to impose such an extreme remedy.<sup>60</sup> The court followed the settlement agreement's determination that Microsoft need not disclose its operating system source code to aid in compliance; only the technical committee<sup>61</sup> created by the decree needs the source code to monitor compliance.<sup>62</sup> Also, Microsoft is allowed security-based limitations on its disclosures of technical information.<sup>63</sup>

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55. See *Microsoft Begins Implementing Antitrust Settlement*, *supra* note 52.

56. *United States' & Settling States' Settlement*, *supra* note 32, § III.D.

57. See *id.* § III.E.

58. Bresnahan, *supra* note 50, at 68.

59. *United States' & Settling States' Settlement*, *supra* note 32, § III.I.

60. *United States v. Microsoft Corp.*, 231 F. Supp. 2d 144, 192-93 (D.D.C. 2002).

61. The current committee members, serving 30-month appointments, are Harry Saal (selected by the DOJ and settling states), Franklin Fite (selected by Microsoft), and Edward Stritter (selected jointly).

62. *United States' & Settling States' Settlement*, *supra* note 32, § IV.B.8.c.

63. *Id.* § III.J.

e) Term of Decree

The court, noting the special circumstances created by the rapid changes of the computer industry, agreed to a five-year term for implementation of the consent decree instead of the standard ten-year term.<sup>64</sup> Plaintiffs may apply to the court for a one-time extension of up to two years in any instance where Microsoft has demonstrated a pattern of willful and systematic violations of the decree.<sup>65</sup>

f) Compliance and Enforcement

Although the court abbreviated the term of the decree, it objected to language that appeared to limit the court's continuing jurisdiction.<sup>66</sup> The proposed decree stated that the court retained jurisdiction "for the purpose of enabling either of the parties thereto *to apply to this Court* at any time for further orders and directions . . . ."<sup>67</sup> The court rejected this definition of jurisdiction, and ultimately approved a revised version that empowers the court "to *sua sponte* issue orders or directions regarding to [sic] the final judgment . . . ."<sup>68</sup> The court will supervise the compliance procedures in conjunction with the three-person Technical Committee, aided by the Microsoft Compliance Officer.<sup>69</sup>

### 3. Challenges

Nine states and the District of Columbia refused to join the settlement, which they viewed as inadequate to loosen Microsoft's unlawfully maintained monopoly in the operating systems market, and chose to litigate the remedies. The court eventually issued a judgment similar to the settling states' consent decree. Massachusetts chose to appeal this judgment.<sup>70</sup> In addition, two industry groups that have monitored the litigation since the

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64. *See id.* § V.A.

65. *Id.* § V.B.

66. *United States v. Microsoft Corp.*, 231 F. Supp. 2d 144, 200 (D.D.C. 2002).

67. *Id.* (quoting Second Revised Proposed Final Judgment §VII, *United States v. Microsoft Corp.*, Nos. 98-1232(CKK) & 98-1233(CKK), filed Feb. 27, 2002, *available at* <http://www.usdoj.gov/atr/cases/f10100/10146a.htm>) (emphasis added).

68. *Id.* at 201; *see United States' and Settling States' Settlement*, *supra* note 32, § VII.

69. *See United States' and Settling States' Settlement*, *supra* note 32, § VII.

70. *New York v. Microsoft Corp.*, No. 98-1233 (CKK), 2002 WL 31961461 (D.D.C. Nov. 01, 2002), *appeal docketed sub nom. Massachusetts v. Microsoft Corp.*, No. 02-7155 (D.C. Cir. Nov. 4, 2003).

beginning are seeking permission to intervene in the lawsuit to challenge the final judgment.<sup>71</sup>

As the sole state continuing to challenge the Microsoft judgment, Massachusetts seeks tighter restrictions on Microsoft's business practices. Massachusetts Attorney General Tom Reilly has maintained that the current remedies will neither end Microsoft's anticompetitive behavior nor level the market playing field to remove the unfair advantages Microsoft gained through illegal acts, specifically with regard to Java. The state is also challenging the judgment's failure to require Microsoft to stop commingling its software unlawfully, as well as the lack of a "truth in advertising" provision in the final judgment that would prohibit the company from misleading software developers about its compliance with industry standards.<sup>72</sup>

Massachusetts seeks an injunction requiring Microsoft to unbundle Windows from all middleware products, a demand Microsoft dismisses as technologically unfeasible. Additionally, the state would like to see Microsoft disclose more extensive Windows application programming interfaces to third-party developers and provide an open-source license of the Internet Explorer code.<sup>73</sup> Massachusetts' inquiry has been complicated by agreements between the DOJ and the settling states that prohibit the states from helping with Massachusetts' investigation. The D.C. Circuit heard oral arguments on November 4, 2003.<sup>74</sup>

Besides Massachusetts, several computer industry trade groups<sup>75</sup> have challenged the settlement agreement, maintaining that their interests were not adequately represented in the Tunney Act consent proceedings.<sup>76</sup> So far they have been denied leave to intervene, but their appeal remains be-

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71. See *United States v. Microsoft Corp.*, No. Civ. A. 98-1232 CKK, 2003 WL 262324 (D.D.C. Jan. 11, 2003).

72. Press Release, Massachusetts Attorney General Office, AG Reilly Files Brief in Microsoft Appeal (May 5, 2003), available at [http://www.ago.state.ma.us/scripts/dynamic\\_print.asp?pg=/press\\_rel/micappeal](http://www.ago.state.ma.us/scripts/dynamic_print.asp?pg=/press_rel/micappeal).

73. See Brief for Respondent at 44-45, 51, *New York v. Microsoft Corp.*, No. 98-1233 (CKK), 2002 WL 31961461 (D.D.C. Nov 01, 2002), *appeal docketed sub nom. Massachusetts v. Microsoft Corp.*, No. 02-7155 (D.C. Cir. Nov. 4, 2003).

74. See *New York v. Microsoft Corp.*, No. 98-1233 (CKK), 2002 WL 31961461 (D.D.C. Nov 01, 2002), *appeal docketed sub nom. Massachusetts v. Microsoft Corp.*, No. 02-7155 (D.C. Cir. Nov. 4, 2003).

75. In January 2003, Judge Kollar-Kotelly denied a Motion to Intervene for Purposes of Appeal filed by the Computer & Communications Industry Association ("CCIA") and Software & Information Industry Association ("SIIA"), whose members include Microsoft competitors such as Time Warner (formerly AOL-Time Warner), Oracle, and Sun Microsystems. See *Microsoft*, 2003 WL 262324, at \*1.

76. *Id.* at \*2-\*4.

fore the D.C. Circuit.<sup>77</sup> In addition to this attempt to influence the government's enforcement action, some of the companies in each trade group have also pursued private actions against Microsoft.<sup>78</sup>

**Table 2: Summary of Parties' Present Involvement in *Microsoft III***

Party	Current Status
U.S. Department of Justice	Enforcing consent decree
Settling States	Enforcing consent decree
Litigating States (except Massachusetts)	Enforcing final judgment via joint enforcement committee
Massachusetts	Appealing final judgment. Case pending before D.C. Circuit.
CCIA/SIIA	Appealing denial of motion to intervene to challenge consent decree. Case pending before D.C. Circuit.

#### 4. Compliance Procedures

To aid the court in monitoring Microsoft's compliance, the *Microsoft III* parties must file semiannual joint status reports detailing the company's efforts to implement the settlement terms. Judge Kollar-Kotelly, assisted by the three-person technical oversight committee, reviews reports describing complaints received by Microsoft, the oversight committee, or the plaintiffs during the most recent reporting period. Plaintiffs must catalog the number and types of complaints, which complaints have been resolved, the number of unresolved complaints under investigation, and how many remain uninvestigated.

In July 2003, in the first joint status report, the DOJ accused Microsoft of inaction regarding its licensing program, prompting the company's revision of the licensing terms.<sup>79</sup> As a part of the 2002 settlement, Microsoft agreed to make its communications protocols available to third parties on

77. See *United States v. Microsoft Corp.*, No. Civ. A. 98-1232 (CKK), 2003 WL 262324 (D.D.C. Jan. 11, 2003), *appeal docketed sub nom. United States v. Microsoft Corp. v. CCIA*, No. 03-5030, (D.C. Cir. Nov. 4, 2003).

78. Also, on January 31, 2003, CCIA filed a formal complaint with the European Commission, charging Microsoft violated European competition laws by using Windows XP to gain power in other markets, such as mobile phones and instant messaging. These allegations are not yet part of the European investigation of Microsoft. See *Trade Group Sues Microsoft for Antitrust Violations in Europe*, 10 AN. ANTITRUST LITIG. REP. 11 (2003).

79. See Joint Status Report on Microsoft's Compliance with the Final Judgments, *United States v. Microsoft Corp.*, No. 98-1232 (CKK), §II.A.5 (D.D.C. July 3, 2003), available at <http://www.usdoj.gov/atr/cases/f201100/201135.htm>.

“reasonable and nondiscriminatory” terms in the Microsoft Communications Protocol Licensing Program (MCPP).<sup>80</sup> To implement that provision, Microsoft eased restrictions and changed the royalty schedule for software makers who license Windows protocols to allow their software to function properly with the operating system. In response to government criticism at an October 2003 interim status hearing that the changes were not effective, Microsoft cited licensing agreements made with Cisco Systems, Laplink Software, Tandberg Television, the SCO Group, and UTStarCom as evidence that its new licensing terms are reasonable.<sup>81</sup>

In the most recent joint status report, filed January 16, 2004, the plaintiffs asserted that Microsoft’s licensing program still does not fulfill the goals of section III.E. Despite Microsoft’s August 2003 modifications, the MCPP has attracted licensees primarily interested in using only a narrow selection of the protocols available under the program, possibly due to a pricing structure that charges licensees per functional category of protocols actually used in their products.<sup>82</sup> The government expressed concern that the current licensees’ development projects will not “spur the emer-

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80. Final Judgment, *United States v. Microsoft Corp.*, No. 98-1232 (CKK), Nov. 12, 2002, at 4 (D.D.C. 2002) (judgment adopting plaintiffs’ Third Revised Proposed Final Judgment), available at <http://www.usdoj.gov/atr/cases/f200400/200457.htm>. Section III.E of the settlement states:

Starting nine months after the submission of this proposed Final Judgment to the Court, Microsoft shall make available for use by third parties, for the sole purpose of interoperating or communicating with a Windows Operating System Product, on reasonable and non-discriminatory terms . . . any Communications Protocol that is, on or after the date this Final Judgment is submitted to the Court, (i) implemented in a Windows Operating System Product installed on a client computer, and (ii) used to interoperate, or communicate, natively (*i.e.*, without the addition of software code to the client operating system product) with a Microsoft server operating system product.

*Id.* at 4.

81. Transcript of Status Conference Before the Honorable Colleen Kollar-Kotelly, United States District Judge at 17-18, *United States v. Microsoft Corp.*, No. 98-1232 (CKK), Oct. 24, 2003 (D.D.C. 2003) (Interim Status Conference) [hereinafter *Transcript of Interim Status Conference*].

82. See Joint Status Report on Microsoft’s Compliance with the Final Judgments, *United States v. Microsoft Corp.*, CA No. 98-1232 (CKK), at 5-7 (D.D.C. Jan. 16, 2004), available at <http://www.usdoj.gov/atr/cases/f202100/202129.htm> (last visited Jan. 25, 2004) [hereinafter *January 2004 Joint Status Report*]. The communications protocols are categorized into the following fourteen tasks: file services, media streaming services, terminal services, certificate services, authentication services, collaboration server, digital rights management server, multi-player games server, proxy/firewall/NAT server, rights management server, systems management server, virtual private network server, print/fax server, and web server. *January 2004 Joint Status Report, supra*, at 5-6 & n.3.

gence in the marketplace of broad competitors to the Windows desktop.”<sup>83</sup> The MCPP is also unattractive due to complex royalty terms, a long (fifty-page) licensing agreement, and scope-of-use restrictions the exact extent of which is difficult to understand.<sup>84</sup> After the status report was filed, Microsoft announced changes to the MCPP to address these concerns.<sup>85</sup>

In addition to policing those remedy provisions directly aimed at past violations, plaintiffs have also begun to identify potential new threats. At the October 2003 interim status hearing, plaintiffs voiced concern about a possible violation of a settlement provision that prohibits Microsoft from interfering with an end user’s choice of a default browser unless Internet Explorer is technologically necessary.<sup>86</sup> Microsoft launched an online music store and placed an icon on the Windows XP desktop labeled “Buy Music Online” that, if clicked, opens Internet Explorer and accesses the Microsoft music site. At the October hearing, plaintiffs stated that they were unconcerned with any advantage Microsoft may garner for its online music services through this desktop icon.<sup>87</sup> Rather, they objected to the launching of Internet Explorer in a place where the default browser that the user selects should be launched, in violation of settlement section III.H.2.<sup>88</sup>

Microsoft maintained that this placement is legal under the exception in that provision that allows an automatic launch of a Microsoft middle-ware product instead of a non-Microsoft product when necessary for “valid technical reasons.”<sup>89</sup> The parties agreed to refer the issue to the technical committee, which is examining the Windows XP source code, as well as the source code of “Longhorn,” the next Microsoft operating system, to ensure that the programs honor user default middleware choices in

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83. *Id.* at 7.

84. *See id.* at 10.

85. *See* Microsoft Communications Protocol Program, Protocol Licensing Home Page, at <http://members.microsoft.com/consent/Info/default.aspx> (last visited Jan. 25, 2003) (containing pricing and licensing terms for protocols addressed in the settlement). In the *January 2004 Joint Status Report*, Microsoft promised to release a shorter license agreement that makes two dozen protocols available royalty-free, makes others available for a fixed fee or fixed fee per unit, and changes the license evaluation program to make it easier for potential licensees to review the technical documentation of the protocols. *See January 2004 Joint Status Report*, *supra* note 82, at 16. The company asserted, however, that if its licensing terms are reasonable, it should not be blamed for the MCPP failing to have the desired remedial effects. *Id.*

86. *Transcript of Interim Status Conference*, *supra* note 81.

87. *Id.* at 9.

88. *Id.*; *see United States’ & Settling States’ Settlement*, *supra* note 32, § III.H.2.

89. *Transcript of Interim Status Conference*, *supra* note 81; *see also United States’ & Settling States’ Settlement*, *supra* note 32, § III.H.2.b.

compliance with § III.H.<sup>90</sup> In January 2004, Microsoft announced that, although it believed its music icon's operation to be consistent with the settlement, it would remove the override of the user's default browser from Windows XP, and would have a "Windows Update" download available in February or March 2004 to effect the modification.<sup>91</sup>

### C. Private Antitrust Lawsuits

Section 4 of the Clayton Act allows a private entity suffering harm resulting from a violation of the antitrust laws to recover treble damages.<sup>92</sup> Leveraging the court's decision that private litigants could litigate based on the findings of fact in *Microsoft III*,<sup>93</sup> many Microsoft consumers and competitors, as well as groups of individual consumers, have sought monetary relief. Most of the private antitrust actions against Microsoft were consolidated into one case, *In re Microsoft Corp. Antitrust Litigation*, in 2001.<sup>94</sup>

#### 1. *Sun Microsystems, Inc.*

In one such action,<sup>95</sup> Sun Microsystems, Inc. ("Sun") accused Microsoft of selling modified versions of Sun's Java software that were unauthorized by a prior licensing agreement in violation of federal copyright and antitrust laws. Sun's motion for a preliminary injunction<sup>96</sup> was granted by the district court.<sup>97</sup> Citing the danger of monopolization of the middle-

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90. See *January 2004 Joint Status Report*, *supra* note 82, at 14.

91. See *id.* at 12. Additionally, Microsoft recently launched anti-spam software as a part of its new Outlook program, which will potentially interfere with users' ability to use other anti-spam software. No formal action has been taken on this program, as it is outside the scope of the middleware-focused settlement.

92. 15 U.S.C. §15 (2000).

93. See *In re Microsoft Corp. Antitrust Litig.*, 232 F. Supp. 2d 534 (D. Md. 2002) (holding Microsoft collaterally estopped from relitigating facts found in the government antitrust suit that were relied upon to support the ultimate liability finding in that case); *United States v. Microsoft Corp.*, 84 F. Supp. 2d 9 (D.D.C. 1999).

94. See *In re Microsoft Corp. Antitrust Litig.*, 127 F. Supp. 2d 702, 704 (D. Md. 2001).

95. Microsoft also faces a private antitrust suit filed by Burst.com Inc. Burst is suing Microsoft for theft and anticompetitive behavior due to Microsoft's release of Corona, a technology for transmitting movies and sounds over the Internet quickly. This suit is still in the pretrial phase. See Associated Press, *Microsoft Sued Over Web Movie Technology*, BIZREPORT, Sep. 29, 2003, [http://www.bizreport.com/print.php?art\\_id=5039](http://www.bizreport.com/print.php?art_id=5039); Microsoft Legal Update Antitrust Settlement Fact Sheet, Oct. 28, 2003, at <http://www.microsoft.com/presspass/legal/ca/10-28SettlementFS.asp>.

96. Preliminary injunctions for violations of the antitrust laws are allowed under § 16 of the Clayton Act. 15 U.S.C. § 26 (2000).

97. *In re Microsoft Corp. Antitrust Litig.*, 237 F. Supp. 2d 639 (D. Md. 2002).

ware market in violation of section 2 of the Sherman Act, the court ordered Microsoft to refrain from selling its own developments of Java that were not agreed upon in the licensing agreement, and to sell Sun's Java with its Windows OS.<sup>98</sup>

The Fourth Circuit Court of Appeals reversed the portion of the injunction that required Microsoft to carry the Sun software.<sup>99</sup> The court found major deficiencies in Sun's argument that the middleware market was in immediate and certain danger of tipping in favor of Microsoft's .NET software at the expense of Sun's Java.<sup>100</sup> Expert testimony failed to unequivocally identify such immediate and certain danger.<sup>101</sup> Moreover, the court rejected the argument that Microsoft was leveraging its market power in the operating system market into the middleware market, in part due to Sun's failure to properly define the middleware market.<sup>102</sup> This flaw in Sun's case echoes the difficulties encountered by the *Microsoft III* plaintiffs in their unsuccessful effort to prove their claim of attempted monopolization of the web browser market.<sup>103</sup>

Although it rejected the anti-monopolization injunction, the Fourth Circuit relied on copyright law in upholding the ruling prohibiting Microsoft from selling its own Java adaptations.<sup>104</sup> Microsoft remains enjoined from distributing modified Java because such distribution is outside the scope of the limited license Sun granted to Microsoft as part of a 2001 settlement agreement.<sup>105</sup>

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98. *Id.* at 640.

99. *In re Microsoft Corp. Antitrust Litig.*, 333 F.3d 517, 534 (4th Cir. 2003). The court considered "(1) the likelihood of irreparable harm to the plaintiff if the preliminary injunction [were] denied; (2) the likelihood of harm to the defendant if the injunction [were] granted; (3) the likelihood that the plaintiff [would] succeed on the merits; and (4) the public interest." *Id.* at 526.

100. *Id.* at 527-31.

101. *Id.* at 528.

102. *See id.* at 532-34.

103. *See United States v. Microsoft Corp.*, 253 F.3d 34 (D.C. Cir. 2001).

104. *Microsoft*, 333 F.3d at 536.

105. Ultimately, the court's involvement in this case may prove irrelevant. Sun recently secured contracts with Acer, Gateway, Toshiba, Samsung Electronics, and Tsinghua Tongfang to install the latest version of Java's virtual machine, Java 2 Standard Edition, on computers sold by those OEMs. These contracts build upon the existing contracts Sun holds with Apple Computer, Hewlett-Packard, Dell, and Lindows.com. With these agreements, Sun will succeed in placing Java on at least half of PC desktops. This will likely be more effective than the copyright injunction affirmed by the Fourth Circuit in securing developers' access to the technology and keeping Sun from being pushed out of the middleware market.

## 2. Class Actions

When consolidating the private actions against Microsoft, the district court chose to hear one class action brought by software maker Gravity, Inc. separately because the complaint named multiple defendants.<sup>106</sup> On behalf of two classes of consumers,<sup>107</sup> Gravity, Inc. alleged conspiracies to restrain trade under Sherman Act section 1, and to monopolize, under Sherman Act section 2, between Microsoft and OEMs Dell, Compaq, and PB Electronics, Inc. The defendants allegedly exchanged restrictive licensing agreements for discounts and other benefits such as “greater cooperation from Microsoft in product development.”<sup>108</sup>

In *Dickson v. Microsoft Corp.*, the Fourth Circuit affirmed the district court’s dismissal of the suit. The court granted Microsoft’s motion to dismiss<sup>109</sup> on the grounds that the “rimless wheel” conspiracy alleged by Gravity Inc. did not constitute a single conspiracy for purposes of the

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106. In addition to the Gravity, Inc. suit, consumers have filed numerous state class actions and more than one hundred multidistrict class actions in federal court. Of these, suits in Colorado, Connecticut, Iowa, Kentucky, Maryland, Missouri, Nevada, New Hampshire, Oregon, Oklahoma, Rhode Island, and Texas, have been dismissed. Suits in California, the District of Columbia, Florida, Kansas, Montana, North Carolina, North Dakota, South Dakota, Tennessee, and West Virginia, have agreed upon settlements, and some have had these approved by the courts. On September 30, 2003, the federal multidistrict class action on behalf of direct purchasers of Windows settled after a June 2003 ruling that Windows specifications are not an essential facility, *In re Microsoft Corp. Antitrust Litigation*, No. MDL 1332, 2003 WL 21766566 (D. Md. 2003). Earlier, claims of indirect purchasers, foreign purchasers, and volume license customers were dismissed or refused class certification. See Microsoft Legal Update Antitrust Settlement Fact Sheet, *supra* note 95.

107. Class 1 consists of “United States purchasers . . . of Microsoft Windows or MS DOS operating software . . . installed and sold with personal computers compatible with Intel x86/Pentium architecture purchased directly from Compaq, Dell, or [PB Electronics].” *Dickson v. Microsoft Corp.*, 309 F.3d 193, 199 (4th Cir. 2002). Class 2 consists of “United States purchasers . . . of Microsoft word processing software and/or Microsoft spreadsheet software installed and sold with personal computers compatible with Intel x86/Pentium architecture purchased directly from Compaq, Dell, or [PB Electronics].” *Id.*

108. *Id.* at 199 (quoting *Gravity Inc. v. Microsoft Corp.*, 127 F. Supp. 2d 728, 732 n.5 (D. Md. 2001)). The complaint argued that the licensing agreements contained:

- (1) a prohibition against removing icons, folders, or Start menu entries from the Windows desktop;
- (2) a prohibition against modifying the initial Windows boot sequence;
- (3) the integration of Internet Explorer (IE) . . . and other application software with the Microsoft operating software;
- (4) the inclusion of long-term distribution contracts, exclusive dealing distribution arrangement, and per-processor license fees.

*Dickson*, 309 F.3d at 199.

109. See FED. R. CIV. PROC. 12(b)(6).

Sherman Act. Furthermore, the two separate agreements between Microsoft and each of the OEMs did not impose "unreasonable restraints of trade in interstate commerce."<sup>110</sup> The court held that Gravity could not rely on the combined market power of the OEMs because it could not demonstrate a connection between them that would warrant their consideration as a single conspiracy.<sup>111</sup> The court added that even if individual OEMs possessed market power sufficient to impose an unreasonable restraint of trade, Gravity's suit would still be restricted by the indirect purchaser rule.<sup>112</sup> That rule bars consumers who purchase goods through an intermediary from recovering for supra-competitive prices, caused by the original seller's anticompetitive conduct, that are supposedly passed on by the intermediary.<sup>113</sup>

In so holding, the court read narrowly the conspiracy exception to the indirect purchaser rule. Gravity asserted that the rule is inapplicable where the plaintiff has alleged any conspiracy, while the court interpreted existing cases as holding that only price-fixing conspiracies could trigger the exception.<sup>114</sup> Gravity did not specifically plead price fixing, but rather took issue with the agreements between Microsoft and the OEMs on several levels, the cumulative result of which was to raise prices for consumers. After denying Gravity's claims of conspiracy and market power, the court signaled that indirect purchasers would face difficulty trying to circumvent the indirect purchaser rule in the Fourth Circuit.<sup>115</sup>

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110. *Dickson*, 309 F.3d at 205.

111. *Id.* at 204-05.

112. *Id.* at 214.

113. *See Illinois Brick Co. v. Illinois*, 431 U.S. 720 (1977). The *Illinois Brick* Court held that only direct purchasers from an antitrust violator can sue for damages under the Sherman Act, citing avoidance of multiple overlapping recoveries against the original seller by direct and indirect purchasers, and avoidance of uncertainties that may arise in determining how much of an overcharge was passed on to the end purchaser through the intermediary. *See id.* at 728-748. In an earlier ruling in the *In re Microsoft* consolidated action, the district court judge ruled that consumers who obtained their Microsoft software via a purchase of a PC were barred from suing Microsoft for overcharges passed on by OEMs under *Illinois Brick*. *See In re Microsoft Corp. Antitrust Litig.*, 127 F. Supp. 2d 702 (D. Md. 2001).

114. *Dickson*, 309 F.3d at 214-15.

115. *See id.* at 216.

## II. EUROPEAN DEVELOPMENTS

The European Commission has been investigating Microsoft for five years, probing its behavior through a more active, regulatory lens.<sup>116</sup> Perhaps as a reaction to American authorities' retreat from the most pervasive remedy, the dismantling of the company, the European Commission appears poised to crack down on Microsoft's server software and media player sales practices. The investigation was prompted by a complaint by Sun Microsystems that Microsoft would not disclose protocols for Windows NT. The E.C. expanded its investigation in 2001, to examine how Microsoft's Windows Media Player has affected the streaming media technology market.

### A. Overview of European Competition Law

Articles 81 and 82<sup>117</sup> of the EC Treaty govern competition in the European market. Article 81 addresses anticompetitive agreements among undertakings (corporations), while article 82 regulates unilateral anticompetitive behavior, such as tying, refusals to license, and anticompetitive enforcement of intellectual property rights.<sup>118</sup> While articles 81 and 82 appear to be similar to sections 1 and 2 of the Sherman Act, there are impor-

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116. This is not the first European Microsoft inquiry. In the mid-1990s, the E.C. probed Microsoft's licensing practices in conjunction with the DOJ, eventually imposing injunctions on Microsoft's conduct. See Justin O'Dell, *Trouble Abroad: Microsoft's Antitrust Problems Under the Law of the European Union*, 30 GA. J. INT'L. & COMP. L. 101, 106 (2001).

117. Article 82 (formerly Article 86 of the Treaty of Rome) reads:

Any abuse by one or more undertakings of a dominant position within the common market or in a substantial part of it shall be prohibited as incompatible with the common market in so far as it may affect trade between member-States. Such abuse may, in particular, consist in:

- (a) directly or indirectly imposing unfair purchase or selling prices or other unfair trading conditions;
- (b) limiting production, markets or technical development to the prejudice of consumers;
- (c) applying dissimilar conditions to equivalent transactions with other trading parties, thereby placing them at a competitive disadvantage;
- (d) making the conclusion of contracts subject to acceptance by the other parties of supplementary obligations which, by their nature or according to commercial usage, have no connection with the subject of such contracts.

Treaty Establishing the European Community, Nov. 10, 1997, O.J. (C 340) 1 (1997), art. 82 [hereinafter EC TREATY].

118. HERBERT HOVENKAMP, ET AL., *IP AND ANTITRUST: AN ANALYSIS OF ANTITRUST PRINCIPLES APPLIED TO INTELLECTUAL PROPERTY LAW* § 45.3.b (2003).

tant differences in approach.<sup>119</sup> For example, American courts use the rule of reason to determine whether a restraint of trade violates the Sherman Act. Under European law, by contrast, an agreement that has as its "object or effect the . . . distortion of competition,"<sup>120</sup> however reasonable, is in violation of article 81 unless it qualifies for an exemption under article 81(3).<sup>121</sup>

In Europe, competition policy has economic, political, and social goals.<sup>122</sup> Beyond efficient production, the European Community seeks to fulfill the obligations of the European treaties, such as "establishing a common market, approximating economic policies, promoting harmonious growth, raising living standards, [and] bringing Member States closer together . . . ."<sup>123</sup> The overall political goal of maintaining a pluralistic democracy necessitates sharp controls on concentrations of economic power.<sup>124</sup> The broad social welfare approach to competition law in Europe exercises policy "as a tool that can be used to fulfill the broader objectives behind establishing a common market."<sup>125</sup> In Europe, Microsoft faces a tribunal largely unsympathetic to the principal American antitrust objective, which is strictly consumer welfare-centered and *pro-competition*, rather than *pro-competitor*.

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119. *Id.*

120. EC TREATY, *supra* note 117, art. 81(1) (ex. art. 85).

121. HOVENKAMP, ET AL., *supra* note 118, §45.3.b. Article 81(3) states:

The provisions of paragraph 1 may, however, be declared inapplicable in the case of:

- any agreement or category of agreements between undertakings;
- any decision or category of decisions by associations of undertakings;
- any concerted practice or category of concerted practices; which contributes to improving the production or distribution of goods or to promoting technical or economic progress, while allowing consumers a fair share of the resulting benefit, and which does not:
  - (a) impose on the undertakings concerned restrictions which are not indispensable to the attainment of these objectives;
  - (b) afford such undertakings the possibility of eliminating competition in respect of a substantial part of the products in question.

EC TREATY, *supra* note 117, art. 81(1).

122. Bryan A. Facey & Dany H. Assaf, *Monopolization and Abuse of Domination in Canada, the United States and the European Union: a Survey*, 70 ANTITRUST L.J. 513, 527 (2002).

123. *Id.*

124. *Id.*

125. *Id.* at 528.

## B. Pending Actions

The European Commission is considering two practices largely overlooked by the U.S. DOJ: creation of PC software that requires Microsoft server software to achieve full interoperability; and the tying of Windows Media Player to the Windows PC operating system.<sup>126</sup> Prompted by a complaint by Sun Microsystems, European investigators examined the interaction within desktop-server program pairings such as Microsoft Access and Microsoft SQL Server.<sup>127</sup> Microsoft Access is incapable of sharing a database with more than fifty users unless it is used in conjunction with Microsoft SQL Server; the Commission wants Microsoft to disclose interface information that would allow other makers of workgroup server operating systems to achieve this synergy with Microsoft desktop software. The current interoperability problem prompts consumers to purchase Microsoft products for both desktop and server. Furthermore, the Commission believes Microsoft's Windows 2000 licensing policy may have been an illegal exercise of the company's market dominance because customers using competing server products, instead of the all-inclusive Microsoft PC-server package, paid twice the price.<sup>128</sup>

In addition to the server software investigation prompted by Sun's complaint, the Commission initiated its own inquiry into Microsoft's bundling of Windows with the Windows Media Player, alleging that the practice weakens competition on the merits, stifles innovation, and reduces consumer choice.<sup>129</sup> Due to the program's presence on a large majority of PC's, software developers and content providers are more inclined to develop for the Windows Media Player. Although RealNetwork's RealPlayer, Apple's QuickTime, and other competitors are found on over three quarters of the world's personal computers, they are generally the second audio/video player on the machine. The E.C. worries that the presence of Windows Media Player on all Windows machines will continue to

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126. See Commission Gives Microsoft Last Opportunity to Comment Before Concluding its Antitrust Probe, IP/03/1150, Aug. 6, 2003 [hereinafter *Statement of Objections*], at [http://europa.eu.int/rapid/start/cgi/guesten.ksh?p\\_action.gettxt=gt&doc=IP/03/1150|0|RAPID&lg=EN](http://europa.eu.int/rapid/start/cgi/guesten.ksh?p_action.gettxt=gt&doc=IP/03/1150|0|RAPID&lg=EN).

127. See Paul Meller, *New Antitrust Charges Brew: European Union Considers New Complaints That Microsoft Abuses Monopoly Power*, PCWORLD.COM, IDG NEWS SERV., Nov. 15, 2002, at <http://www.pcworld.com/news/article/0,aid,10699500..>

128. *Technology: Commission Launches New Microsoft Probe*, EUR. INFO. SERV. EUR. REP., Nov. 1, 2003.

129. *Statement of Objections*, *supra* note 126.

dictate development regardless of inroads made by an array of competitors.<sup>130</sup>

Besides these nearly completed investigations, the E.C. announced the beginning of another inquiry on October 30, 2003, this time into Microsoft's licensing policy regarding hardware groups that may restrict hardware makers' ability to enforce their own software patents.<sup>131</sup> Other concerns not yet under formal investigation include price increases for Windows upgrade licensing,<sup>132</sup> leveraging of power in the operating system market into the market for mobile phone software,<sup>133</sup> and predatory pricing aimed at retarding the growth of GNU/Linux in developing markets.<sup>134</sup> Emails retrieved from Microsoft managers reveal that Microsoft draws from a special fund to steeply discount software in order to complete difficult sales.<sup>135</sup> Although discounting is permissible under European law, a company with market power like Microsoft's cannot discount its products to discourage or prevent entry into the market by rival firms.<sup>136</sup>

The Commission issued its third and final Statement of Objections for its present investigations on August 6, 2003, giving Microsoft a final chance to comment within the next two months before a ruling came down on either the server software or Windows Media Player inquiries.<sup>137</sup> In subsequent hearings on the matter, Microsoft warned that rewriting the Windows operating system to remove Media Player would result in a sub-standard Windows version.<sup>138</sup> Competitors such as RealNetworks responded by demonstrating that Windows XP Embedded, a version of Windows without Media Player, functions properly.<sup>139</sup> Microsoft replied

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130. Paul Meller & Joris Evers, *European Commission Threatens Microsoft*, PCWORLD.COM, IDG NEWS SERV., Aug. 6, 2003, at <http://www.pcworld.com/news/article/0,aid,111921,00.asp>.

131. *Technology: Commission Launches New Microsoft Probe*, *supra* note 128.

132. See Written Question E1823/02 by Erik Meijer, 2003 O.J. (C 92) 95 (charging that Microsoft has done away with 50% discounts on upgrades and charges high prices for the option to get a discounted upgrade, leaving businesses stranded with outdated software), <http://europa.eu.int/eurlex/pri/en/oj/dat/2003/ce092/ce09220030417en00950096.pdf>.

133. Meller, *supra* note 127.

134. Thomas Fuller, *How Microsoft Warded Off Rival*, N.Y. TIMES, May 15, 2003, <http://news.com.com/2100-1016-1001845.html> (last visited Dec. 18, 2003).

135. *Id.*

136. See EC TREATY, *supra* note 117, art. 82.

137. See *Statement of Objections*, *supra* note 126.

138. Reuters, *Microsoft Warns EU Rewrite Would Be Inferior*, CNET NEWS.COM, Nov. 13, 2003, at <http://news.com.com/2100-1016-5106777.html>.

139. Reuters, *Microsoft Rivals: Modified OS Isn't Mediocre*, ZDNET NEWS, Nov. 14, 2003, at <http://zdnet.com.com/2100-1104-5107673.html>.

that the Embedded version of Windows is intended only for developers and is not licensed for use on regular computers.<sup>140</sup>

In January 2004, the Commission announced it had drafted its decision, finding Microsoft liable for both its Media Player activity and its server software nondisclosure.<sup>141</sup> The Commission plans to issue its final ruling before May 1, 2004, leaving Microsoft little time to negotiate a settlement.<sup>142</sup>

### C. European Remedies

Fortunately for Microsoft, the sanctions drawn by a violation of article 82 do not include structural remedies, like divestiture.<sup>143</sup> The European Commission can order violators to cease the illegal conduct, and may impose monetary fines and conduct-related penalties.<sup>144</sup> Remedies proposed by the Commission in this case include requiring Microsoft to disclose interface information for its server products, and forcing Microsoft to sell the Windows operating system without Windows Media Player.<sup>145</sup> Alternatively, the Commission has considered a remedy like the one rejected by the Fourth Circuit in the Sun's suit against Microsoft,<sup>146</sup> namely to require Microsoft to sell competing media software with Windows.<sup>147</sup> However, this must-carry injunction would be difficult to implement, as any choice of an alternative player to bundle with Windows would give an unfair advantage to one of the competitors and enforcement would be difficult.

In addition to these injunctive remedies, the Commission may levy a fine of up to ten percent of Microsoft's annual global revenue—U.S.\$3 billion.<sup>148</sup> If it receives an adverse ruling from the Commission, Microsoft can appeal first to the European Court of First Instance in Luxembourg, then appeal further questions of law to the European Court of Justice. Although the Commission has never levied a fine of ten percent of a com-

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140. *Id.*

141. *EU's Mind 'Made Up' on Microsoft*, BBC NEWS, at <http://news.bbc.co.uk/1/hi/business/3432735.stm> (last updated Jan. 27, 2004).

142. *Id.*

143. Facey & Assaf, *supra* note 122, at 576.

144. *Id.*

145. *Statement of Objections*, *supra* note 126.

146. See discussion of Sun's suit against Microsoft, see *supra* Part I.C.1.

147. *Statement of Objections*, *supra* note 126.

148. *Id.*

pany's revenue, it has also never dealt with anticompetitive behavior on as large a scale as that which Microsoft allegedly committed.<sup>149</sup>

In its January 2004 preliminary decision on liability, the Commission did not indicate how large a fine it will impose, but suggested conduct remedies requiring Microsoft to strip Media Player from Windows and disclose its server communications protocols to competitors.<sup>150</sup>

### III. ANALYSIS

The Microsoft cases underscored the limitations of traditional antitrust doctrine and spurred the development of new enforcement institutions tailored to high-technology industries. Even so, market forces may win the race to check Microsoft's monopoly power.

#### A. Shortcomings of Traditional Antitrust Doctrine

The two private suits discussed in Part II.C highlight how traditional antitrust doctrine at times does not properly account for the realities of high-technology markets. In Sun's suit against Microsoft, the court denied Sun's request for a preliminary must-carry injunction, and would not have enjoined Microsoft from distributing its own "polluted Java" if the practice did not violate copyright law.<sup>151</sup> The court rejected Sun's attempt to show the requisite irreparable harm by pointing to future harm it would suffer through market tipping.<sup>152</sup> By demanding a showing of more immediate harm,<sup>153</sup> the court ignored the fact that inaction in this case favored Microsoft by allowing the number of applications written specifically for Microsoft's Java to grow.

In *Dickson v. Microsoft*,<sup>154</sup> the application of traditional antitrust doctrine once again produced undesirable results. Because most consumers of Windows obtain the product via a PC purchase, they are relegated to the indirect purchaser realm, where they must wait for the direct purchasers

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149. Paul Meller, *Guilty Ruling Likely in EU's Antitrust Case*, PCWORLD.COM, IDG NEWS SERV., Mar. 12, 2003, at <http://www.pcworld.com/resource/printable/article/0,aid,109795,00.asp> (quoting a source "close to the European Commission's competition department" as stating that "[the Commission] has never come near to such a colossal antitrust case").

150. *EU's Mind 'Made Up' on Microsoft*, *supra* note 141.

151. *In re Microsoft Corp. Antitrust Litig.*, 237 F. Supp. 2d 639, 642 (D. Md. 2002).

152. Market tipping refers to the tendency of a market exhibiting feedback effects (the utility of a product increasing with the number of people using it) to be dominated by the supplier that first achieves substantial distribution of its product. *See id.* at 646.

153. *See id.* at 651-53.

154. 309 F.3d 193 (4th Cir. 2002)

(the OEMs) to obtain relief on their behalf. Plaintiff Gravity Inc. took the view that consumers should be allowed to sue directly, under the conspiracy exception to the indirect purchaser rule. Gravity's approach makes sense in the software market, as Microsoft and its OEMs maintain ongoing relationships via licensing agreements that easily allow for coordination of prices, even after the implementation of the consent decree's nondiscriminatory licensing requirements. These facilitating practices need to be open to investigation, and the consumers are the only parties in the equation who will pursue an inquiry. The Fourth Circuit identified a split among the circuits as to the interpretation of the conspiracy exception;<sup>155</sup> future software purchasers will greatly benefit if this conflict is resolved in favor of a liberal reading.

## B. New Approaches to Antitrust Enforcement

Over the course of the enforcement actions against Microsoft, new approaches to antitrust enforcement have developed that lay the groundwork for future high technology antitrust enforcement. The consent decree compliance process and the global approach to antitrust serve the heightened demands of complex, rapidly-changing industries.

### 1. Regulation via Consent Decree

The present government enforcement procedure represents continuation of a growing trend of antitrust regulation through consent decrees.<sup>156</sup> Although Microsoft maintained its operating systems monopoly illegally, it initially obtained that monopoly through legal business practices. A structural remedy to remove that power would be contrary to the policy of the U.S. antitrust laws to avoid sanctioning success in business achieved via a superior product, exceptional business acumen, or good luck. So, even though the government plaintiffs do not intend to become regulators—in defending the shortened five-year term of the consent decree in Microsoft III, the government cited the risk that a ten-year term would allow the decree to become “highly regulatory”<sup>157</sup>—the enforcement of less

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155. See *id.* 214-15.

156. See Michael P. Kenny & William H. Jordan, *United States v. Microsoft: Into the Antitrust Regulatory Vacuum Missteps the Department of Justice*, 47 EMORY L.J. 1351, 1353 (1998) (noting that the antitrust consent decree is “a public settlement process that the [U.S. DOJ Antitrust] Division now employs in a majority of its civil cases”); Michael L. Weiner, *Antitrust and the Rise of the Regulatory Consent Decree*, 10 ANTITRUST 4, 4 (1995) (“Consent decree settlements resolving . . . Antitrust Division challenges to proposed acquisitions and other conduct are now much more the rule than the exception.”).

157. *United States v. Microsoft Corp.*, 231 F. Supp. 2d 144, 194 (D.D.C. 2002).

stringent conduct remedies in this case will require technical expertise and diligent monitoring costing many hours and dollars.

The consent decree can be a valuable timesaving tool, allowing the defendant to begin correcting its behavior years earlier than if a case were litigated to finality. It puts negotiations about remedies behind closed doors, however, which allows government attorneys and private parties to set quasi-precedents in antitrust law regarding the appropriate remedies for different degrees of misconduct. In this case, because the facts and liability were decided in court, the consent decree was based on the adversarial process, which somewhat blunts criticism that the executive branch is creating antitrust doctrine in place of the courts.<sup>158</sup> Also, the Tunney Act public comment process adds further legitimacy. The regulation of Microsoft in this manner is thus the best approach to remedy the abuses found, as the government is not only concerned about what exclusionary acts Microsoft performed in the past, but also about potential misuse of its power in the future.

The compliance process will provide a model for future high-technology antitrust actions that need to impose complex but flexible conduct remedies. Critics have warned that the flexible and open-ended consent decree, designed to allow the decree to remain effective as technology changes, provides large loopholes that Microsoft will exploit.<sup>159</sup> While the initial settlement prompted charges that the Bush Administration had unnecessarily backed down from imposing appropriately stringent remedies, however, the state attorneys general assisting in the consent decree compliance process will reinforce the U.S. DOJ's efforts to ensure that Microsoft remains diligently monitored. The technical committee ensures that a neutral body will decide quickly whether a particular act is technologically necessary or an attempt to circumvent the decree's provisions. Moreover, Microsoft's business practices are under constant scrutiny and a forum for complaints is always open to identify and address future bad acts by the company. Regardless of the terms of the consent decree, future enforcement actions may imitate the compliance process of *Microsoft III* to effect this valuable supervision.

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158. In 1997, Nathan Myhrvold, Microsoft's Chief Technology Officer, observed, "The specter here is of a Federal Bureau of Operating Systems." See Steve Lohr, *Unbundling Microsoft*, N.Y. TIMES, Dec. 13, 1997, at A1.

159. See, e.g., *New York v. Microsoft Corp.*, No. 98-1233 (CKK), 2002 WL 31961461 (D.D.C. Nov 01, 2002), *appeal docketed sub nom. Massachusetts v. Microsoft Corp.*, No. 02-7155, (D.C. Cir. Nov. 4, 2003); Bresnahan, *supra* note 50.

## 2. *Global Antitrust Enforcement*

Antitrust actions against Microsoft have accelerated the development of global antitrust enforcement procedures due to the trans-jurisdictional effects of the conduct at issue.<sup>160</sup> The so-called “spillover” of network effects<sup>161</sup> from Europe to the United States and vice versa necessitates that each jurisdiction make companies play by the same antitrust rules. Otherwise, if Microsoft is allowed to carry out anticompetitive acts to stunt the development of competitors’ middleware in Europe, an enforcement action in the United States has little meaning; the company’s European customer base and corresponding value of the operating system and applications barrier to entry would continue to grow. In *Microsoft I*, the U.S. DOJ found that the E.C. was investigating the same business practices, and the two bodies were able to coordinate their investigations and settlements.<sup>162</sup> The results of the coordinated enforcement were more effective than two individual investigations would have been.<sup>163</sup> This coordination was only possible, however, because Microsoft requested a single settlement procedure and waived its right to retain the confidentiality of the documents it produced, as was its right under the laws of both Europe and the United States.<sup>164</sup>

At present, the E.C. is poised to find Microsoft liable for practices not included in the American enforcement action, and no coordination is in sight, threatening to undermine the European case. It is possible that any remedies imposed by the E.C. will affect the U.S. market without any formal coordination. In a similar situation in 1984, to avoid a formal mandate from European antitrust regulators, IBM agreed to disclose interface information before a new product became generally available, and within four months of announcing the new product.<sup>165</sup> Also, IBM was required to unbundle peripheral equipment from its mainframes.<sup>166</sup> The U.S. DOJ had dropped its marathon antitrust case against IBM by that time, but the European remedies effectively became global: any disclosures made in Europe would quickly spread to the United States, and unbundled IBM

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160. See Joel Klein & Preeta Bansal, *International Antitrust Enforcement in the Computer Industry*, 41 VILL. L. REV. 173, 179-80 (1996).

161. See *id.*

162. *Id.* at 179.

163. See *id.*

164. See *id.* at 185.

165. See *Int’l Bus. Machs. Corp. v. Comm’n*, Case 60/81 [1981] E.C.R. 2639 (C.J.); *Int’l Bus. Machs. v. Comm’n*, Case 60/81 [1981] E.C.R. 1857 (C.J.); F.M. Scherer, *Microsoft and IBM in Europe*, ANTITRUST & TRADE REG. REP., Vol. 84, No. 2090, at 65-66 (Jan. 24, 2003).

166. Scherer, *supra* note 165.

mainframes could enter the American market. A conduct remedy such as a requirement that Microsoft disclose extensive server interface information would have a similar global information effect. Likewise, an injunction requiring the unbundling of Windows Media Player could force Microsoft to restructure its sales strategy in the United States. Because American consumers would have the option to purchase Windows free of the Media Player from European sources, it would be difficult for the company to justify why that version was unavailable directly in the U.S.<sup>167</sup>

In the long term, however, the joint action used in *Microsoft I* will provide the most durable, thorough corrections of market distortions caused by anticompetitive behavior. Because many consumers are not aware of the larger effects of the bundling of Windows Media Player, many may not know to seek out the pared down version of Windows, especially when it is highly likely that any PC purchased by consumers will have the bundled version of Windows installed. Content providers understand this and will continue to tailor content to Windows Media Player. Likewise, if the European remedy entails mandatory individual licensing of the server interfaces, it is unclear whether American companies would be able to obtain the information. In future high-technology antitrust cases, the United States and the E.C. would be better served by deliberately coordinating enforcement.

### C. Beyond Antitrust Laws, Economic Forces Govern

Regardless of the legal actions against it, Microsoft may have to alter its business practices due to domestic and foreign market developments. Domestically, IBM, Red Hat, and an industry GNU/Linux consortium called Open Source Development Labs are backing a strong push to put GNU/Linux onto desktops.<sup>168</sup> That decision reflects the realization that GNU/Linux providers can compete with Microsoft by showing how much consumers will save in maintenance, troubleshooting, and security costs with its program. This is especially important in the corporate market, where around seventy percent of a PC's cost is attributable to security and support issues.<sup>169</sup> Even outside the corporate market, the Microsoft anti-

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167. The effects of the European action in regard to Media Player appear already to have spread to the United States. On December 18, 2003, Real Networks Inc., maker of RealPlayer, a rival of Windows Media Player, sued Microsoft, charging that, by bundling Media Player with Windows, Microsoft is illegally monopolizing the digital media market. See Richard Waters & Scott Morrison, *Microsoft Faces New Antitrust Battle*, FIN. TIMES, Dec. 19, 2003, at 1.

168. Stephen Shankland, *Austin Tests Desktop Linux Waters*, CNET NEWS.COM, Dec. 19, 2003, at [http://news.com.com/2100-7344\\_3-5130142.html?tag=mainstry](http://news.com.com/2100-7344_3-5130142.html?tag=mainstry).

169. Steve Lohr, *I.B.M. Helps Promote Linux*, N.Y. TIMES, Nov. 11, 2003, at C6.

trust actions may cause greater consumer awareness of the relative shortcomings of Microsoft software, which might prompt demand for alternative software and operating systems.

Abroad, places where the network effects of Windows are not controlling will give the United States a glimpse of how Microsoft should be acting in a competitive market, which may influence how the company's conduct is monitored in the future. In China, the price of Microsoft Office amounts to a months' salary for an average office worker,<sup>170</sup> so users turn to GNU/Linux for a free operating system and open source code. These characteristics translate into free applications and the ability to adapt software to meet local needs. The Thai government is providing subsidized PCs to its citizens and, until Microsoft made an exception to its pricing policy to put Windows on some of the PCs, equipped them solely with Linux.<sup>171</sup> Moreover, governments of developing countries that purchase applications will prefer to buy from local software developers that use open source code rather than sending money out of the country to Microsoft.<sup>172</sup> Competition in a market where Microsoft is less dominant may yield results very different than those observed in the United States.

Even in markets more saturated with Microsoft products, governments are willing to abandon Windows in search of lower costs. In May 2003, the City of Munich, Germany, switched 14,000 desktop machines used by city workers to GNU/Linux, citing cost concerns and a desire for freedom from reliance on a single provider.<sup>173</sup> The City of Austin, Texas, is testing GNU/Linux as well as OpenOffice, an open source competitor of Microsoft Office, for similar reasons.<sup>174</sup> Interoperability likely becomes less significant when an entire organization converts, as most file exchange and networking is probably internal. The U.K. National Health Service (NHS), one of Microsoft's largest U.K. clients, has made a deal with Oracle for its nationwide database on a "country wide," rather than per-user agreement, resulting in significant projected savings over the ten-year license term.<sup>175</sup> The NHS used the Oracle deal to pressure Microsoft to offer a similar "enterprise wide" licensing arrangement for its operating system and applica-

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170. Craig S. Smith, *China Moves To Cut Power Of Microsoft*, N.Y. TIMES, July 8, 2000, at A1.

171. David Becker, *Governments Vote Against Microsoft*, CNET NEWS.COM, Jan. 22, 2004, at [http://news.com.com/2100-7344\\_3-5145332.html?tag=mainstry](http://news.com.com/2100-7344_3-5145332.html?tag=mainstry).

172. *Id.*

173. Stephen Shankland, *Munich Breaks with Windows for Linux*, CNET NEWS.COM, May 28, 2003, at [http://news.com.com/2100-1016\\_3-1010740.html?tag=bpplst](http://news.com.com/2100-1016_3-1010740.html?tag=bpplst).

174. Shankland, *supra* note 168.

175. Nicholas Timmins, *NHS Database Deal Puts Pressure on Microsoft to Cut Prices*, FINANCIAL TIMES, Jan. 27, 2004, at 4.

tions.<sup>176</sup> The NHS is already considering switching its computers to GNU/Linux, and using Sun's StarOffice, because its users do not need the wealth of features that come with Microsoft's applications, along with a higher price.<sup>177</sup> It remains to be seen whether the business world, the core of Microsoft's customer base, will follow suit. A shift in the platform standard to GNU/Linux would deflate the market power Microsoft enjoys due to network externalities that enhance the demand for Windows. If consumers are no longer compelled by interoperability concerns to purchase Windows, the operating system will have to compete based on price and quality, which, ultimately, is the goal of antitrust enforcement.

#### IV. CONCLUSION

Nearly all of the Microsoft antitrust litigation has run its course, and in the process has demonstrated that traditional antitrust litigation is too slow and myopic (focused on past harms) to deal with antitrust violations in high-technology industries. As a result, the consent decree and international cooperation have emerged as methods for achieving more rapid, yet more lasting and pervasive remedies. The next round of doctrinal development will center on how to best implement the regulatory consent decree to monitor industries that move too quickly for traditional enforcement mechanisms. In addition, international high-technology antitrust cooperation must develop more fully to bridge present differences between the American and European approaches that can produce anomalous results. As technology shifts away from the present platform software approach, these tools for maintaining robust competition will spare the government the need to interfere early in the standardization process in the effort to ensure that the best new product wins.

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176. *Id.*

177. *Id.*

## IN RE CARDIZEM & VALLEY DRUG CO.: THE HATCH-WAXMAN ACT, ANTICOMPETITIVE ACTIONS, AND REGULATORY REFORM

*By Larissa Burford*

Congress has struggled to establish the proper equilibrium between maintaining appropriate incentives for the development of new drug products and controlling the escalating cost of pharmaceutical products.<sup>1</sup> In 1984, Congress attempted to balance these goals by enacting the Hatch-Waxman Act (the “Act”).<sup>2</sup> The Act established a regulatory framework that streamlines the procedures for bringing generic drug products to the market while compensating “pioneer” companies for enduring the lengthy drug approval process.<sup>3</sup>

While the Hatch-Waxman Act increased generic drug entry, it has also been vulnerable to abuse.<sup>4</sup> Moreover, although the Act alleviated high drug costs for products reaching the end of their patent terms, it also created incentives for anticompetitive behavior.<sup>5</sup> It became increasingly apparent that some of the original Hatch-Waxman Act provisions could be manipulated to achieve unintended market control, and that loopholes in the Act created perverse incentives for collusive agreements. Pioneer drug manufacturers could abuse the original Act by filing inconsequential patents just before their original patents expired in order to prevent competition from generics. Pioneer manufacturers also frequently entered into competition-stifling agreements, paying the first generic manufacturer to

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1. See *Competition in the Pharmaceutical Industry: Findings and Recommendation in the July 2002 FTC Study of Generic Drug Entry Prior to Patent Expiration: Hearing Before the Senate Comm. on the Judiciary*, 108th Cong. (June 17, 2003) [hereinafter *2003 Hearings*] (statement of Timothy J. Muris, Chairman, FTC), <http://www.ftc.gov/os/2003/06/030617pharmtestimony.htm>.

2. Drug Price Competition & Patent Term Restoration Act of 1984, Pub. L. No. 98-417, 98 Stat. 1585 (codified in scattered sections of 15, 21, 28, and 35 U.S.C.). This Act is typically referred to as the Hatch-Waxman Act because of the congressional sponsors, Senator Orrin Hatch and Representative Henry Waxman.

3. See FED. TRADE COMM’N, *GENERIC DRUG ENTRY PRIOR TO PATENT EXPIRATION: AN FTC STUDY 4* (2002) [hereinafter *FTC GENERIC DRUG STUDY*], <http://www.ftc.gov/os/2002/07/genericdrugstudy.pdf>.

4. See *id.* at i-ii.

5. See *2003 Hearings*, *supra* note 1, paras. 3-4.

exploit a loophole under the Hatch-Waxman Act and effectively keep generic manufacturers off the market.

Recently, in private antitrust lawsuits, the Sixth Circuit and the Eleventh Circuit reached conflicting resolutions on similar cases involving pharmaceutical patent settlements and alleged pharmaceutical antitrust violations. The courts disagreed on whether Hatch-Waxman abuse is presumptively illegal. Private antitrust lawsuits and Federal Trade Commission (FTC) proceedings afford some means for combating potential antitrust violations stemming from Hatch-Waxman abuse and punishing anti-competitive behavior. If an alleged violation has a predictable anti-competitive effect and offers little in the way of procompetitive benefits, a court can deem the action presumptively illegal.

While courts must play an important role in enforcing antitrust regulations, anti-competitive behavior may be difficult to analyze because of the complex interplay of antitrust law, patent law, and the Hatch-Waxman provisions. Such difficulty stems from the fact that the Hatch-Waxman Act and patent law shield a certain level of anti-competitive behavior from antitrust prosecution.<sup>6</sup> While pharmaceutical patent settlements can be a valuable means of reducing the risk, costs, and burdens of litigation and clarifying intellectual property rights,<sup>7</sup> the incentives, goals and policies of antitrust law and patent protection must be balanced to find the socially optimal equilibrium that protects both competition and innovation. Therefore, the exclusionary patent rights necessary to encourage innovation must be continuously monitored to prevent unjustifiable exploitation of competition barriers. However, increasing antitrust liability and diminishing patent protection could undermine the profitability of pharmaceutical research and development.<sup>8</sup> When determining antitrust liability, private

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6. Kevin J. Arquit, *Patent-Antitrust: Dead or Alive? Patent Abuse and the Antitrust Laws*, 59 ANTITRUST L.J. 739, 740 (1990) (stating that "patents share one common attribute with economic regulation: they may allow firms to avoid the competitive process," but noting that the "Supreme Court has observed that the granting of patents 'is an exception to the general rule against monopolies and the right to access to a free and open market'").

7. David A. Balto, *Pharmaceutical Patent Settlements: The Antitrust Risks*, 55 FOOD & DRUG L.J. 321, 336-37 (2000).

8. See Sarah E. Eurek, *Hatch-Waxman Reform and Accelerated Market Entry of Generic Drugs: Is Faster Necessarily Better?*, 2003 DUKE L. & TECH. REV. 18, ¶ 24 (2003) (stating that it is important to recognize that research and development costs are extremely high and that lessening patent protection could lead to lower incentives for innovation). Eurek contends that "[c]onsumers must decide if they are willing to exchange the potential for future development of new life-saving drugs for smaller bills at the pharmacy in the short-term." *Id.*

proceedings must carefully analyze allegedly anticompetitive agreements in light of patent law and the Hatch-Waxman policy goals. Courts may not be adequately equipped to balance all of the competing policy goals. Therefore, problematic loopholes inherent in the Hatch-Waxman Act may ultimately require legislative and regulatory correction.

Recent regulatory measures may alleviate the risk of Hatch-Waxman abuse. The FTC has more aggressively pursued antitrust enforcement actions against pharmaceutical companies. In addition, the FTC studied the effects of the Hatch-Waxman Act and recommended legislative reform. Accordingly, Congress passed the Greater Access to Affordable Pharmaceuticals Act (“GAAP”) in an effort to close the loopholes of the Hatch-Waxman Act.<sup>9</sup>

While the Hatch-Waxman Act has been subject to some abuse, overall the Act has been considered remarkably successful<sup>10</sup> and is unlikely to be repealed. The Act must be vigilantly evaluated to insure a proper balance—weighing the need to spur new drug research against the need to increase the market entry of generic drugs, which help alleviate rising drug and health care costs.<sup>11</sup> Given the overall success of the Hatch-Waxman Act and the complexities of the underlying policy, courts should be reluctant to simplify private antitrust lawsuits by using a *per se* analysis for Hatch-Waxman-based settlements. Legislative reform that closes the loopholes of the Act and harmonizes the complex policy goals is a preferable way to reduce or eliminate the need for courts to evaluate private pharmaceutical antitrust cases.

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9. See *Examining the Senate and House Versions of the “Greater Access to Affordable Pharmaceuticals Act”*: Hearing Before the Senate Comm. on the Judiciary, 108th Cong. (Aug. 1, 2003) [hereinafter *Greater Access to Affordable Pharmaceuticals Act Hearing*] (statement of Timothy J. Muris, Chairman, FTC), <http://www.ftc.gov/os/2003/08/030801pharmtest.htm>.

10. 2003 *Hearings*, *supra* note 1, para. 3 (“Without question, Hatch-Waxman has increased generic drug entry. The Congressional Budget Office estimated that, by purchasing generic equivalents of brand-name drugs, consumers saved \$8-10 billion on retail purchases of prescription drugs in 1994 alone.”).

11. See generally Sheila F. Anthony, Riddles and Lessons from the Prescription Drug Wars: Antitrust Implications of Certain Types of Agreements Involving Intellectual Property, Remarks at the ABA “Antitrust & Intellectual Property: The Crossroads” Program para. 3 (June 1, 2000), <http://www.ftc.gov/speeches/anthony/sfip000601.htm> (arguing that striking a balance between the exclusionary rights necessary for innovation and those that dampen competition is an ongoing challenge).

## I. BACKGROUND

The Hatch-Waxman Act increased generic drug market entry by reducing the filing requirements for Food and Drug Administration (FDA) approval of drug products that are bioequivalent to previously approved patented drugs.<sup>12</sup> Generic drug manufacturers need only file an Abbreviated New Drug Application (“ANDA”) rather than the lengthy New Drug Application (“NDA”), which requires extensive safety and efficacy data.<sup>13</sup> The ANDA allows generic drug manufacturers to submit less extensive data by allowing the generic manufacturer to use the pioneer drug’s safety and efficiency data.<sup>14</sup> The generic manufacturer must simply demonstrate that the generic version is “bioequivalent” to the pioneer drug.<sup>15</sup>

In order to protect the patent interests of pioneer drugs and shield new drug innovation incentives, the Hatch-Waxman Act allows pioneer patent holders to obtain an automatic thirty-month stay against ANDA approval.<sup>16</sup> The Act requires a generic drug applicant to file a “paragraph IV certification” stating that “in the opinion of the applicant and to the best of his knowledge,” the generic drug does not infringe on any drug patent listed in the FDA Orange Book.<sup>17</sup> The generic applicant must also give notice to the pioneer patent holder.<sup>18</sup> The patent holder then has forty-five days to file a patent infringement action.<sup>19</sup> If an infringement action is filed, a thirty-month stay automatically goes into effect, and the FDA cannot approve any generic drug related to the pioneer patent, regardless of the merits of the infringement claim.<sup>20</sup> If the court hearing the infringement action declares the patent invalid or not infringed, the automatic thirty-month delay in the FDA approval process terminates and approval is made effective on the date of the court’s decision.<sup>21</sup> If the court finds the patent valid and infringed, the approval date for the generic drug is set for

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12. See Alfred B. Engelberg, *Special Patent Provisions for Pharmaceuticals: Have They Outlived Their Usefulness?*, 39 IDEA 389 (1999).

13. 21 U.S.C. § 355(j) (2000).

14. *Id.* § 355(j)(2)(A).

15. *Id.* § 355(j)(2)(A)(iv); FTC GENERIC DRUG STUDY, *supra* note 3, at 5. To be a bioequivalent the generic drug product must have the same active ingredient, route of administration, dosage strength, and proposed labeling as the pioneer drug. 21 U.S.C. § 355(j)(2)(A)(iv).

16. FTC GENERIC DRUG STUDY, *supra* note 3, at 39.

17. *Id.* § 355(j)(2)(A)(vii). The FDA publishes drug information and patent information in what is known as the Orange Book.

18. *Id.* § 355(j)(2)(B).

19. *Id.* § 355(j)(5)(B)(iii).

20. *Id.* § 355(j).

21. *Id.* § 355(j)(5)(B)(iii)(I).

the date of the patent's expiration.<sup>22</sup> The court may grant the patent holder a preliminary injunction prior to the expiration of the thirty-month stay, thereby extending the delay in FDA approval until the court holds the patent invalid or not infringed.<sup>23</sup> Finally, in order to compensate the generic manufacturer for the thirty-month stay, the first generic drug manufacturer receives a 180-day period of exclusive marketing rights.<sup>24</sup> This 180-day period of exclusivity rewards the first generic manufacturer burdened with challenging the pioneer patent by granting the it a temporary monopoly in the generic market.

Soon after passage, it became evident that the original Hatch-Waxman Act provisions could be manipulated for the purpose of creating economic benefits exceeding those intended by Congress.<sup>25</sup> The thirty-month automatic stay provision, intended to allow patent holders to sue potential infringers before they received FDA approval, proved manipulable by pioneer companies who listed multiple, meritless patents solely for their ability to trigger the automatic stay.<sup>26</sup> The 180-day exclusivity provision was a reward created to encourage generic companies to challenge weak patents held by pioneer companies.<sup>27</sup> Nevertheless, the provision was often used to keep all generic companies from receiving FDA approval; pioneer companies often collaborated with the first generic company and paid them not to trigger the 180-day exclusivity period, thus indefinitely preventing all subsequent ANDA approval.<sup>28</sup> FTC and private antitrust violation proceedings have sought to punish pharmaceutical companies that abuse these provisions of the Hatch-Waxman Act. In addition, legislative action has attempted to close the loopholes in the Hatch-Waxman Act.<sup>29</sup>

## II. ANTITRUST LAW

In recent years, the need for antitrust enforcement in the pharmaceutical industry has increased.<sup>30</sup> Antitrust evaluation of patent settlements—identification of antitrust risks and potentially offsetting efficiency bene-

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22. *Id.* § 355(j)(5)(B)(iii)(II).

23. *Id.* § 355(j)(5)(B)(iii)(III).

24. *Id.* § 335(j)(5)(B)(iv).

25. See FTC GENERIC DRUG STUDY, *supra* note 3, at i-xi (summarizing the effects of the Hatch-Waxman Act provisions on pharmaceutical companies' behavior).

26. See *id.*

27. See *id.*

28. *Id.* at vii.

29. See *Greater Access to Affordable Pharmaceuticals Act Hearing*, *supra* note 9, paras. 1-2.

30. Balto, *supra* note 7, at 322.

fits—is increasingly important.<sup>31</sup> The FTC regulates potential antitrust behavior and has the power to prosecute anticompetitive conduct such as collusion, monopolization, and unlawful restraint of trade.<sup>32</sup> The Federal Trade Commission Act of 1914 empowers the FTC to investigate and, where necessary, prohibit unfair methods of competition affecting commerce—thereby protecting consumers against unfair practices.<sup>33</sup> The agency issues a cease and desist letter if, after issuing a complaint, it determines the FTC Act has been violated.<sup>34</sup>

Private parties may also bring actions to enforce antitrust laws<sup>35</sup> under the Sherman Antitrust Act, which prohibits unreasonable restraints of trade.<sup>36</sup> Restraints of trade are generally analyzed under a “rule of reason” approach in which the finder of fact decides reasonableness based on a variety of factors, including specific information about the relevant business, its condition before and after the restraint was imposed, and the restraint’s history, nature, and effect.<sup>37</sup>

Courts can forego a factual rule of reason approach and declare the restraint illegal *per se* if the anticompetitive effect is “predictable and pernicious” and has “limited potential for procompetitive benefit.”<sup>38</sup> The court must believe that the practice facially appears to almost always restrict competition and decrease output, thus enabling the court “to predict with confidence that the rule of reason will condemn it.”<sup>39</sup> The *per se* label should not be assigned without careful consideration. A departure from the rule of reason standard must be based upon demonstrable economic effect rather than formalistic line drawing.<sup>40</sup>

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31. See generally Joseph F. Brodley & Maureen A. O'Rourke, *Preliminary Views: Patent Settlement Agreements*, 16 ANTITRUST 53 (2002).

32. Balto, *supra* note 7, at 323.

33. 15 U.S.C. § 45 (2000).

34. *Id.* § 45(b).

35. *Id.* § 15. The FTC may bring specific charges against agreements found to be of an anticompetitive nature based on Section 5 of the FTC Act which states that “unfair methods of competition in or affecting commerce, and unfair or deceptive acts or practices in or affecting commerce, are hereby declared unlawful” and that “the Commission is hereby empowered and directed to prevent” such actions. *Id.* § 45(a).

36. *Id.* § 1.

37. *Arizona v. Maricopa County Med. Soc’y*, 457 U.S. 332, 343 & n.13 (1982) (quoting *Chicago Bd. of Trade v. United States*, 246 U.S. 231, 238 (1918)).

38. *State Oil Co. v. Khan*, 522 U.S. 3, 10 (1997).

39. *Maricopa*, 457 U.S. at 344.

40. *Id.* at 364-67 (Powell, J., dissenting).

### III. RECENT PRIVATE PHARMACEUTICAL PATENT ANTITRUST CASES

In cases with similar facts, the Sixth Circuit and the Eleventh Circuit have ruled differently on issues of alleged pharmaceutical antitrust violations. In *Valley Drug Co. v. Geneva Pharmaceuticals*,<sup>41</sup> the Eleventh Circuit split with the Sixth Circuit's holding in *In re Cardizem CD Antitrust Litigation*.<sup>42</sup> The Eleventh Circuit disagreed with the Sixth Circuit's rule that an agreement between a pioneer manufacturer and a generic company (to delay marketing until resolution of the patent infringement case in exchange for exit payments) was a classical restraint of trade and *per se* illegal.<sup>43</sup> The Eleventh Circuit rejected the presumptive illegality of the settlement, stating that the "potential exclusionary power of the patent" in relation to the exclusionary power of the agreement must be considered.<sup>44</sup>

#### A. *In re Cardizem CD Antitrust Litigation*

*Cardizem* focused on the allegedly anticompetitive nature of a contract between Hoescht Maison Roussel, Inc. ("HMR") and Andrx Pharmaceuticals, Inc. ("Andrx").<sup>45</sup> HMR manufactures the prescription drug Cardizem, a pioneer prescription drug used to treat angina and hypertension and to help prevent heart attacks and strokes.<sup>46</sup> HMR entered into an agreement ("Agreement") with Andrx, whereby Andrx was paid to refrain from marketing its generic version of Cardizem.<sup>47</sup> Purchasers of Cardizem ("plaintiffs") filed a complaint against HMR and Andrx claiming that the Agreement violated federal and state antitrust laws by preventing a generic version of Cardizem from entering the market, resulting in artificially high prices. The plaintiffs labeled the Agreement a horizontal restraint of trade and brought federal antitrust claims under section 1 of the Sherman Act.<sup>48</sup> The district court granted partial summary judgment to the plaintiffs on the grounds that the Agreement was a horizontal restraint of trade and therefore *per se* illegal.<sup>49</sup>

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41. 344 F.3d 1294 (11th Cir. 2003).

42. 332 F.3d 896 (6th Cir. 2003).

43. *Valley Drug*, 344 F.3d at 1311 n.26.

44. *Id.* at 1311.

45. 332 F.3d at 896.

46. *Id.* at 901.

47. *Id.*

48. *In re Cardizem CD Antitrust Litig.*, 105 F. Supp. 2d 682, 691 (E.D. Mich. 2000).

49. *Id.*

The parties did not dispute the events leading up to the Agreement.<sup>50</sup> HMR's original patent for Cardizem expired, and Andrx, the first potential generic manufacturer of Cardizem, filed an ANDA with the FDA.<sup>51</sup> Two months later, HMR obtained a new patent (the '584 patent) for a version of Cardizem with a dissolution profile that released the drug over eighteen hours.<sup>52</sup> Andrx filed a "Paragraph IV Certification" that claimed its ANDA did not infringe the '584 patent.<sup>53</sup> HMR filed a patent infringement suit against Andrx, alleging Andrx's generic infringed the new '584 patent.<sup>54</sup> Though the complaint sought neither damages nor a preliminary injunction, the infringement suit automatically triggered a thirty-month stay.<sup>55</sup> During the thirty-month stay, the FDA could not officially approve Andrx's ANDA unless the patent court ruled the patent invalid or not infringed.<sup>56</sup> The FDA tentatively approved Andrx's ANDA, indicating that final approval would be granted upon eligibility.<sup>57</sup>

Just nine days after the FDA announced tentative approval, HMR and Andrx entered into the Agreement.<sup>58</sup> The Agreement required HMR to pay Andrx \$40 million each year that Andrx did not enter the market after the thirty-month stay.<sup>59</sup> In addition, Andrx agreed to not resolve the underlying patent dispute, which would have terminated the thirty-month stay.<sup>60</sup> Andrx was required to dismiss its antitrust and unfair competition counterclaims against HMR, to diligently prosecute its ANDA, and to not relinquish or compromise its 180-day period of exclusivity.<sup>61</sup> Under the Agreement, Andrx could only market the generic version of Cardizem in the United States if (1) Andrx obtained a favorable, final court ruling in the patent infringement case; (2) HMR and Andrx entered into a licensing agreement; or (3) HMR entered into a license agreement with a third party.<sup>62</sup>

The Sixth Circuit found the Agreement a horizontal restraint of trade eliminating competition in the market for Cardizem throughout the entire

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50. *Cardizem*, 332 F.3d at 901.

51. *Id.* at 902.

52. *Id.*

53. *Id.*

54. *Id.*

55. *Id.*

56. *Id.*

57. *Id.*

58. *Id.*

59. *Id.*

60. *Id.*

61. *Id.*

62. *Id.*

United States, and thus presumptively illegal.<sup>63</sup> Moreover, the court found the Agreement, by preventing the end of the underlying patent litigation, effectively precluded or seriously delayed the patent court decision, which would have ended the thirty-month stay.<sup>64</sup> In addition, payments to prevent the marketing of the generic drug deferred the trigger of the 180-day exclusive period.<sup>65</sup> Utilizing provisions of the Hatch-Waxman Act, the Agreement effectively kept future third-party filers from entering the generic market.<sup>66</sup> The Sixth Circuit found that the Agreement could not “be fairly characterized as merely an attempt to enforce patent rights or an interim settlement of the patent litigation.”<sup>67</sup> Rather, the defendants sought to “bolster the patent’s effectiveness” at inhibiting competition.<sup>68</sup> The Sixth Circuit declared that “the virtue/vice of the *per se* rule is that it allows courts to presume that certain behaviors as a class are anticompetitive without expending judicial resources to evaluate the actual anticompetitive effects or procompetitive justification in a particular case” and therefore “once it is decided that a restraint is subject to *per se* analysis, the claimed lack of any actual anticompetitive effects or presence of procompetitive effects is irrelevant.”<sup>69</sup> The Sixth Circuit found presumptive illegality because the exclusion payment was a classical example of a horizontal agreement to eliminate competition.<sup>70</sup> Therefore, the court concluded, the motion for summary judgment was properly granted because the defendants committed a *per se* violation of the antitrust laws.<sup>71</sup>

## B. *Valley Drug Co. v. Geneva Pharmaceuticals*

Valley Drug Co. sued Abbott Laboratories (“Abbott”), Geneva Pharmaceuticals (“Geneva”), and Zenith Goldline Pharmaceuticals (“Zenith”), alleging restraint of trade in violation of section 1 of the Sherman Antitrust Act.<sup>72</sup> Abbott manufactures terazosin hydrochloride and markets it under the name Hytrin.<sup>73</sup> Hytrin is a pioneer prescription drug used for the treatment of hypertension and enlarged prostate.<sup>74</sup> Abbott entered into separate

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63. *Id.* at 908.

64. *Id.* at 908 n.12.

65. *Id.*

66. HERBERT HOVENKAMP ET AL., IP AND ANTITRUST: AN ANALYSIS OF ANTITRUST PRINCIPLES APPLIED TO INTELLECTUAL PROPERTY LAW § 33.9 (Supp. 2003).

67. *Cardizem*, 332 F.3d at 908.

68. *Id.*

69. *Id.* at 909.

70. *Id.*

71. *Id.* at 915.

72. *Valley Drug Co. v. Geneva Pharms.*, 344 F.3d 1294, 1294 (11th Cir. 2003).

73. *Id.*

74. *Id.* at 1298.

agreements ("Agreements") with generic manufacturers Zenith and Geneva.<sup>75</sup> The Agreements were signed while the parties were engaged in patent litigation and the generics were pursuing FDA approval.<sup>76</sup> An interesting twist on this case is that Abbott mistakenly failed to file an infringement suit based on the Geneva's submission of the capsule ANDA, and the FDA subsequently approved Geneva's capsule form of terazosin hydrochloride.<sup>77</sup> The district court hearing the case held that the Agreements were *per se* violations of section 1 of the Sherman Act and granted summary judgment for the plaintiffs.<sup>78</sup>

Geneva and Zenith agreed not to sell or distribute either the capsule or tablet version of terazosin hydrochloride until a third party introduced a generic product or Abbott's patent expired.<sup>79</sup> In exchange, Abbott agreed to pay Zenith an initial \$3 million, then \$3 million after 3 months, and \$6 million every three months thereafter.<sup>80</sup> Abbott also agreed to pay Geneva \$4.5 million each month.<sup>81</sup> The generic companies agreed to retain their ANDA rights, including the 180-day period of exclusive marketing, and to refrain from aiding any other person in opposing or invalidating any of Abbott's terazosin patents.<sup>82</sup>

The defendants appealed the district court's conclusion that the Agreements were *per se* violations.<sup>83</sup> The appellants argued that the rule of reason analysis should be used because (1) courts lacked sufficient experience with the kind of agreements at issue to find liability under a *per se* analysis; (2) there were procompetitive justifications requiring a full rule of reason analysis; and (3) all patent settlements must be analyzed under the rule of reason.

The Eleventh Circuit agreed with the defendants and reversed the grant of summary judgment, concluding that because a patent dispute was central to the case, a *per se* characterization was "premature without further analysis."<sup>84</sup> The court emphasized that a patent grants its owner the lawful

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75. *Id.*

76. *Id.* at 1296.

77. *Id.*

78. *Id.* at 1299.

79. *Id.*

80. *Id.*

81. *Id.*

82. *Id.* at 1300. If another generic manufacturer introduced a terazosin hydrochloride drug and obtained a 180-day exclusivity period, Abbott's payments would be halved until the period expired. *Id.* Abbott also agreed not to sue Zenith for infringement if it entered the market consistent with the Agreements. *Id.* at 1299.

83. *Id.* at 1303.

84. *Id.* at 1304.

right to exclude others, and therefore a “patentee’s allocation of territories is not always the kind of territorial market allocation that triggers antitrust liability.”<sup>85</sup> The court specified that “when patents are involved . . . the exclusionary effect of the patent must be considered before making any determination as to whether the alleged restraint is *per se* illegal.”<sup>86</sup> The court went on to find that the Agreements appeared to be no broader than the potential exclusionary power of the patents, and that the subsequent invalidity of the patent did not render the patent irrelevant.<sup>87</sup>

The court also indicated that the exclusionary payments under the settlement did not necessarily demonstrate that the patent was invalid or that the Agreements had anticompetitive effects beyond those lawfully granted under the patent.<sup>88</sup> The Eleventh Circuit declared that payments themselves do not imply that an infringement suit lacks merit.<sup>89</sup> Other factors that must be weighed are lost profits from generic competition or profits from entry, the risk of the defendants’ inability to satisfy judgment, and the litigation costs each side expected to save from a settlement.<sup>90</sup> Explicitly disagreeing with the Sixth Circuit, the Eleventh Circuit determined that “antitrust analysis cannot ignore the scope of the patent exclusion” and that payment from the patentee to the alleged infringer should not be automatically condemned under antitrust law because “patent laws and the coverage of the antitrust laws are not separate issues.”<sup>91</sup>

#### IV. ANALYSIS

The Sixth and the Eleventh Circuit Courts of Appeal came to contradictory conclusions on cases involving similar facts—patent settlement agreements with exclusionary payments by the pioneer drug manufacturer to the generic drug company made in exchange for the generic’s delayed entry into the market. The Sixth Circuit affirmed the presumptive illegality of the exclusion payment, characterizing it as a horizontal agreement to eliminate competition. The Eleventh Circuit explicitly disagreed with the Sixth Circuit, asserting that an agreement is not presumptively invalid if it involves an exclusionary payment because the “antitrust implications of . . . exclusionary effects requires an analysis of the effects of antitrust li-

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85. *Id.* at 1305.

86. *Id.* at 1306 (quoting *In re Ciprofloxacin Hydrochloride Antitrust Litig.*, 261 F. Supp. 2d 188, 249 (E.D.N.Y. 2003)).

87. *Id.* at 1307.

88. *Id.* at 1309-10.

89. *Id.*

90. *Id.*

91. *Id.* at 1310.

ability on the innovation and disclosure incentives created by the patent regime.”<sup>92</sup>

The Eleventh Circuit correctly ruled that *per se* analysis was inappropriate. Antitrust issues have become increasingly complex in patent antitrust cases,<sup>93</sup> and particularly with respect to exclusion payments. *Per se* analysis may save litigation expenses, but the method may over-simplify antitrust injury. The economic incentives to settle patent cases are well-documented.<sup>94</sup> A legal regime prohibiting such settlements imposes substantial direct costs on the court system and the taxpayers who fund it.<sup>95</sup> Direct, comprehensive, and well-rounded legislative reform of the Hatch-Waxman Act should be pursued to correct the root of the problem.

In *Cardizem*, the Sixth Circuit placed emphasis on the exclusionary aspect of the agreement.<sup>96</sup> The FTC has voiced concerns about exclusionary payments, sometimes called “exit payments” or “payments with wrong way directional flow.”<sup>97</sup> The concern regarding these payments is that the pioneer manufacturer pays the generic manufacturer to stay off the market, thus restricting competition.<sup>98</sup> An exit payment to the alleged infringer by the patentee “is designed to keep the alleged infringer off the market” but is “not necessarily determinative of whether prohibiting the practice is socially optimal.”<sup>99</sup> While consumers benefit from generic drugs, “merely focusing on the social benefits of competition after the creation of the patented item ignores the very foundation of the patent system—the expected monopoly rents that provide the *ex ante* incentives to engage in inventive

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92. *Id.* at 1311.

93. See Joseph Scott Miller, *This Bitter Has Some Sweet: Potential Antitrust Enforcement Benefits from Patent Law's Procedural Rules*, 70 ANTITRUST L.J. 875, ¶¶ 1-2 (2003).

94. See Daniel A. Crane, *Exit Payments in Settlement of Patent Infringement Lawsuits: Antitrust Rules and Economic Implications*, 54 FLA. L. REV. 747 (2002).

95. See *id.*

96. *In re Cardizem CD Antitrust Litig.*, 332 F.3d 896, 908 (6th Cir. 2003) (stating that “it is one thing to take advantage of a monopoly that naturally arises from a patent, but another thing altogether to bolster the patent’s effectiveness in inhibiting competitors by paying the only potential competitor \$40 million per year to stay out of the market”).

97. *Generic Pharmaceuticals: Marketplace Access and Consumer Issues: Hearing Before the Senate Comm. on Commerce, Sci., and Transp.*, 108th Cong. paras. 16-21 (Apr. 23, 2002) [hereinafter *2002 Hearings*] (statement of Timothy J. Muris, Chairman, FTC), <http://www.ftc.gov/os/2002/04/pharmtestimony.htm>.

98. See Herbert Hovenkamp et al., *Anticompetitive Settlement of Intellectual Property Disputes*, 87 MINN. L. REV. 1719, 1757 (2003) [hereinafter Hovenkamp et al. 2003] (arguing that “[e]xclusion payments were not common in patent infringement litigation prior to the passage of the Hatch-Waxman amendments”).

99. Crane, *supra* note 94, at 771.

activity.”<sup>100</sup> Determining what is socially optimal is a practice best left to the legislature.

In a forthcoming article, Hovenkamp, Janis, and Lemley argue that the rule of presumptive illegality is ultimately socially optimal because it decreases litigation costs as compared to the rule of reason approach.<sup>101</sup> It has also been argued, however, that balancing the effects of antitrust liability on the innovation and disclosure incentives created by the patent regime may require in-depth analysis that extends beyond simply looking at the directional flow of the payments.<sup>102</sup> Therefore, cases should not be condemned as *per se* illegal, but should be assessed under a rule of reason if there are plausible efficiency reasons for such agreements, particularly in the context of the Hatch-Waxman Act.<sup>103</sup> While the Hatch-Waxman Act may have created incentives for anticompetitive behavior, an agreement should not be considered a *per se* violation simply because it involves the Hatch-Waxman provisions.

The rule of reason analysis may not be required, and a *per se* illegality can be used, depending on the size of the exit payment. Some dispute exists as to what size of exit payment should be considered too high. While some believe the size of the payment should be “no more than the expected value of litigation and collateral costs attending the lawsuit,”<sup>104</sup> others believe a litigation expense ceiling is “unnecessarily narrow.”<sup>105</sup> Still others have argued that inclusion of the “collateral costs” presents too many uncertainties and therefore payments should be limited solely to the litigation costs.<sup>106</sup> Although exit payments can achieve efficiencies in reducing litigation expenses,<sup>107</sup> large exclusion payments often entail market power of a degree likely to stifle free competition.<sup>108</sup> Exit payment settle-

100. *Id.*

101. Herbert Hovenkamp et al., *Balancing Ease and Accuracy in Assessing Pharmaceutical Exclusion Payments*, 88 MINN. L. REV. (forthcoming 2004) [hereinafter Hovenkamp et al. 2004].

102. *Valley Drug Co. v. Geneva Pharms.*, 344 F.3d 1294, 1311 (11th Cir. 2003).

103. See James Langenfeld & Wenqing Li, *Intellectual Property and Agreements to Settle Patent Disputes: The Case of Settlement Agreements with Payments from Branded to Generic Drug Manufacturers*, 70 ANTITRUST L.J. 777 (2003).

104. Hovenkamp et al. 2003, *supra* note 98, at 1759.

105. Thomas F. Cotter, *Refining the “Presumptive Illegality” Approach to Settlements of Patent Disputes Involving Reverse Payments: a Commentary on Hovenkamp, Janis & Lemley*, 87 MINN. L. REV. 1789, 1802 (2003).

106. Maureen A. O’Rourke & Joseph F. Brodley, *An Incentives Approach to Patent Settlements: a Commentary on Hovenkamp, Janis & Lemley*, 87 MINN. L. REV. 1789, 1782 (2003).

107. See Brodley & O’Rourke, *supra* note 31, 53.

108. Hovenkamp et al. 2003, *supra* note 98, at 1757.

ments should be allowed when the likelihood of success of the patentee's infringement suit is high and payment is not excessive.<sup>109</sup> While the size of an exit payment may eliminate the need for the rule of reason analysis, many courts, like the Eleventh Circuit, may not feel comfortable making this determination because of the complex economic implications and competing social policies.

In *Cardizem*, a portion of the Andrx agreement was *per se* unlawful even in the absence of a patent dispute.<sup>110</sup> Even so, the Sixth Circuit did not articulate this point to justify its *per se* approach and did not differentiate between provisions that fell within the scope of the patent's protection and those that did not. Furthermore, a provision of an agreement which may be *per se* unlawful in isolation may not be enough, when part of a larger agreement, to make the whole agreement unlawful. In *Valley Drug*, for example, the Geneva Agreement provision that prevented Geneva from manufacturing its capsule form of the drug, if viewed in isolation, would be an obvious *per se* illegal restraint of trade. Abbott failed to file an infringement suit for the capsule form, and thus had no intellectual property claim; this gave Geneva an undisputed legal right to market the drug. The Eleventh Circuit did not directly address this capsule issue, but stated that "it may also be helpful to identify with specificity which provisions or combinations of provisions are illegal" while cautioning that these provisions should not be viewed in isolation.<sup>111</sup> Instead, the Eleventh Circuit contends that such an agreement should be legal when it "will have the overall effect of enhancing competition," even if parts of it restrain trade.<sup>112</sup>

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109. See Carl Shapiro, *Antitrust Limits to Patent Settlements*, 34 RAND J. ECON. 391 (2003).

110. Hovenkamp et al. 2003, *supra* note 98, at 1765. Hovenkamp et al. further explained that:

The settlement agreement also "restrained Andrx from marketing other bioequivalent or generic versions of Cardizem CD which were not at issue in the pending . . . patent case." While the language of this opinion is a little opaque, if it meant that Andrx promised not to sell products that Cardizem did not claim in its patent to begin with, then that portion of the agreement was *per se* unlawful notwithstanding a patent dispute. The agreement was a naked horizontal market division agreement, and the only justification for such agreements is that market division such as territorial and field-of-use restrictions are lawful when they are contained in patent licenses.

*Id.*

111. *Valley Drug Co. v. Geneva Pharms.*, 344 F.3d 1294, 1313 & n.31 (11th Cir. 2003).

112. *Id.*

Viewing the specific provisions of the agreement, however, may not be necessary. There has been some debate about using antitrust law and the rule of reason method to solve intellectual property disputes. It has been argued that rule of reason analysis is appropriate because it has the ability to take into account information assessing the validity of the patent, which is important because a valid patent holder is given a right to preclude competition.<sup>113</sup> Using the *per se* analysis for exit payments might therefore limit the patent holder's ability to protect its intellectual property rights.<sup>114</sup> However, this argument has been attacked on the grounds that an antitrust inquiry cannot help with intellectual property issues such as the "likely validity and scope of the claimed IP rights, and the reasonableness of the settlement as one among many outcomes of the IP dispute."<sup>115</sup> Therefore, an agreement that is pro-competitive only if the patent is valid and is being infringed does not need any detailed rule of reason antitrust analysis because the antitrust issue depends solely on an intellectual property analysis of the patent. Granted, some Hatch-Waxman agreements may only depend on an intellectual property analysis. Overall, however, the Act sets out a regulatory framework meant to balance competing antitrust and patent policies in order to promote drug innovation while controlling the cost of pharmaceutical drug products. Therefore, when these concerns are in fact far from balanced, pharmaceutical companies repeatedly create agreements that abuse the provisions of the Act, fine-tuning the doctrine through the courts is unwise. Legislative action is necessary to reestablish the proper equilibrium.

## V. REGULATORY REACTIONS

In order to regulate Hatch-Waxman abuse, the FTC has pursued numerous antitrust enforcement actions, studied generic drug entry prior to patent expiration, and recommended legislative reform. Embracing the FTC recommendations, the GAAP reforms (1) the thirty-month stay provision, (2) the FDA Orange Book listing procedures, and (3) the 180-day exclusivity provision of the Hatch-Waxman Act. While these regulatory reactions will undoubtedly correct some perverse incentives of the Act, the enormous financial incentive to find and exploit the Act's loopholes necessitates continuous monitoring and reform of abused provisions.

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113. See Kevin D. McDonald, *Hatch-Waxman Patent Settlements and Antitrust: On "Probabilistic" Patent Rights and False Positives*, 17 ANTITRUST 68 (2003).

114. See Langenfeld & Li, *supra* note 103, 786.

115. Hovenkamp et al. 2003, *supra* note 98, at 1725.

## A. Federal Trade Commission Enforcement

The FTC has pursued numerous antitrust enforcement actions against both pioneer and generic drug manufacturers.<sup>116</sup> The first generation of FTC litigation focused on potentially collusive settlements between brand name and generic manufacturers.<sup>117</sup> The FTC focused on agreements that provided for reverse payments, restricted the generic's ability to enter with noninfringing products, or restricted the generic's ability to assign or waive its 180-day marketing exclusivity rights.<sup>118</sup> The two leading cases in this generation of litigation, *Abbott/Geneva* and *Hoechst/Andrx*, were each resolved by consent orders.<sup>119</sup>

The second generation of FTC litigation targeted improper Orange Book listings.<sup>120</sup> The FTC's first enforcement action to remedy an allegedly improper and anticompetitive Orange Book listing was initiated in 2002, when it issued a consent order against Biovail Corporation.<sup>121</sup> Finally, the FTC has focused on settlements between generic manufacturers.<sup>122</sup> The FTC's consent order against Biovail Corporation and Elan Corporation required them to terminate their agreement not to compete in the generic market and barred them from engaging in similar conduct in the future.<sup>123</sup>

### 1. *Bristol-Meyers Squibb*

The most recent FTC action concerning Hatch-Waxman abuse involved Bristol-Meyers Squibb. The FTC filed a complaint against Bristol for (1) paying a generic competitor millions of dollars to refrain from marketing its generic drug until the brand-name patent expired, and requiring the generic company to abandon its patent challenge;<sup>124</sup> (2) misleading the FDA about the scope, validity, and enforceability of its patents;<sup>125</sup> (3) abusing FDA regulations to block generic entry and thereby breaching its

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116. See 2003 Hearings, *supra* note 1.

117. See 2002 Hearings, *supra* note 97, paras. 16-21.

118. See *id.*

119. 2003 Hearings, *supra* note 1, para. 17. For more information about recent examples of objectionable settlements, see Janet A. Gongola, *Prescriptions for Change: The Hatch-Waxman Act and New Legislation to Increase the Availability of Generic Drugs to Consumers*, 36 IND. L. REV. 787 (2003).

120. 2002 Hearings, *supra* note 97, paras. 22-37.

121. 2003 Hearings, *supra* note 1, paras. 26-30.

122. 2002 Hearings, *supra* note 97, paras. 38-41.

123. 2003 Hearings, *supra* note 1, paras. 32.

124. This charge is representative of the first generation of Hatch-Waxman Act charges.

125. This claim is a form of the second generation of FTC litigation.

duty of candor and good faith before the Patent and Trademark Office (PTO); and (4) filing an objectively baseless patent infringement lawsuit in federal court.<sup>126</sup> The FTC alleged a decade-long pattern of anticompetitive acts by Bristol to obstruct the entry of generic competition for two anti-cancer drugs, Taxol and Platinol, and the anti-anxiety agent BuSpar, allegedly protecting nearly \$2 billion in annual sales.<sup>127</sup> Bristol settled charges with the FTC, which issued a consent order barring Bristol from obtaining a thirty-month stay on later listed patents and from engaging in inequitable conduct before the PTO or the FDA.<sup>128</sup>

## B. Legislative Reform

The combination of private law suits and regulatory action has been insufficient to curb Hatch-Waxman abuse. It became apparent that provisions of the Act needed to be reformed because they inadvertently created opportunities for market control and collusive agreements. The Act created enormous financial incentives to engage in anticompetitive behavior. Loopholes allowed pharmaceutical companies to exploit the automatic thirty-month stay, the unchallengeable Orange Book listing, and the 180-day period of exclusivity.<sup>129</sup> The Senate and House both recently passed versions of GAAP, which reforms the Hatch-Waxman generic drug approval process.<sup>130</sup> These reforms are nearly identical to the recommendations that the FTC developed after intensive study of the Hatch-Waxman Act.<sup>131</sup> The GAAP will help reduce Hatch-Waxman abuse.

### 1. *Thirty-Month Stay and FDA Orange Book Listing*

The problem with the thirty-month stay stems from the fact that the FDA does not regulate the listing of patents in the Orange Book.<sup>132</sup> The FDA assumed that patent holders would list patents in good faith, and so did not review patents presented for listing in the Orange Book to determine whether they do, in fact, claim the drug product described in the

126. Complaint, *In re Bristol-Myers Squibb Co.*, FTC Dkt. No. C-4076 (Apr. 14, 2003).

127. 2003 Hearings, *supra* note 1, para. 29.

128. *In re Bristol-Myers Squibb Co.*, 68 Fed. Reg. 12,080 (Fed. Trade Comm'n Mar. 13, 2003) (proposed consent order).

129. Julia Rosenthal, Note, *Hatch-Waxman Use or Abuse? Collusive Settlements Between Brand-Name and Generic Drug Manufacturers*, 17 BERKELEY TECH. L.J. 317, 334 (2002).

130. *Greater Access to Affordable Pharmaceuticals Act Hearing*, *supra* note 9, para. 2.

131. *Id.*

132. See FTC DRUG ENTRY STUDY, *supra* note 3.

relevant NDA.<sup>133</sup> In fact, after a generic filed an ANDA, pioneer companies could list additional patents in the Orange Book and then file an infringement suit.<sup>134</sup> In *Cardizem*, for example, HMR listed the '584 patent after Andrx filed its ANDA and *then* filed an infringement suit.<sup>135</sup> The pioneer manufacturer could list patents at any time and then file an infringement suit to trigger an automatic thirty-month stay. Since the FDA cannot approve any ANDA during the thirty-month stay, the pioneer manufacturer prevented any generics from entering the market and competing against them for thirty months.

Furthermore, the automatic thirty-month stay provision created an incentive to list every patent related to a drug product and permitted a patent owner to prevent competition irrespective of the patent merits and without any significant penalty for a wrongful assertion.<sup>136</sup> For example, in *Valley Drug*, Abbott was granted multiple automatic thirty-month stays preventing generic competition on a patent later determined to be invalid. This ability to extend market exclusivity by simply listing a patent in the Orange Book encouraged pioneer drug companies to look for, attain, and list a variety of patents of little merit except for their ability to delay legitimate competition.<sup>137</sup> Improper listing of patents in the FDA's Orange Book enabled anticompetitive outcomes because companies holding weak or invalid patents could automatically trigger the thirty-month stay of ANDA approval, delaying generic entry into the market.<sup>138</sup>

The FTC recommended that only one thirty-month stay be permitted per drug per ANDA.<sup>139</sup> On June 12, 2003, new FDA regulations, effective August 19, 2003, were announced that limit drug companies to only one

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133. 2003 Hearings, *supra* note 1, paras. 12-13, 18, 26-30.

134. Comments of the Fed. Trade Comm'n, In the Matter of Applications for FDA Approval to Market a New Drug; Patent Listing Requirements and Application of 30-Month Stays on Approval of Abbreviated New Drug Applications Certifying that a Patent Claiming a Drug is Invalid or Will Not Be Infringed, FDA Dkt. No. 02N-0417 (Dec. 23, 2002), <http://www.ftc.gov/be/v030002.pdf>.

135. *In re Cardizem CD Antitrust Litig.*, 332 F.3d 896, 902 (6th Cir. 2003).

136. Engelberg, *supra* note 12 (“[T]he automatic thirty-month injunction inadvertently created a powerful incentive for the holder of an NDA to list any and every patent related to a drug product irrespective of whether such patent was a significant barrier to legitimate competition.”).

137. *Id.*

138. Thomas B. Leary, Antitrust Issues in Settlement of Pharmaceutical Patent Disputes, Remarks at the Sixth Annual Health Care Antitrust Forum (Nov 3, 2000), at <http://www.ftc.gov/speeches/leary/learypharma.htm>.

139. 2003 Hearings, *supra* note 1, at § D.

thirty-month stay.<sup>140</sup> Both the Senate and the House versions of GAAP were passed codifying the FDA regulations and amending the Hatch-Waxman Act to allow only one thirty-month stay per drug product, per ANDA, for patents listed in the Orange Book prior to the generic ANDA filing.<sup>141</sup> A district court decision of patent invalidity or noninfringement terminates the thirty-month stay.<sup>142</sup>

Permitting only one thirty-month stay will prevent pioneers from making consecutive patent challenges to prevent generic entry. Requiring the patent holder to have listed the patent in the Orange Book prior to the generic ANDA filing prevents actions like the one seen in *Cardizem* where HMR allegedly listed its '584 patent after Andrx filed its ANDA just to trigger the thirty-month stay. Under this new rule, pioneer pharmaceuticals will still be able to prevent competitors from marketing generic drugs, based on a patent that is listed after an ANDA, by seeking a traditional preliminary injunction.

The GAAP bill provides generic applicants with the ability to challenge incorrect patent information listed in the Orange Book.<sup>143</sup> As recommended by the FTC study, the new regulations aim to resolve the uncertainty regarding the type of patents that may be listed in the Orange Book.<sup>144</sup> If these new regulations had been in place before *Valley Drug*, Geneva, Zenith and other generic manufacturers would have been able to challenge Abbott's listing of patents in the Orange Book before Abbott had the chance to sue for infringement and trigger the automatic thirty-month stay provision.

## 2. 180-Day Exclusivity Provision

Unexpectedly, the 180-day exclusivity provision had become an obstruction to generic competition rather than an inducement to generic entry. The 180-day exclusivity period became a problem because it prohibited subsequent FDA approval of generics until the first generic applicant either entered the market or a judgment declared the challenged patent invalid or not infringed.<sup>145</sup> Therefore, there was an incentive—perverse from

140. Press Release, United States Department of Health and Human Services, HHS Revises Regulations and Procedures to Speed Access to Generic Drugs (June 12, 2003) [hereinafter HHS Press Release], <http://www.hhs.gov/news/press/2003pres/20030612.html>.

141. *Greater Access to Affordable Pharmaceuticals Act Hearing*, *supra* note 9, paras. 2-4.

142. *Id.* para. 4.

143. *Id.* paras. 5-6.

144. HHS Press Release, *supra* note 140.

145. *2003 Hearings*, *supra* note 1, § E.

the standpoint of encouraging generic drug entry—for the pioneer manufacturer to make a collusive agreement that paid the first generic to not trigger the 180-day exclusivity period. Even if the underlying patent is not enforceable, the companies have large incentives to enter into collusive settlements.<sup>146</sup> For example, in *Cardizem*, HMR paid Andrx to not trigger the 180-day exclusivity period, thereby preventing the FDA from approving any other ANDA.<sup>147</sup>

The GAAP Act addresses abuses of the 180-day exclusivity period by terminating it under certain conditions. The new 180-day provision of market exclusivity is forfeited if (1) there is a failure to market within a reasonable time period; (2) the ANDA application is withdrawn; (3) the certification is changed from a paragraph IV to a paragraph III;<sup>148</sup> (4) there is a failure to obtain tentative approval within 30 months; or (5) the generic enters into an agreement with the brand-name company or another generic applicant that the FTC or a court finds in violation of the antitrust laws.<sup>149</sup> In *Cardizem*, Andrx would have forfeited their right to the 180-day exclusivity period by failing to market the drug within the prescribed time period.

## VI. CONCLUSION

The Hatch-Waxman Act has been effective in ameliorating the high cost of prescription drugs by encouraging the entry of less expensive generic drugs.<sup>150</sup> However, pharmaceutical companies have found ways to frustrate the Congressional intentions of the Hatch-Waxman Act by entering into collusive agreements that exploit certain provisions of the Act. Accommodating both antitrust laws and patent goals is a complex process. Patent law and the Hatch-Waxman Act confer a level of market power that is protected from antitrust law. Antitrust violations, patent law, and the Hatch-Waxman provisions all intersect, making anticompetitive behavior difficult to analyze.

The incentives, goals, and policies of antitrust law and patent protection must be balanced to determine the socially optimal equilibrium between competition and innovation. The exclusionary patent rights neces-

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146. See HERBERT HOVENKAMP ET AL., *supra* note 66.

147. *In re Cardizem Antitrust Litig.*, 332 F.3d 896, 802 (6th Cir. 2003).

148. A paragraph III certification states that the patent has not expired but will expire on a particular date and the FDA may approve the ANDA on the date that the patent expires. See FTC GENERIC DRUG STUDY, *supra* note 3.

149. *Greater Access to Affordable Pharmaceuticals Act Hearing*, *supra* note 9, para. 13.

150. FTC GENERIC DRUG STUDY, *supra* note 3, at i-ii.

sary to encourage innovation must be continuously monitored to prevent unjustifiable exploitation of competition barriers. Yet, increasing antitrust risk and lessening patent protection could make it unprofitable for pharmaceutical companies to develop new drugs. The short-term consumer benefits of decreased drug prices from generic competition must be weighed against the long-term health benefits that arise from the discovery of new drugs by pharmaceutical companies. Courts and legislatures must cautiously analyze complex antitrust liability, considering the public health benefits of promoting new drug innovation by monopolistic patent protection.

The GAAP regulatory reform of the Hatch-Waxman Act may create a stable equilibrium by closing loopholes prone to abuse in the existing law without drastically weakening pioneer pharmaceutical companies' patent protection. Nevertheless, pharmaceutical antitrust violations may continue to plague courts. Pharmaceutical companies should not be allowed to manipulate the system, but punishing them for exploiting loopholes leads to complicated policy dilemmas. Courts may not be adequately equipped to balance all of the competing policy goals. Problems innate in the Hatch-Waxman Act need to be corrected at the legislative level. Hopefully, the recent legislative reform will attain the proper balance.

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## ANTITRUST

# INTERNET AND DOMAIN NAME GOVERNANCE: ANTITRUST LITIGATION AND ICANN

*By Lily Blue*

This Note examines the development of the Internet's governance structure from its rudimentary beginnings to its current complex regulation by the Internet Corporation of Assigned Names and Numbers (ICANN). The Note focuses on the difficulties facing ICANN, in particular the threat of antitrust litigation, by considering the merits of possible antitrust claims against ICANN as well as ICANN's pro-competitive justifications for its challenged practices. Ultimately, the Note concludes that how ICANN would fare under antitrust scrutiny depends largely on its ability to demonstrate that its policies serve the interests of the Internet community and do not restrict competition.

Part I of this Note briefly reviews the technologies supporting the Internet and its Domain Name System. Part II discusses the evolution of Internet governance from small, ad hoc management to complex, multi-layered governance. Part III considers the possibility that ICANN and its affiliated organizations might receive antitrust immunity in federal courts and therefore not be subject to antitrust litigation at all. Part III also examines in detail the substantive merits of the antitrust claims against ICANN while considering pro-competitive justifications that ICANN could present in defending itself against these allegations.<sup>1</sup>

Finally, Part IV concludes the Note by reviewing challenges still facing Internet governance. These challenges may, in due course, require further changes to the Internet's governance structure.

## I. OVERVIEW OF THE INTERNET AND THE DOMAIN NAME SYSTEM.

The Domain Name System (DNS) is a key element of the Internet governance system. Domain names are crucial to the livelihood of the Internet because they make Internet addresses easier to remember, thereby aiding communications and business transactions. Section A of this Part

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1. See *United States v. Microsoft*, 253 F.3d 34, 59 (D.C. Cir. 2001) (“[I]f a plaintiff successfully establishes a prima facie case under § 2 by demonstrating anticompetitive effect, then the monopolist may proffer a ‘pro-competitive justification’ for its conduct.”) (quoting *Eastman Kodak Co. v. Image Technical Servs., Inc.*, 504 U.S. 451, 483 (1992)).

briefly describes the technology involved in the DNS and the Internet. Section B discusses the structural organizations and processes involved in obtaining and using a domain name. Section C describes the different levels of domain name organization.

### A. Technology

The Internet is a web of interconnected computers sharing standardized communication protocol software.<sup>2</sup> The standardized protocols allow a computer connected to the Internet to communicate with any other connected computer. Each computer is assigned a unique network address, a virtual location in cyberspace defined by an Internet protocol (IP) number.<sup>3</sup> IP addresses are used to route information from one computer to another, and the IP itself forms the basis for more reliable, higher-level protocols.<sup>4</sup>

Because IP numbers are long, arbitrary, and nearly impossible to remember, Internet developers created the DNS, a database that replaces each IP number with alphanumeric codes called domain names.<sup>5</sup> When an Internet user enters a domain name into a web browser, a computer database called a Domain Name Server translates the name into its corresponding IP number.

### B. The Domain Name System and Its Regulating Bodies

The current DNS has a hierarchical structure.<sup>6</sup> For example, *www.berkeley.edu* is a domain name comprised of a series of alphanumeric codes representing each domain level separated by periods.<sup>7</sup> Within

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2. See *Reno v. Am. Civil Liberties Union*, 521 U.S. 844, 849-50 (1997); see also 47 U.S.C. § 230(f) (2000) (defining the Internet as “the international computer network of both Federal and non-Federal interoperable packet switched data networks”).

3. See *Reno*, 521 U.S. at 844; see also ICANN, Glossary of Terms and Abbreviations, at <http://www.icann.org/general/glossary.htm> (last visited Mar. 8, 2004) (defining “Internet protocol”).

4. Ryan Owens, Note, *Domain-Name Resolution After Sallen v. Corinthians Licenciamentos & Barcelona.com, Inc. v. Excelentísimo Ayuntamiento de Barcelona*, 18 BERKELEY TECH. L.J. 257, 259 (2003).

5. *Id.*; see also 15 U.S.C. § 1127 (2000) (defining domain names as “any alphanumeric designation which is registered with or assigned by any domain name registrar, domain name registry, or other domain name registration authority as part of an electronic address on the Internet”).

6. *Name.Space v. Network Solutions, Inc.*, 202 F.3d 573, 577 (2d Cir. 2002); see also ICANN, *Top-Level Domains*, at <http://www.icann.org/tlds> (last visited Nov. 25, 2003) [hereinafter ICANN, *Top-Level Domains*] (describing the tree-like hierarchy of the DNS).

7. See generally *Name.Space*, 202 F.3d at 573.

each domain name, the field to the far right is called the Top Level Domain (“TLD”), the next field to the left is called the Second Level Domain (“SLD”), and so on.<sup>8</sup> The TLDs, like *.edu*, *.com*, and *.org*, are fixed; only ICANN can approve the creation of these domains.<sup>9</sup> The SLDs, such as *.berkeley* in this example, can be registered by paying a registration fee to a registry, an entity that governs a particular TLD.<sup>10</sup>

Each registry regulates the files and servers that allow a specific TLD to function.<sup>11</sup> Registries do not directly register the SLDs available for the TLD it controls. Rather, registries merely publicize the SLDs available within each particular TLD they govern. ICANN, which is not a registry itself, oversees and governs the registries.<sup>12</sup>

Neither the registries nor ICANN have direct contact with customers (as registrants) interested in obtaining SLD names. Instead, other entities, known as registrars, aid customers in registering domain names. Registrars search a particular registry’s TLD to determine whether a customer’s requested SLD has already been taken. If the domain name is available, then the customer pays a registration fee to the registrar, usually for one or two years of registration. The registrant will then have exclusive control of the domain name.<sup>13</sup>

### C. Categories of Top Level Domains

There are two types of TLDs. The first group, known as generic Top Level Domains (“gTLDs”), include the most well-known TLDs: *.com*, *.net*, *.org*, *.edu*, *.gov*, *.int*, and *.mil*.<sup>14</sup> Anybody can register SLDs within the first three gTLDs (*.com*, *.net*, and *.org*),<sup>15</sup> but only certain organizations and entities can register SLDs within the latter four (*.edu*, *.gov*, *.int*,

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8. *Id.*

9. *See* ICANN, *Top-Level Domains*, *supra* note 6; *see also infra* Part I.C.

10. *See infra* Part I.B.

11. *See generally* Michael Froomkin & Mark A. Lemley, *ICANN and Antitrust*, 2003 U. ILL. L. REV. 1, 7 (2003). Each TLD has a root file and a root server that contains databases enabling an Internet address query to be routed to its proper destination. *See Name.Space*, 202 F.3d at 577. That is, when an Internet user enters a query for a domain name (or a Second Level Domain) into the computer, the computer will route this query to the root file of the specific TLD in question. The root file will then search the particular TLD until the requested domain name is found and the website connected to. *Id.*

12. *See generally* Froomkin & Lemley, *supra* note 11.

13. *Id.* at 7.

14. ICANN, *Top-Level Domains*, *supra* note 6.

15. *Id.* Under the *.com*, *.net*, and *.org* gTLDs, anyone with an interest in obtaining a SLD could do so, although *.net* was supposedly created for networks, and *.org* was supposedly created for organizations.

and *.mil*).<sup>16</sup> ICANN recently introduced seven new gTLDs.<sup>17</sup> Four of these (*.biz*, *.info*, *.name*, and *.pro*) are open to the public, while the other three (*.aero*, *.coop*, and *.museum*) are limited to specific entities.<sup>18</sup>

The second type of TLDs is the country code Top Level Domains ("ccTLDs") owned and operated by at least 45 different countries around the world.<sup>19</sup> Unlike gTLDs, which serve populations without geographical limitations, ccTLDs are dedicated to serving different countries.<sup>20</sup> Consequently, ICANN does not maintain the ccTLDs; governments or affiliated institutions of each respective country control most of them.<sup>21</sup> A few ccTLDs are maintained by independent individuals or academic institutions within these countries.<sup>22</sup>

## II. INTERNET GOVERNANCE

This Part examines the rudimentary beginnings of the Internet's governance. It then discusses ICANN's organizational structure and decision-

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16. *Id.* Under *.edu*, only United States educational institutions can register domain names. *Id.* Under *.gov*, only the United States government entities may register domain names. *Id.* Under *.int*, only organizations established by international treaties between governments may register domain names. *Id.* Under *.mil*, only the United States military may register domain names. *Id.*

17. *Id.*

18. *See id.* Generally, an unsponsored gTLD operates under policies "established by the global Internet community directly through the ICANN process" while a sponsored gTLD is a specialized gTLD that has a sponsor representing the narrow community that is most affected by the TLD. *Id.* See ICANN, *Top Level Domains*, *supra* note 6, for a complete listing of gTLDs and their sponsoring organizations.

19. Michael Geist, *ccTLD Governance Project*, at <http://www.cctldinfo.com/home.php> (last visited Dec. 9, 2003).

20. *See Hearing on Internet Domain Names Before the House Comm. on Energy & Commerce, Subcomm. on Telecomm. & the Internet*, 106th Cong. (2000) [hereinafter *Hearing on Internet Domain Names*], 2001 WL 2005249.

21. *See Name.Space v. Network Solutions, Inc.*, 202 F. 3d 573, 577 (2nd Cir. 2002).

22. Geist, *supra* note 19. Ten ccTLDs are governed through government agencies or departments. In these cases, the relationships are formalized between the ccTLD agencies and their respective governments. Nine ccTLDs are governed through private, for-profit organizations; of these, two (the United States and Japan) have established a contractual relationship with their governments. The other three have established informal relationships with their governments. Twenty ccTLDs are governed through non-profit organizations, four of which have formal, contractual relationships with their respective governments and with ICANN. Five others do not have government agreements. Ten others have informal relations with their governments, and at least three are awaiting formalization of this relationship in the near future (Russia, South Africa, and Italy). One ccTLD is managed by an individual. Five ccTLDs are managed by academic institutions, two that have no relationship with their respective governments.

making procedures. Finally, this Part concludes by briefly discussing the federal antitrust law that applies to ICANN's governance.

### A. Pre-ICANN Internet Governance

The Internet began as ARPANET, a system sponsored by the U.S. military to improve rapid communication among government entities.<sup>23</sup> Given the limited size of the ARPANET, the U.S. government left its governance mainly in the hands of one individual.<sup>24</sup> As ARPANET grew into the Internet, the one-man governance scheme became unwieldy. The U.S. government, in 1993, decided to delegate governance of the Internet and the DNS to a private entity, Network Solutions, Inc. ("NSI").<sup>25</sup> NSI acted as both registry and registrar for three of the seven then-existing gTLDs, *.com*, *.net*, and *.org*.<sup>26</sup>

From 1993 to 1995, NSI used a first-come-first-serve domain name registration policy,<sup>27</sup> a policy which led to "cybersquatting": registration of a trademark as a domain name for the purpose of selling the name back to the trademark holder.<sup>28</sup>

After trademark holders complained about cybersquatting, NSI developed a rudimentary policy to resolve disputes over domain name ownership. Under the policy, NSI allowed trademark holders to present proof of legitimate interest in a particular domain name by showing that they held a trademark in the name.<sup>29</sup> Unfortunately, NSI continued to encounter diffi-

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23. See *Reno v. Am. Civil Liberties Union*, 521 U.S. 844, 849-50 (1997); Development, *The Domain Name System: A Case Study of the Significance of Norms to Internet Governance*, 112 HARV. L. REV. 1657, 1660 (1999).

24. Development, *supra* note 23. Dr. Jon Postel was the individual who, along with a group of graduate students at the University of California, was best known for creating ARPANET. He single-handedly ran ARPANET and the Internet, as it later became known, through the Internet Assigned Numbers Authority ("IANA"). *Id.* at 1661.

At the time of Dr. Postel's advancements, the National Science Foundation, affiliated also with the U.S. government, created a second network similar to that of ARPANET. With the help of Dr. Postel, ARPANET and NSF's network eventually communicated with one another. *Id.* Together, they became known as the Internet. *Id.* at 1660.

25. *Id.*; see also Froomkin & Lemley, *supra* note 11, at 9.

26. See generally Froomkin & Lemley, *supra* note 11.

27. Shuli L. Green, *Launching Trademark Law into Cyberspace: Should the Domain Name System be Federalized?*, 49 ADMIN. L. REV. 1031, 1037 (1997).

28. Michael Tanner, *Trademarks, Internet Domain Names, and the NSI: How Do We Fix a System that Is Already Broken?*, 3 J. TECH. L. & POL'Y 2, 40-50 (1998).

29. See Green, *supra* note 27, at 1040. In response, the domain name registrants were also given a similar opportunity whereby they could demonstrate legitimate interest in the same domain name by proof of their own trademark registration. *Id.* If domain name registrants were able to supply this proof, NSI allowed registrants to keep their do-

culties.<sup>30</sup> Common law trademark owners felt disadvantaged because they had no formal registration documentation to prove ownership.<sup>31</sup> Domain name registrants complained that NSI's policy made it too easy for trademark holders to take or suspend a domain name.<sup>32</sup> Because of this and other failures, the U.S. government called for changes to the Internet governance structure once again.

## B. Internet Corporation of Assigned Names and Numbers

Hoping to alleviate some of the problems encountered under NSI, the U.S. government, in creating ICANN, formed a centralized decision-making body with broad powers to regulate the Internet and its corresponding DNS.<sup>33</sup>

Aside from its thorough decision-making process, the introduction of ICANN has also altered the registry-registrar relationship. Prior to ICANN, NSI served three functions: as a registry, as a registrar, and as the governing body for the Internet and DNS. However, ICANN separated these three functions and now acts only as the governing entity overseeing registrars and registries.<sup>34</sup> Today, VeriSign, a private corporation whose focus is Internet security, serves as the exclusive registry for the .com,

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main names. However, if domain name registrants were unable to supply such proof, NSI placed the particular domain name on a long-term hold until a court resolved the dispute. *Id.*

30. Tanner, *supra* note 28, at 50.

31. Green, *supra* note 27, at 1045.

32. *Id.* Possibly as a result of NSI's dispute resolution policy, the number of new domain name registrations dropped significantly, from 5,000 per week to a mere 1,300 per week. See Ian C. Ballon, *Using Trademarks to Drive Traffic to Websites and Other E-Commerce Law Issues*, 590 PLI/PAT 111, 175 (2002).

33. The U.S. government created ICANN through a series of contracts and Memoranda of Understanding with the Department of Commerce. See Froomkin & Lemley, *supra* note 11, at 14-18; see also ICANN, *Background*, at <http://www.icann.org/general/background.htm> (last visited Nov. 25, 2003) [hereinafter ICANN, *Background*]. Although headquartered in California, ICANN maintains governance over international Internet and DNS issues. ICANN, *Fact-Sheet*, at <http://www.icann.org/general/fact-sheet.htm> (last visited Mar. 14, 2004). Furthermore, despite the U.S. government's obvious relationship with ICANN, the organization holds itself out as a private-sector entity that oversees the technical coordination of the DNS, independent of any national government control. *Id.* ICANN attempts to create a non-governmental policy making body by including representatives from the business, technical, non-commercial, and academic communities. *Id.*

34. See generally Froomkin & Lemley, *supra* note 11. As mentioned in *supra* Part I.C, ICANN only oversees gTLD registries. It does not have authority over ccTLD registries since these are regulated by agencies and governments outside of ICANN.

.net, and .org gTLDs.<sup>35</sup> Other registries maintain the remaining gTLDs and ccTLDs located in other nations. In contrast to VeriSign, these registries either control less popular TLDs or TLDs subject to restrictions.<sup>36</sup>

Because of the current registry-registrar hierarchy, ICANN alone has the power to make policies regulating and allocating infrastructure services to registries and registrars governing gTLDs.<sup>37</sup> Indeed, because ICANN alone has the power to create gTLD registries and registrars, it controls all entry into the registry and registrar markets.<sup>38</sup>

### C. Introduction to Antitrust Law

Critics have noted that some of ICANN's policies seemingly hinder competition, especially in providing new registries and new gTLDs in the domain name market. This section briefly introduces the federal antitrust statute under which ICANN has been accused of hindering competition.

Antitrust law's purpose is to protect competition in order to maintain competitive prices and preserve incentives for improvements in goods and services.<sup>39</sup> Under section 2 of the Sherman Act,<sup>40</sup> every person who "shall monopolize, or attempt to monopolize," a relevant market may be punished.<sup>41</sup> The Supreme Court has defined two elements of monopolization: "(1) the possession of monopoly power in the relevant market, and (2) willful acquisition or maintenance of that power."<sup>42</sup> The first element, monopoly power, is demonstrated when no substitutes are available in the market for a particular product or service.<sup>43</sup> The second element, willful acquisition or maintenance, depends on the origin of a monopoly, or the tactics with which it is maintained.<sup>44</sup> Factors, such as the monopoly's intentional exclusion of competitors, its use of unduly coercive means to re-

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35. See Navin Katyal, *The Domain Name Registration .Bizness: Are We Being "Pulled Over" on the Information Super Highway?*, 24 HASTINGS COMM. & ENT. L.J. 241, 255 (2002). VeriSign took over NSI and its responsibilities as registry for the .com, .net, and .org gTLDs in March 2001 when it acquired NSI, and currently operates NSI as its wholly owned subsidiary. *Id.*

36. See *supra* Part I.C.

37. Tamar Frankel, *The Managing Lawmaker in Cyberspace: A Power Model*, 27 BROOK. J. INT'L L. 857, 873 (2002).

38. *Id.*

39. See, e.g., U.S. Dep't of Justice, *Antitrust Enforcement and the Consumer*, at [http://www.usdoj.gov/atr/public/div\\_stats/9142.htm](http://www.usdoj.gov/atr/public/div_stats/9142.htm) (last visited Jan. 29, 2004).

40. 15 U.S.C. § 2 (2000).

41. *Id.*

42. *United States v. Grinnell*, 384 U.S. 563, 570-71 (1966).

43. See *United States v. E.I. du Pont De Nemours & Co.*, 351 U.S. 377, 394 (1956).

44. *United States v. Aluminum Co. of Am.*, 148 F.2d 416, 429 (2d Cir. 1945) [hereinafter *Alcoa*].

duce competition, and its course of unnatural growth, play crucial roles in demonstrating the requisite intent.<sup>45</sup>

Section 2 of the Sherman Act does not seek to punish all monopolies and monopolists. The active verb form of "monopolize" is used rather than its noun or adjective form.<sup>46</sup> From this, the Supreme Court has inferred that the Act does not hold liable those who find themselves in possession of a monopoly if they did not intend either to put an end to existing competition or to prevent competition from arising.<sup>47</sup> Firms that become monopolists by "force of accident" have no liability under the Act.<sup>48</sup> Similarly, the Act does not forbid monopolies established through natural growth of a company, or by the mere fact that the company is the "single producer" of a good or service in the market.<sup>49</sup> Accordingly, a monopolist may escape liability if it can show that it attained monopoly power through "superior skill or products, natural advantages including accessibility to raw materials and markets," economies of scale, or the like.<sup>50</sup>

Aside from monopolization, section 2 also prohibits attempted monopolization of a relevant market.<sup>51</sup> According to the Supreme Court, to demonstrate attempted monopolization, the plaintiff must prove "(1) that the defendant has engaged in predatory or anticompetitive conduct with (2) a specific intent to monopolize, and (3) a dangerous probability of achieving monopoly power."<sup>52</sup> Dangerous probability requires the proof of

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45. See generally *id.* In *Alcoa*, the Second Circuit held that Alcoa had monopolized the aluminum ingot market and violated section 2 of the Sherman Act through its misuse of aluminum production patents, its contracts with power companies (whereby Alcoa disallowed others from selling power to all competing aluminum manufactures), and its collusion with foreign manufactures limiting or eliminating all aluminum imports into the United States. See generally *id.*

46. *Id.* at 429.

47. *Id.*

48. *Id.* at 430.

49. *Id.*

50. *United States v. United Shoe Mach. Corp.*, 110 F. Supp. 295, 342 (D. Mass. 1953), *aff'd*, 347 U.S. 521 (1954) (per curiam). In *United Shoe*, the Court held that the monopolist could not place all of its monopoly power on one or more of the above excuses. *Id.* In fact, the Court found that United Shoe's leasing system, whereby the company leased its superior shoe making machines under certain restrictions, which forced their users to forgo all deals with other shoe machine providers, constituted willful acquisition and maintenance of market power. *Id.* at 340-43. Hence, United Shoe was found liable under section 2.

51. 15 U.S.C. § 2 (2000).

52. *Spectrum Sports v. McQuillan*, 506 U.S. 447, 456 (1993).

“a relevant market, and the defendant’s ability to lessen or destroy competition in that market.”<sup>53</sup>

Monopoly power has been viewed as a power that “deadens initiative, discourages thrift, and depresses energy.”<sup>54</sup> In contrast, competition and rivalry are deemed stimulants to industrial progress, and that the “spur of constant stress is necessary to counteract an inevitable disposition to let well enough alone.”<sup>55</sup> Due to the notion that competition creates savings for consumers, the Sherman Act’s application has been urged by some to extend to ICANN and its policies.<sup>56</sup>

### III. ICANN AND ANTITRUST: CURRENT AND FUTURE CHALLENGES

Recently, some commentators have asserted that the structure and operation of ICANN raises antitrust concerns.<sup>57</sup> Within this Part, section A explores a preliminary question: whether ICANN and its affiliates could be subject to antitrust liability, or whether they are immune from such liability due to their relations with the U.S. government. Section B considers the argument that ICANN may be illegally monopolizing the TLD market. Section C examines a similar contention that ICANN’s policies prohibiting registries from engaging in business relationships with alternative domain name and TLD providers also point toward the organization’s monopolization of the TLD market. Finally, section D discusses VeriSign’s newly proposed wait-listing service and its possible effect on registrars that already provide such a service. The section will explore the merits and criticisms of the proposed wait-listing service, and consider how VeriSign may fall under the attempted monopolization doctrine of section 2 of the Sherman Act.

#### A. Adjudication of Antitrust Claims Against ICANN and VeriSign

A threshold consideration is whether ICANN and VeriSign are immune to antitrust liability. This section considers the possibility that ICANN and VeriSign may avoid antitrust liability by examining prior antitrust suits brought against ICANN’s predecessor, NSI. It also examines ICANN and VeriSign’s current relationships with the U.S. government and how those relationships affect their liability.

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53. *Id.*

54. *Alcoa*, 148 F.2d at 427.

55. *Id.*

56. *See generally* Froomkin & Lemley, *supra* note 11 (arguing throughout the article that ICANN’s current practices require antitrust scrutiny).

57. *Id.*

Under NSI's regime in the 1990s, several trademark holders brought antitrust actions against NSI.<sup>58</sup> In all cases, the district courts dismissed the claims under the federal instrumentality immunity doctrine, which grants antitrust immunity to contractual parties working for the U.S. government.<sup>59</sup> On appeal, however, the circuit courts were less lenient. They denied federal instrumentality immunity but nevertheless dismissed the antitrust actions on equity grounds. Specifically, the courts held that a private entity acting pursuant to a government contract should not be punished for carrying out duties as outlined in its contract.<sup>60</sup>

A similar argument could be made in ICANN's case. Because the U.S. government initiated ICANN through a series of understandings and contracts, ICANN acts as a private contractor carrying out the duties given to it by the government. Hence, ICANN could avoid antitrust claims as NSI once did.

This argument, however, is not likely to succeed. Despite the memoranda of understanding and contracts prepared by the U.S. Department of Commerce,<sup>61</sup> the U.S. government created ICANN as an independent, nonprofit organization.<sup>62</sup> ICANN has also always publicized itself as an independent, non-government entity not bound to the specific needs of the United States but the entire globe.<sup>63</sup> Hence, a court would unlikely find ICANN to be a private contractor working solely for the U.S. government.<sup>64</sup> Instead, a court would more likely find ICANN to be a private entity subject to antitrust scrutiny.<sup>65</sup>

Similarly, VeriSign is also an entirely independent and private entity, even more so than ICANN. Having no relationship to the U.S. government directly or indirectly, VeriSign cannot depend on prior decisions to shield itself from antitrust claims and could be vulnerable to antitrust liability.

## B. Monopolization of Top Level Domains

The TLD market, specifically the gTLD market as regulated by ICANN, constitutes a relevant market within the more general domain

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58. These lawsuits included *Name.Space v. Network Solutions, Inc.*, 202 F.3d 573, 577 (2d Cir. 2002); *Thomas v. Network Solutions, Inc.*, 176 F.3d 500 (D.C. Cir. 1999); and *Watts v. Network Solutions, Inc.*, No. IP 98-1529-C, 1999 U.S. Dist. LEXIS 20605 (S.D. Ind. May 7, 1999). See also Froomkin & Lemley, *supra* note 11, at 33.

59. Froomkin & Lemley, *supra* note 11, at 33.

60. *Id.* at 34.

61. *Id.* at 24.

62. ICANN, *Background*, *supra* note 33.

63. *Id.*

64. See Froomkin & Lemley, *supra* note 11, at 41.

65. See *id.*

name market. Since domain names are issued through TLDs, consumers may or may not be constrained in their domain name choices depending on the availability of TLDs. Similarly, because registries maintain TLDs, the TLD market is coextensive with the registry market. When there are few registries available to control TLDs, consumers have fewer choices for domain names, and less opportunity to obtain a desired name. As Part II.B noted, ICANN, as the sole controller of entry into and exit out of the registry business, also controls the number of TLDs.

Critics assert that ICANN's slowness in developing new gTLDs and its rigid standards for new applicant registries prevent competition within the registry/TLD market.<sup>66</sup> Currently, ICANN requires interested registries to pay a \$50,000 nonrefundable application fee.<sup>67</sup> It also requires applicant registries to have substantial financial backing and well-thought-out plans for undertaking the responsibilities required for maintaining new gTLDs.<sup>68</sup>

Critics allege that these policies hinder competition among registries and ultimately prevent consumer choice. Because registries must engage in a long process to find adequate funding and create a thorough plan, few new registries have emerged. This causes consumers to register domain names under existing registries, few of which are open to the general public.<sup>69</sup> As a result, many consumers are funneled to the VeriSign registry which controls the most popular and least restrictive gTLDs: *.com*, *.net*, and *.org*. However, fewer and fewer domain names remain available in these popular gTLDs for the vast number of individuals and businesses still interested in registering domain names.

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66. *See id.* at 24.

67. *Id.*

68. *See id.* at 52.

69. *See supra* Part I.C. Currently, many registrants, businesses and individuals alike, find themselves registering through VeriSign's controlled gTLDs (*.com*, *.net*, and *.org*). See ICANN, gTLD Registry Best Practices, at <http://www.icann.org/tlds/gtld-registry-best-practices-30sep00.htm> (last visited Mar. 8, 2004) (acknowledging the enormous popularity of VeriSign's *.com*, *.net*, and *.org* gTLDs, and the need to increase VeriSign's capacity to deal with an increasing volume of domain name registrations). Presently, VeriSign has found a need to increase its daily volume by 500% and reduce its down time by over 75%. *Id.* This increase in volume in the VeriSign registry has prompted ICANN to issue reports such as the "gTLD Registry Best Practices" article in hopes of extending an invitation to potential applicant registries to join the registry business and satisfy customer's demand for domain names. *See id.* The article also sets out ICANN's standards for such applicant registries. *See id.*

Currently, many registrants, businesses and individuals alike, find themselves registering only through VeriSign's controlled gTLDs (*.com*, *.net*, and *.org*) because these gTLDs are not restricted to any specific organizations or for any specific purposes.

Critics argue that ICANN's current conduct conforms to that of an organization in the process of monopolizing a market, particularly the TLD/registry market.<sup>70</sup> Because the United States government, in institutionalizing ICANN, instilled in it the power to regulate the registry business,<sup>71</sup> ICANN possesses sole power in determining entry and exit of such businesses in the TLD/registry market. Therefore, the first element of a section 2 violation could conceivably be established.

However, demonstrating that ICANN also meets the second element of section 2's monopolization test presents a greater challenge. Critics allege that ICANN's slowness in initiating new gTLDs and new registries is indicative of its willfulness in preventing free market competition within this market.<sup>72</sup> On the other hand, ICANN asserts that its seemingly monopolistic actions are justified by the necessity (1) for Internet stability and (2) to protect the interest of trademark holders. First, in support of its Internet stability argument, ICANN suggests that its strict policies for funding and organization ensure that a newly elected registry would be able to properly maintain a new gTLD. This provides a stable gTLD that allows trademark holders, firms, and individuals to invest in domain names with confidence.<sup>73</sup>

Second, ICANN points out that many trademark holders may appreciate its strict policies.<sup>74</sup> Whenever ICANN introduces a new, unrestricted registry and new gTLD, trademark holders must race to register all of their trademarks within this gTLD before cybersquatters do.<sup>75</sup> This presents an enormous burden and is very costly for trademark holders with many trademarks such as large, multi-international companies. Therefore, ICANN's apparent willful acquisition of power within the TLD/registry market is in fact the organization's method of achieving better products and service for the Internet consumer. It is likely that ICANN's strict policies help consumers more than they harm them, so an antitrust plaintiff is unlikely to be able to prove that ICANN abuses its monopoly power.

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70. See generally Froomkin & Lemley, *supra* note 11, at 56.

71. See *supra* Part I.C.

72. See generally Froomkin & Lemley, *supra* note 11.

73. See Edward Brunet, *Defending Commerce's Contract Delegation of Power to ICANN*, 6 J. SMALL & EMERGING BUS. L. 1, 6 (2002).

74. See Froomkin & Lemley, *supra* note 11, at 24; see also *Hearing on Internet Domain Names*, *supra* note 20.

75. See generally Froomkin & Lemley, *supra* note 11.

### C. Extending Monopolization of TLD market by Eliminating Alternative Domain Name Systems

ICANN's DNS is not the only possible domain name system available on the Internet. Alternative domain name systems, although rather uncommon, have created alternative TLDs outside of ICANN's grasp. In order to do this, alternative DNS providers, while utilizing ICANN-controlled legacy root files for common gTLDs such as *.com*, *.net*, and *.org*,<sup>76</sup> create different TLDs within these legacy roots by using supersets of these roots.<sup>77</sup> Suppose that a user who is served by an alternative DNS provider types "law.web" as an address query into the Internet. The ICANN legacy root files will not recognize *.web* as a legitimate gTLD since it has never been created. However, alternative DNS providers would re-route this query to their privately operated registries that maintain the *.web* gTLD, if *.web* were one of their created gTLDs.<sup>78</sup> In this way, alternative DNS providers have created a service network outside of ICANN-controlled gTLDs.

Currently, ICANN operates under a policy which prohibits all ICANN affiliated registries from servicing alternative DNS providers.<sup>79</sup> Without the support of able registries, critics are concerned that alternative providers face difficulty in managing their TLDs and attracting consumers.<sup>80</sup> Consequently, this has prompted criticism that ICANN is again trying to prevent competitors from emerging and potentially threatening ICANN-regulated TLDs. This suggests that ICANN is again monopolizing the TLD market.<sup>81</sup>

Upon examination, one could argue that ICANN's conduct meets both elements of the monopolization test under section 2 of the Sherman Act. First, ICANN appears to possess monopoly power in the TLD market as suggested by section A above. Second, ICANN may meet the intent re-

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76. Each TLD is controlled by a legacy root file which maintains all of the second level domains and address queries within the particular TLD. See Froomkin & Lemley, *supra* note 11, at 7.

77. *Id.* at 20-21. To do this, alternative DNS service providers use supersets of ICANN-controlled legacy roots. Rather than getting domain names from a member registry of the legacy root hierarchy controlled by ICANN, such as from the *.com* gTLD, users of alternative DNS roots instead get DNS service from a provider who obtains its data from a different root file. *Id.* at 20.

78. *Id.* at 21.

79. *Id.* at 52-53.

80. *Id.*

81. *See id.*

quirement through its prohibitive policies toward registries in relation to alternative DNS providers.<sup>82</sup>

Nevertheless, whether ICANN is truly monopolizing the TLD market still remains to be seen. Evidence countering the above criticisms suggests that despite ICANN's restrictive policy, alternative DNS providers do exist and do compete against ICANN's DNS. For example, alternative DNS provider New.net has created a separate system where New.net bases its Internet domain names on twenty new Top Level Domain extensions such as ".xxx" and ".sport."<sup>83</sup> To better compete against ICANN, it has encouraged web users to download plug-ins that allow browsers to recognize alternative domain name systems.<sup>84</sup> New.net, along with other alternative DNS providers, have negotiated with several Internet Service Providers (ISPs) to include service to alternative DNS providers as part of the ISPs' plans.<sup>85</sup> From this evidence, it is unclear whether ICANN truly satisfies section 2's monopolization test since competitors have surfaced in the face of ICANN's no-contact policies. Specifically, it is unclear whether ICANN truly possesses monopoly power in the TLD market in relation to these alternative DNS providers.

#### D. Attempted Monopolization of Wait-Listing Services

The final set of criticisms against ICANN involve VeriSign's proposal to create its own Wait-Listing Service ("WLS") for the .com, .net, and .org gTLDs. A wait-listing service allows individuals to automatically acquire or re-acquire a domain name once the domain name's registration period ends. Currently, registrants obtain domain names for one to two years. When this period expires, registrants must renew the names, or else they will become available for public registration. Every year, many businesses

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82. In *Alcoa*, the Second Circuit held that Alcoa's covenants with power plants to prohibit their dealing with competing aluminum producers was indicative of Alcoa's willful intent to monopolize the aluminum ingot market. See generally *Alcoa*, 148 F.2d 416 (2nd Cir. 1945). Similarly, an argument could be made here that ICANN's covenants with registries prohibiting them from engaging in relationships with alternative DNS providers also is indicative of ICANN's will to monopolize the TLD market.

83. Froomkin & Lemley, *supra* note 11, at 21; Katyal, *supra* note 35, at 267.

84. See generally Froomkin & Lemley, *supra* note 11. For instance, New.net's plug-in has the computer add "new.net" to every query entered by the web user such that all queries will be correctly directed to New.net's system.

85. *Id.* at 21-22. Internet Service Providers are those private entities that offer Internet services and allow businesses and Internet users to log onto the World Wide Web through their computers. For the most part, their services route all Internet queries to ICANN's DNS.

and individuals who fail to renew their registrations lose them to others who seize the opportunity to register these names as their own.<sup>86</sup>

Today, nearly sixty registrars offer wait-listing services for individuals interested in acquiring soon-to-expire domain names.<sup>87</sup> For example, SnapNames, a United States-based registrar, looks for soon-to-expire domain names available through the VeriSign registry. SnapNames lists these names on its own website, and interested registrants can request that SnapNames register the name for them when it becomes available.<sup>88</sup> When SnapNames successfully registers a domain name for a customer, SnapNames becomes the registrar for that name.<sup>89</sup>

Other registrars offer slightly different versions of wait-listing services. Dotster, another United States-based registrar, allows interested registrants to bid on soon-to-expire domain names.<sup>90</sup> Dotster then attempts to snatch each domain name as it becomes available from the VeriSign registry and then resell the name to the highest bidder.<sup>91</sup>

Wait-listing services constitute their own relevant market within the domain name market because they are a unique set of services serving only those interested consumers who want to acquire someone else's expired domain name.<sup>92</sup> Wait-listing services require technological sophistication different than that needed in registering a domain name. For instance, the success of snatching a soon-to-expire domain name depends on the technological capabilities of a registrar.<sup>93</sup>

Today, the sixty-some registrars offering wait-listing services are competitive in three ways. First, pricing for wait-listing services is reduced due to fierce competition for customers.<sup>94</sup> Second, competition in the wait-

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86. Margaret Kane, *VeriSign Preps Wait List for Coveted .coms*, CNETNEWS.COM, Jan. 4, 1999, at <http://news.com.com/2100-1023-801085.html?legacy=cnet>.

87. Rita Mezzanotte, *Pool.com Launches ICANN Lawsuit Against WLS*, CIRCLEID (July 10, 2003), at [http://www.circleId.com/article/160\\_0\\_1\\_0\\_C](http://www.circleId.com/article/160_0_1_0_C); *Wait List Gives Cause for Concern*, DEMYS NEWS SERV. (Feb. 5, 2002), at [http://www.demys.net/news/2002/02/02\\_Feb\\_05\\_wait\\_list.htm](http://www.demys.net/news/2002/02/02_Feb_05_wait_list.htm).

88. See Mezzanotte, *supra* note 87; see also Froomkin & Lemley, *supra* note 11, at 65.

89. See Mezzanotte, *supra* note 87.

90. *In the Land of the Free*, DEMYS NEWS SERV. (June 25, 2003), at [http://www.demys.net/news/2003/06/25\\_free.htm](http://www.demys.net/news/2003/06/25_free.htm).

91. See *id.*

92. See Froomkin & Lemley, *supra* note 11, at 65.

93. *In the Land of the Free*, *supra* note 90.

94. For example, Pool.com, a Canada-based registrar, in order to attract customers, has instituted a policy that does not require up-front charges for backorders. Mezzanotte, *supra* note 87. It will only charge a fee once Pool.com successfully acquires the expired domain name and registers it in the customer's name. *Id.*

listing service market enhances innovation in acquiring domain names. For registrars to improve their wait-listing services and to attract more customers, they feel the incentive to constantly upgrade their technology to be the first to acquire a domain name.<sup>95</sup> Finally, the competition enhances consumer choice. A consumer dissatisfied with one service can try another. With more than one wait-listing service, consumers are more likely to find a provider whose service they enjoy.

Critics allege that VeriSign's proposal will undermine competition and remove these consumer advantages in the wait-listing service market.<sup>96</sup> Since VeriSign is the registry for the most popular gTLDs, it would be able to re-register a domain name in these gTLDs before any of the competing registrars. This would obliterate any competition in the wait-listing service market.

The above criticisms suggest that VeriSign may be liable for attempted monopolization.<sup>97</sup> Under the first element of attempted monopolization, VeriSign seemingly engages in anticompetitive conduct by proposing a plan which could effectively eliminate all other WLS providers. Under the second element, VeriSign's proposal, on its surface, has the intent to monopolize the WLS market since its proposal would grant all WLS ability solely to VeriSign. Finally, under the third element, if the proposal were implemented, VeriSign might not only have a dangerous probability of achieving monopoly power, it might have almost the entire wait-listing service market since *.com*, *.net*, and *.org* are the most popular and most heavily used TLDs.<sup>98</sup> Hence, VeriSign could conceivably achieve monopoly unless it exercises some form of restraint.

VeriSign rationalizes its proposal with an argument similar to ICANN's: its proposal would instill stability and predictability in the domain name system by ensuring that at least one customer would obtain the soon-to-expire domain name.<sup>99</sup> However, VeriSign's contention has less merit than those asserted by ICANN. Unlike ICANN, whose prerogatives of providing financially sound registries and gradually increasing the

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95. See *In the Land of the Free*, *supra* note 90.

96. Some registrars, including Dotster and Pool.com, have initiated lawsuits against VeriSign for antitrust violations. See *ICANN: VeriSign's 'Wait List' Service is Illegal, Complaint Alleges*, 21 ANDREWS COMPUTER & ONLINE INDUS. LITIG. REP. 12 (2003); see also *In the Land of the Free*, *supra* note 90.

97. See *supra* Part II.C.

98. Compare these three elements to the three elements required under the attempted monopolization test as specified in *Spectrum Sports v. McQuillan*, 506 U.S. 447, 456 (1993).

99. Froomkin & Lemley, *supra* note 11, at 65.

number of TLDs have at least some substantial merit against allegations of monopolization, VeriSign's proposal lacks merit against allegations of attempted monopolization. In fact, its proposal, if enacted, eliminates an enormous number of competitors and appears to lack a purpose other than that of attempted monopolization of the WLS market. Hence, it is much more likely that VeriSign's proposal would face a considerable challenge in defeating an attempted monopolization claim.

#### IV. CONCLUSION

Based on the discussion in this Note, ICANN and VeriSign may be subject to antitrust liability because they are independent, private organizations. However, the current claims against ICANN may have little merit. ICANN's policies and actions may be necessary to maintain a stable Internet and may not hinder competition to such a degree as to create a monopoly in the domain name market. Therefore, it is unlikely that ICANN would presently be subject to antitrust litigation. Criticisms against VeriSign, on the other hand, have more validity since its proposal to do away with competing wait-listing services appear to be an attempt at monopolization. Hence, it is more likely for VeriSign to face antitrust litigation. Nevertheless, all claims against ICANN and VeriSign would depend on the decisions made by our courts, who could become the ultimate deciders in whether Internet governance needs to have yet another round of changes.

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## RIAA v. VERIZON: APPLYING THE SUBPOENA PROVISION OF THE DMCA

By Alice Kao

The onset of the digital revolution has brought about dramatic changes for the content industries—record labels, movie studios, book publishers, and other major providers of copyrighted content. These changes are mixed for the industry: while the adoption of digital formats has opened tantalizing opportunities, these opportunities come with many costs and challenges.<sup>1</sup> The same improvements in network technology, data compression, and increased availability of broadband Internet service that make possible new avenues of content distribution also facilitate duplication of content with little or no loss of quality and the wide distribution of such copies.<sup>2</sup> The enormous popularity of online file-sharing networks reveals the great potential for digital content distribution, but unauthorized copying and distribution have also dealt a hard blow to the content industries, especially the music industry.<sup>3</sup>

In recent years, the content industries have struggled to find methods to combat the staggering increase in unauthorized copying and distribution of digital content, and peer-to-peer (“P2P”) file-sharing networks have emerged as one of the most active battlegrounds for these efforts.<sup>4</sup> Reacting to the damage caused by file-sharing on P2P networks, the content industries’ first approach was to sue the operators of such services.<sup>5</sup> The major record labels were successful in temporarily shutting down the pioneering Napster and won a ruling that the overseas-based KaZaA service could be sued in the United States.<sup>6</sup> Notwithstanding these efforts, the popularity

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1. See Peter S. Menell, *Envisioning Copyright Law’s Digital Future*, 46 N.Y.L. SCH. L. REV. 63, 64 (2003).

2. See 3 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 12B.01[C] (2002); Seth D. Greenstein, *The Consumer’s Right to Listen to Digital Music*, 640 PLI/PAT 349, 353 (2001).

3. Menell, *supra* note 1, at 101.

4. See, e.g., *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004 (9th Cir. 2001).

5. See *id.*; see also *In re Aimster Copyright Litig.*, 334 F.3d 643 (7th Cir. 2003); *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 259 F. Supp. 2d 1029 (C.D. Cal. 2003); Elizabeth Miles, Note, *In re Aimster & MGM, Inc. v. Grokster, Ltd.: Peer-to-Peer and the Sony Doctrine*, 19 BERKELEY TECH. L.J. 21 (2004).

6. *Napster*, 239 F.3d at 1029 (modifying the district court’s issuance of a preliminary injunction against Napster); see Todd Woody, *The Race to Kill Kazaa*, WIRED

of P2P services persisted. New companies entered the field, and the content industries' efforts against them were hindered by adverse legal rulings<sup>7</sup> and the time and expense associated with even successful litigation.

The content industries thus began using a new tactic: suing individual users of P2P networks. The industries turned to 17 U.S.C. § 512, a provision of the Digital Millennium Copyright Act (DMCA or "the Act") of 1998.<sup>8</sup> Section 512 defines the circumstances under which copyright owners may serve subpoenas on Internet service providers (ISPs) for information regarding individual users suspected of infringing copyrights without having to file lawsuits against those individuals.<sup>9</sup>

In July 2002 and February 2003, the Recording Industry Association of America (RIAA)<sup>10</sup> used the DMCA's subpoena provision to obtain the identities of two Verizon Internet subscribers who had allegedly transmitted hundreds of copyrighted songs using KaZaA's file-sharing network.<sup>11</sup> Verizon challenged these subpoenas on two grounds: (1) the statute did not require it to release the identities of P2P users, and (2) the RIAA's interpretation of § 512 would violate Article III and the First Amendment of the Constitution.<sup>12</sup> The district court rejected Verizon's challenges. The D.C. Circuit agreed, however, with Verizon's interpretation of the statute and found that the subpoenas were not authorized by the DMCA.<sup>13</sup> Because the court agreed with Verizon's interpretation of the statute, it did not reach the constitutional argument.<sup>14</sup>

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NEWS, Feb. 2003 (describing the jurisdictional difficulties in suing KaZaA due to its decentralized structure based in several countries including Denmark, Estonia, Australia, and Vanuatu; KaZaA later dropped out of the suit), at <http://www.wired.com/wired/archive/11.02/kazaa.html>.

7. See *Grokster*, 259 F. Supp. 2d at 1046 (granting one defendant's motion for summary judgment and another defendant's motion for partial summary judgment).

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

9. 17 U.S.C. § 512(h) (2000).

10. The RIAA is a trade group that represents the U.S. recording industry, consisting of more than 500 companies engaged in the creation, manufacturing, and distribution of approximately 90% of all legitimate sound recordings produced and sold in the United States. About Us, Recording Industry of America, at <http://www.riaa.com/about/default.asp> (last visited Mar. 8, 2004).

11. *In re Verizon Internet Servs., Inc.*, 257 F. Supp. 2d 244, 246-47 (D.D.C. 2003) [hereinafter *Verizon II*]; *In re Verizon Internet Servs., Inc.*, 240 F. Supp. 2d 24, 26 (D.D.C. 2003) [hereinafter *Verizon I*].

12. *Verizon II*, 257 F. Supp. 2d at 246-47; *Verizon I*, 240 F. Supp. 2d at 42 n.17.

13. *Recording Indus. Ass'n of Am., Inc. v. Verizon Internet Servs., Inc.*, 351 F.3d 1229 (D.C. Cir. 2003).

14. *Id.* at 1231.

*RIAA v. Verizon* was the first major test case of the reach of the DMCA subpoena provision.<sup>15</sup> The stakes involved in the P2P file-sharing debate are of tremendous consequence for the content industries, ISPs, and individual consumers. The Court of Appeals' decision does much to address the valid concerns of many commentators that the subpoena provision, interpreted broadly, could threaten users' freedom of speech and expectations of anonymity and privacy. In addition, the decision does not prevent the RIAA (and other representatives of the content industries) from using other sufficiently effective avenues to vindicate their rights. Notwithstanding Verizon's victory, however, there is still reason for concern that Internet users will be subject to unfair invasions of their privacy and abuse of methods seeking to expose their identities.

This Note discusses the *Verizon* case and its implications. Part I reviews the technical and legal background behind the subpoena provision of the DMCA. Part II examines the legal issues presented and analyzes the D.C. Circuit's interpretation of the DMCA's subpoena provision. This Note then argues that the interpretation of the Court of Appeals is more consistent with congressional intent in protecting ISPs from unduly burdensome subpoena requests. This Note concludes by reviewing proposed legislative reforms that address the continuing concerns about misuse and abuse of the subpoena provision.

## I. BACKGROUND

### A. Technology

P2P is a type of network in which individual personal computers are connected to each other, allowing any computer to function as either a client or a server.<sup>16</sup> Unlike traditional client/server architectures, in which some computers are dedicated to serving the others, computers on P2P networks can access files on any other computer in the network.<sup>17</sup> P2P interactions often involve a request from one computer to the others on the network for a particular file or type of information.<sup>18</sup> The request is passed along across a wide network of machines until a match is made and the sought-after file can be transmitted directly to the original requester.<sup>19</sup>

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15. *Verizon I*, 240 F. Supp. 2d at 26.

16. This discussion is drawn generally from William Fisher & Christopher Yang, *Peer-to-Peer Copying*, The Berkman Center for Internet and Society, at <http://cyber.law.harvard.edu/ilaw/P2P.html> (last updated Nov. 8, 2001).

17. *Id.*

18. *Id.*

19. *Id.*

Each user on the P2P network may be identified by an Internet Protocol (IP) address, which can be traced back to the user's ISP.<sup>20</sup> Only the ISP, however, can link the IP address with the name and address of the person using the P2P program—the ISP's customer. Unless the ISP provides this information, the user's identity on the P2P network remains anonymous.

P2P technology has many unquestionably valuable uses, enabling, for example, a popular Internet-based telephony/voice chat program and the Search for Extraterrestrial Intelligence ("SETI") project.<sup>21</sup> P2P also makes duplication and distribution of electronic material possible on a scale never before imaginable.<sup>22</sup> For this reason, P2P has been "hailed as an artist's dream," enabling artists to control both publication and distribution and thus to "market their products directly to the consumer without the need for external management and intervention."<sup>23</sup> P2P software has been described as "the biggest revolution to happen on the Internet since the advent of email or the World Wide Web—millions of individuals use P2P now, and that number is growing exponentially."<sup>24</sup>

It hardly can be doubted, however, that the explosive popularity of P2P technology stems largely from the transfer of copyrighted material, particularly music files.<sup>25</sup> The compressed MP3 digital format allows for songs to be easily transmitted along P2P networks and stored on personal computers. The unauthorized distribution of music files has been devastating to the recording industry; worldwide CD sales fell in 2001 and 2002 for the first time since the CD format was introduced in the early 1980s,

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20. *Id.*

21. *Transcript of Verizon-RIAA Subpoena Discussion at Nat'l Press Club*, Declan McCullagh's Politech (Oct. 21, 2002), at <http://www.politechbot.com/p-04047.html> [hereinafter *Transcript*]. Information on SETI is available at SETI@home: Search for Extraterrestrial Intelligence at Home, at <http://setiathome.ssl.berkeley.edu> (last visited Mar. 10, 2004). Information about Skype is available at Skype, at <http://www.skype.skype.html>.

22. See Sonia K. Katyal, *Privacy vs. Piracy* 18 (July 15, 2003) ("When an authorized distributor is no longer needed, information exchanges can be multiplied without limit."), available at [http://www.law.berkeley.edu/institutes/bclt/ipsc/papers/IPSC\\_2003\\_Katyal.pdf](http://www.law.berkeley.edu/institutes/bclt/ipsc/papers/IPSC_2003_Katyal.pdf) (last visited Mar. 10, 2004).

23. *Id.* at 18 n.87.

24. Brief of Amici in Support of Verizon's Opposition to RIAA's Motion to Enforce at 6, *RIAA v. Verizon Internet Servs. Inc.*, 351 F.3d 1229 (D.C. Cir. 2003) (No. 1:02MS00323), available at [http://www.epic.org/privacy/copyright/verizon/1st\\_sub\\_amicus\\_aug30.pdf](http://www.epic.org/privacy/copyright/verizon/1st_sub_amicus_aug30.pdf).

25. One example of software which harnesses P2P technology, KaZaA, has 60 million users around the world and 22 million in the United States. Todd Woody, *The Race to Kill Kazaa*, WIRED NEWS, Feb. 2003, at <http://www.wired.com/wired/archive/11.02/kazaa.html>.

and at the same time, sales of blank CDs jumped forty percent.<sup>26</sup> Although these sales figures are likely based on many factors unrelated to P2P file-sharing,<sup>27</sup> “surveys of consumer behavior, data on piracy, and business assessments of record labels increasingly establish that unauthorized distribution of music represents a serious threat to the sound recording industry’s principal revenue stream: retail sales of CDs and tapes.”<sup>28</sup>

## B. Legal Background

When suing the P2P services proved to be an inadequate means of relief, the content industries turned to the DMCA to assist them in their legal battles against individual consumers. Though the DMCA was enacted in 1998, before the explosive rise in P2P popularity, its provisions had the potential to allow for the rapid release of identifying information of otherwise anonymous P2P users.<sup>29</sup> This, of course, was not one of the intended purposes of the Act. Rather, Congress intended the DMCA to serve two primary purposes: (1) to protect the interests of the content industries, and (2) to limit the liability of ISPs for acts of copyright infringement by customers using the providers’ systems or networks.<sup>30</sup> The first purpose was served by a series of complex provisions creating liability for various acts relating to circumvention of technical measures designed to protect digital content (the so-called “anti-circumvention provisions”).<sup>31</sup> In response to the second concern—the liability of ISPs for the infringing acts of their users—Congress added a new section to the Copyright Act, entitled “Limitations on liability to material online,” which created a series of four “safe harbors” to shield ISPs from liability.<sup>32</sup> The creation of these safe harbors was considered necessary because, pre-DMCA, the application of traditional copyright principles often led courts to impose liability

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26. Menell, *supra* note 1, at 119; Brad King, *Slagging Over Sagging CD Sales*, WIRED NEWS, Apr. 17, 2002 (reporting that the “International Federation of the Phonographic Industry (“IFPI”) announced that global music sales declined by 5 percent in 2001”), at <http://www.wired.com/news/mp3/0,1285,51880,00.html>; Charles C. Mann, *The Year the Music Dies*, WIRED NEWS, Feb. 2003 (reporting that CD sales for the first six months of 2002 fell 11 percent), at <http://www.wired.com/wired/archive/11.02/dirge.html>.

27. Menell, *supra* note 1, at 119-20.

28. *Id.* (citations omitted).

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

30. *Verizon I*, 240 F. Supp. 2d 24, 36 (D.D.C. 2003).

31. Pub. L. No. 105-304, § 103, 112 Stat. at 2887 (codified at 17 U.S.C. § 1201 (2000)).

32. 17 U.S.C. § 512(a)-(d).

on ISPs for the acts of their users, even those over which they had no control, threatening to stall the expansion of the Internet.<sup>33</sup>

The subpoena provision, delineated in § 512(h), states that a copyright owner may “request the clerk of any United States district court to issue a subpoena to [an ISP] for identification of an alleged infringer.”<sup>34</sup> The request must include a copy of notification, a proposed subpoena, and a sworn declaration that the information sought is for the sole purpose of protecting copyright.<sup>35</sup> Upon fulfillment of these minimal requirements and delivery of the subpoena to the ISP, the identity of the infringing subscriber must be disclosed, whether or not the ISP has determined that the content in question actually violates copyright laws.<sup>36</sup>

What was unclear prior to the *Verizon* litigation was whether the subpoena provision applied to ISPs across the board, regardless of their function, or whether any of the same safe harbor provisions that shielded ISPs from liability for copyright infringement also relieved them of the obligation to answer the subpoenas. For that reason, the subpoena provision delineated in § 512(h) must not be isolated from the context of the overall structure and purpose of the safe harbor provisions.<sup>37</sup> Section 512 generally defines the conditions under which ISPs may be held liable for copyright infringement.<sup>38</sup> The section lists four safe harbor provisions, each providing protection for a specific ISP function.<sup>39</sup> Generally, an ISP is immune from damages for: (a) transitory digital network communications; (b) system caching; (c) information residing on systems or networks at the direction of users; and (d) information location tools.<sup>40</sup>

The safe harbor most important to the *Verizon* litigation is § 512(a), which shields ISPs from liability when they are acting as mere conduits for information—as is the case when ISP subscribers trade files among themselves in a P2P environment.<sup>41</sup> If the ISP meets certain conditions, it will not be liable for the user’s copyright infringement when the ISP is

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33. See generally Jennifer Bretan, Note, *Harboring Doubts About the Efficacy of § 512 Immunity Under the DMCA*, 18 BERKELEY TECH. L.J. 43 (2003).

34. 17 U.S.C. § 512(h)(1).

35. *Id.* § 512(h)(2)(A)-(C).

36. *Id.* § 512(h)(5).

37. *Verizon I*, 240 F. Supp. 2d 24, 26 (D.D.C. 2003).

38. David L. Hayes, *Copyright Liability of Online Service Providers* (pt. 2), 19 COMPUTER & INTERNET LAW 15, 22 (2002).

39. 17 U.S.C. § 512(a)-(d).

40. *Id.*

41. See 3 NIMMER & NIMMER, *supra* note 2, § 12B.02[B] (identifying the first safe harbor provision as protecting those ISPs engaged in “essentially conduit only functions”).

only “transmitting, routing, or providing connections for, material through a system or network controlled or operated by or for the service provider,” including the intermediate and transient storage of that material.<sup>42</sup>

The remaining three safe harbors also play a crucial role in the Court of Appeals’ decision in favor of Verizon. Subsection 512(b), covering system caching, provides a safe harbor for “infringement of copyright by reason of the intermediate and temporary storage of material on a system or network controlled or operated by or for the [ISP].”<sup>43</sup> Subsection 512(c) limits ISP liability for copyrighted material that is stored on the service provider’s network or system at the direction of the end user, where the ISP receives no financial benefit from the infringing activity, and where, upon obtaining notice or knowledge of the infringing material, the ISP acts expeditiously to remove, or disable access to, the infringing content.<sup>44</sup> This provision requires that the ISP designate an agent to “receive notifications of claimed infringement”<sup>45</sup> and also describes the requirements for notices of infringement which mandate that ISPs take down infringing material.<sup>46</sup> Finally, subsection 512(d), “Information location tools,” provides a safe harbor from liability “for infringement of copyright by reason of the provider referring or linking users to an online location containing infringing material or infringing activity, by using information location tools” such as “a directory, index, reference, pointer, or hypertext link.”<sup>47</sup>

## II. THE CASE

### A. Facts and Procedural History

In July 2002, the RIAA issued a subpoena on Verizon under § 512(h) of the DMCA, seeking the identity of an alleged copyright infringer.<sup>48</sup> Verizon moved to quash the subpoena, arguing that the subpoena power authorized by § 512(h) did not apply to ISPs when they were only functioning as conduits as described in the safe harbor provision in § 512(a).<sup>49</sup> In January 2003, the federal district court in Washington, D.C., rejected Verizon’s interpretation of the subpoena provision and ordered Verizon to reveal the subscriber’s identity, deciding the question strictly on statutory

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42. 17 U.S.C. § 512(a).

43. *Id.* § 512(b)(1).

44. *Id.* § 512(c)(1)(B)-(C).

45. *Id.* § 512(c)(2).

46. *Id.* § 512(c)(3).

47. *Id.* § 512(d).

48. *Verizon II*, 257 F. Supp. 2d 244, 247 (D.D.C. 2003).

49. *Id.*; see *Verizon I*, 240 F. Supp. 2d 24, 32-33 (D.D.C. 2003).

grounds by examining the DMCA's language, structure, purpose, and legislative history.<sup>50</sup>

Verizon appealed that decision and moved to stay the court's order pending resolution of its appeal, asserting additional constitutional challenges as the primary basis for a stay.<sup>51</sup> Verizon claimed that the court's construction of § 512(h) "raised serious questions regarding the First Amendment rights of Internet users and presented a critical issue whether a subpoena could issue under Article III without an actual 'case or controversy' pending in federal court."<sup>52</sup>

Meanwhile, the RIAA served a second subpoena on Verizon in February 2003.<sup>53</sup> Verizon moved to quash the second subpoena, this time directly presenting the constitutional challenges.<sup>54</sup> The district court was thus able to resolve both the motion to stay on the first subpoena and the constitutional challenges to the second subpoena on the same grounds.<sup>55</sup> The court found that (1) the subpoena power authorized under the DMCA did not violate the case or controversy requirement of Article III, (2) the subpoena power authorized under the DMCA provided sufficient safeguards and judicial supervision to protect Internet users' First Amendment rights, and (3) Verizon was not entitled to a stay pending appeal.<sup>56</sup>

In December 2003, the D.C. Circuit Court of Appeals reversed the district court's ruling solely on the basis of statutory interpretation and without reaching the constitutional issues.<sup>57</sup> The court reached its decision by examining § 512(h) specifically by its terms, as well as considering the overall structure, legislative history, and purpose of the DMCA.<sup>58</sup> The court concluded that a § 512(h) subpoena may be issued only to an ISP that stores material that is infringing or the subject of infringing activity on its servers, as under § 512(b)-(d).<sup>59</sup> The court therefore granted Verizon's order to quash the second subpoena and vacated the order enforcing the first.

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50. See *Verizon I*, 240 F. Supp. 2d at 44-45.

51. *Verizon II*, 257 F. Supp. 2d at 248.

52. *Id.* at 247-48.

53. *Id.* at 248.

54. *Id.*

55. *Id.*

56. *Id.* at 275.

57. *Recording Indus. Ass'n of Am., Inc. v. Verizon Internet Servs., Inc.*, 351 F.3d 1229, 1231 (D.C. Cir. 2003).

58. *Id.* at 1234-39.

59. *Id.* at 1233.

## B. The Court's Analysis

### 1. Statutory Interpretation

#### a) Section 512(h) By Its Terms

The D.C. Circuit began its analysis with the text of the statute, examining the meaning of, and interaction between, § 512(h) and 512(a)-(d).<sup>60</sup> The court considered whether an ISP must comply with a subpoena authorized under § 512(h), when the ISP claims that it qualifies for the safe harbor protection defined by § 512(a).<sup>61</sup> The court found that § 512(h) did not authorize a subpoena in such a situation.<sup>62</sup>

To reach its finding, the court noted that § 512(a) did not contain a so-called “notice and takedown provision” although this was present in § 512(b)-(d), the other categories of ISP function granted safe harbor protection (caching, storing, and linking).<sup>63</sup> The notice and takedown provision makes the ISP’s protection for liability for copyright infringement conditional upon the ISP responding, after notification, “to remove, or disable access to, the material that is claimed to be infringing.”<sup>64</sup> In turn, the subpoena provision at § 512(h)(4) requires that a party seeking a subpoena include “a copy of a notification [of claimed infringement, as] described in [§ 512](c)(3)(A).”<sup>65</sup> As Verizon successfully argued, however, this requirement cannot be met when ISPs are merely functioning as conduits, because copyright owners cannot identify material on the ISPs’ servers “to be removed or access to which is to be disabled.”<sup>66</sup> Since infringing material obtained via P2P networks is located on the computer of the individual user and not on an ISP’s servers, the ISP can neither “remove” nor “disable access to” the infringing material.<sup>67</sup> In short, because the RIAA could not possibly meet the requirements of the notice and takedown provision at § 512(c)(3)(A)(iii). Where Verizon acted as a mere conduit for information, it also could not possibly meet all of the requirements of the subpoena provision at § 512(h)(4).

The RIAA contended, however, that access to infringing material could be disabled—by terminating the subscriber’s Internet account.<sup>68</sup> The

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60. *Id.* at 1234.

61. *Id.*

62. *Id.* at 1235.

63. *Id.* at 1234.

64. *See* 17 U.S.C. § 512(b)(2)(E), (c)(1)(C), (d)(3) (2000).

65. *Id.* § 512(c)(3)(A)(iii); *RIAA*, 351 F.3d at 1234.

66. *RIAA*, 351 F.3d at 1235 (internal quotation marks omitted).

67. *Id.*

68. *Id.*

court dismissed this argument by showing that Congress considered “disabling an individual’s access to infringing material and disabling access to the internet [sic] to be different remedies for the protection of copyright owners.”<sup>69</sup> The court stated that there were distinct statutory remedies which “establish that terminating a subscriber’s account is not the same as removing or disabling access by others to the infringing material resident on the subscriber’s computer.”<sup>70</sup>

Finally, the RIAA argued that the broad definition of ISP in “§ 512(k)(1)(B) [would make] § 512(h) applicable to an ISP regardless what function it performs with respect to infringing material.”<sup>71</sup> The court called this argument “bordering upon the silly,” saying that the provisions of § 512(h) clearly state that “a subpoena may issue to an ISP only under the prescribed conditions regarding notification.”<sup>72</sup> As described above, however, any notice to an ISP concerning its activity as a mere conduit would not satisfy the notice requirement of § 512(c)(3)(A)(iii), and is therefore ineffective.<sup>73</sup> Because this notice requirement cannot be met, § 512(h) by its terms does not by its terms authorize the subpoenas upon Verizon.<sup>74</sup>

#### b) Structure

Verizon also argued that “the subpoena provision, § 512(h), relate[d] uniquely to the safe harbor in § 512(c) for ISPs engaged in storing copyrighted material.”<sup>75</sup> It based this argument on the “three separate cross-references” in § 512(h) to the notification procedure described in § 512(c)(3)(A).<sup>76</sup> The court agreed that the references suggest that “the subpoena power of § 512(h) applies only to ISPs engaged in storing copyrighted material and not to those engaged solely in transmitting it on the behalf of others.”<sup>77</sup> However, the RIAA pointed out in response that since §§ 512(b) and (d) also contain clauses requiring “notification . . . as described in [§ 512](c)(3),”<sup>78</sup> § 512(h) should not be confined “solely to the functions described in § 512(c) but must also include § 512(b) and (d).”<sup>79</sup>

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69. *Id.*

70. *Id.*

71. *Id.* at 1236.

72. *Id.*

73. *Id.*

74. *Id.*

75. *Id.*

76. *Id.*

77. *Id.* at 1237.

78. *Id.*

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

The RIAA attempted to extend the reach of § 512(h) to include § 512(a), but the court found this to be a non sequitur.<sup>80</sup> However, the court agreed with the RIAA that Verizon's interpretation overreached.<sup>81</sup> Since the ISP activities "described in § 512(b) and (d) are storage functions,"<sup>82</sup> "they are, like the ISP activities described in § 512(c), and unlike the transmission functions listed in § 512(a), susceptible to the notice and take down regime of § 512(b)-(d), of which the subpoena power of § 512(h) is an integral part."<sup>83</sup> Therefore, § 512(h) subpoenas may be applied to ISPs engaging in the activities described in § 512(b), (c), and (d), but not if they are merely transmitting data as in § 512(a).<sup>84</sup>

## 2. *Legislative history*

The RIAA cited congressional testimony and news articles available to Congress prior to the passage of the DMCA in order to support its claim that § 512(h) should reach P2P technology.<sup>85</sup> These sources referred to bulletin board services (BBSs) and file transfer protocol (FTP) sites, which the RIAA said were precursors to P2P.<sup>86</sup> The court dismissed these claims, stating that legislative history serves to inform the court's reading if the statutory text is ambiguous, but "cannot lead the court to contradict the legislation itself."<sup>87</sup> Furthermore, the legislative history of the DMCA "betray[ed] no awareness whatsoever that internet [sic] users might be able directly to exchange files containing copyrighted works."<sup>88</sup> To the contrary, P2P software was "not even a glimmer in anyone's eye when the DMCA was enacted."<sup>89</sup> Therefore Congress could not anticipate the development of P2P technology and did not intend that § 512(h) subpoenas be applied to ISPs acting as conduits for P2P file-sharing.<sup>90</sup>

## 3. *Purpose of the DMCA*

Finally, the RIAA argued that there was no policy justification for limiting the § 512(h) subpoena to situations where the ISP stores infringing material on its system, because most copyright infringement occurs in the

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80. *Id.*

81. *Id.*

82. *Id.*

83. *Id.*

84. *Id.*

85. *Id.*

86. *Id.*

87. *Id.*

88. *Id.*

89. *Id.* at 1238 (quoting *Verizon I*, 240 F. Supp. 2d 24, 38 (D.D.C. 2003)).

90. *Id.*

P2P context, where the ISP is merely functioning as a conduit.<sup>91</sup> Thus, according to the RIAA, this interpretation of the statute “would defeat the core objectives” of the DMCA.<sup>92</sup> While sympathetic to these concerns, the court found that it was “not the province of the courts . . . to rewrite the DMCA in order to make it fit a new and unforeseen internet [sic] architecture.”<sup>93</sup> Such considerations, it suggested, should be addressed through new legislation by Congress.<sup>94</sup>

Indeed, many congressional committees are currently considering how best to deal with the threat to copyrights posed by P2P file-sharing schemes.<sup>95</sup> Some examples of proposed legislation will be discussed in the following section.

### III. DISCUSSION

#### A. Statutory Construction and Limits on the Application of the DMCA’s Subpoena Provision

In accordance with the court’s decision, many commentators believe that the DMCA was not intended to be applied to P2P networks at all.<sup>96</sup> Although P2P existed in a very rudimentary form at the time the DMCA was enacted, it would have been impossible to anticipate the extent to which P2P technology would expand and contribute to infringement. The court’s analysis of the statutory text also rests on solid ground. Apart from the general concern about the overall applicability of the DMCA to P2P, a plain reading of the statutory language of § 512 strongly indicates that ISPs are only liable for their users’ acts of copyright infringement and are required to act when they receive notice about infringed content which is stored on the ISP’s networks. In a situation involving P2P, the ISP serves merely as a conduit and should not be liable, as stated in subsection (a).<sup>97</sup>

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91. *Id.*

92. *Id.*

93. *Id.* (internal quotation marks omitted).

94. *Id.*

95. *Id.*

96. *Transcript, supra* note 21.

97. Section 512(a) states:

Transitory digital network communications.—A service provider shall not be liable . . . for infringement of copyright by reason of the provider’s transmitting, routing, or providing connections for, material through a system or network controlled or operated by or for the service provider, or by reason of the intermediate and transient storage of that material in the course of such transmitting, routing, or providing connections. . . .

Furthermore, a subpoena under the DMCA is conditioned on notification under § 512(c)(3)(A), “and that provision is addressed to ‘material that resides on a system or network controlled or operated by or for [a] service provider.’”<sup>98</sup> Verizon “only provided the customer with Internet connectivity service” and the allegedly infringing material was only located on the subscriber’s own computer; none “‘reside[d] on a system or network controlled or operated by or for the service provider.’”<sup>99</sup>

The RIAA argued that since subsections (b) and (d) refer to subsection (c) notice requirements, this reference was evidence that subsection (c) notification requirements, and thus the scope of the subsection (h) subpoena power, are not limited to subsection (c) situations where the material resides on the ISP’s network or system.<sup>100</sup> However, the inclusion of subsection (c) notice requirements in (b) and (d) actually indicate a greater degree of ISP liability in those situations (caching and linking), whereas the lack of any mention of any of the notice and take down language from (c) in subsection (a) indicates no duty on the part of the ISP to “remove or disable access to” infringing material. There is no clause in subsection (a), as is present in subsections (b), (c), and (d), requiring the ISP to take any sort of action against infringers.

The Court of Appeals’ decision is also consistent with one of the primary purposes of the DMCA; in enacting the law, Congress intended to limit the liability of ISPs, in addition to securing the rights of copyright holders, as implied by its complete title, “Limitations on liability relating to material online.”<sup>101</sup> Therefore, the burden carried by the ISP in enforcing the subpoena provision is a crucial consideration, particularly because the assessment is complicated by another new technology development in addition to P2P software—that is, the use of “bots,” a software tool used

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17 U.S.C. § 512(a) (2000).

98. *Verizon I*, 240 F. Supp. 2d 24, 29 (D.D.C. 2003) (emphasis omitted).

99. *Id.*

100. *Cf. id.* at 32-33. Section 512(b)(2)(E) states that “the service provider responds expeditiously to remove, or disable access to, the material that is claimed to be infringing upon notification of the claimed infringement as described in subsection (c)(3).” 17 U.S.C. § 512(b)(2)(E). Similarly, § 512(d)(3) states that “upon notification of claimed infringement as described in subsection (c)(3), responds expeditiously to remove, or disable access to, the material that is claimed to be infringing or to be the subject of infringing activity.” *Id.* § 512(d)(3).

101. *See* 17 U.S.C. § 512; Bretan, *supra* note 33, at 44 (“The intent was to strike an appropriate balance between ‘securing copyright in the global, digital environment,’ and the need to provide protective limitations on liability for ISPs ‘in order to attract the substantial investments necessary to continue the expansion . . . of the Internet.’”) (quoting 114 CONG. REC. S11, 887-92 (daily ed. Oct. 8, 1998)).

by copyright owners to monitor the Internet and detect unauthorized distribution of copyrighted material.<sup>102</sup> Verizon argued that “‘bots’ would inundate service providers with thousands of computer-generated subpoenas seeking to identify infringers.”<sup>103</sup>

The burden which would have fallen upon ISPs, if the subpoena provision could be applied broadly, would have been substantial. Section 512(c)(2) requires that ISPs assign an agent to handle subpoena requests specifically.<sup>104</sup> In just one year, Pacific Bell Internet Services and its affiliates received more than 16,700 DMCA notices from the RIAA agent MediaForce.<sup>105</sup> All ISPs would be required to answer these subpoena requests or risk liability. Some have considered the staggering number of requests to be an attempt at ISP harassment, and owners of smaller ISPs have complained that they are unable to afford to keep up with the number of requests and are at risk of becoming so overwhelmed that they may actually be driven out of business.<sup>106</sup> It seems unlikely that Congress would have enacted the DMCA to have this end result, when the purpose of § 512 was to place limitations on the liability of ISPs, not to burden them further.

Notwithstanding the Court of Appeals’ interpretation of the statute, copyright owners still have an adequate means of enforcing their rights against P2P users: the so-called “John Doe” lawsuit. This method was suggested by Verizon as an effective alternative to using the subpoena provisions<sup>107</sup> and the RIAA did in fact file hundreds of such lawsuits soon after the Court of Appeals issued its decision.<sup>108</sup> The John Doe procedure allows the RIAA to file lawsuits which identify the defendants only by their numerical IP addresses.<sup>109</sup> After filing these suits, the RIAA would be able to subpoena the information necessary to identify the defendants by name. From the perspective of Internet users, John Doe lawsuits offer many favorable additional protections, both procedural and substantive.

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102. *Verizon I*, 240 F. Supp. 2d at 38.

103. *Id.*

104. 17 U.S.C. § 512(c)(2).

105. Complaint for Declaratory Relief ¶ 46, *Pacific Bell Internet Servs. v. RIAA* (No. C 03 3560 JL), available at [http://www.techlawjournal.com/courts2003/pbis\\_riaa/20030730.asp](http://www.techlawjournal.com/courts2003/pbis_riaa/20030730.asp).

106. *Transcript*, *supra* note 21.

107. *Verizon I*, 230 F. Supp. 2d at 39.

108. Katie Dean, *RIAA Strikes Again at Traders*, WIRED NEWS, Jan. 21, 2004 (quoting Jason Schultz, an attorney for the Electronic Frontier Foundation), at <http://www.wired.com/news/digiwood/0,1412,61989,00.html>.

109. *More Song Swappers Sued*, CNNMONEY (Jan. 21, 2004), at [http://money.cnn.com/2004/01/21/technology/riaa\\_suits/index.htm?cnn=yes](http://money.cnn.com/2004/01/21/technology/riaa_suits/index.htm?cnn=yes).

Verizon had argued that a broad interpretation of the subpoena provision would trample on users' First Amendment rights to privacy and anonymity, as well as allow for abuse of the process because of the minimal judicial oversight afforded by the provision. Under the John Doe process, Verizon argued, "there would be protections, both procedural and substantive, for the user's rights, and service providers would have the opportunity to seek to quash the subpoena."<sup>110</sup>

## B. Constitutional Considerations

### 1. *Privacy and the First Amendment*

Although Verizon raised some constitutional arguments, the appeals court did not reach these issues.<sup>111</sup> The appellate decision alleviated, but did not eliminate, important constitutional issues regarding privacy, the First Amendment, and Article III judicial powers.

The Court of Appeals' decision, intentionally or not, bolstered the privacy of Internet users, which is an area of great concern for many; a recent survey by the Federal Trade Commission indicated that ninety-two percent of Americans are "concerned about threats to their personal privacy when they use the Internet" and seventy-two percent are "very concerned."<sup>112</sup> Internet users have become accustomed to the expectation that their online activities are private; "many individuals poorly assess the risk of online surveillance and continue to engage in online activities without realizing the risk of exposure."<sup>113</sup> Perhaps they feel secure because they usually access the Internet from the privacy of their own homes, under the illusion of total anonymity. The assumption is that their identities are private unless there is good cause for them to be revealed.

Therefore, it often comes as a great surprise to learn that what one does on the Internet is far from private. The dean of the Harvard Divinity School was forced to resign after it was discovered he had downloaded pornography on his home computer.<sup>114</sup> The truth that most of the public is not aware of is that "You have zero privacy. Get over it."<sup>115</sup> Enforcing the subpoena provision of the DMCA as the RIAA intended would have rein-

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110. *Verizon I*, 230 F. Supp. 2d at 39-40.

111. See *RIAA v. Verizon Internet Servs., Inc.*, 351 F.3d 1229, 1331 (D.C. Cir. 2003).

112. *Federal Trade Commission Materials*, 1241 PLI/CORP. 731, 762 (2001).

113. Katyal, *supra* note 22, at 20.

114. See JEFFERY ROSEN, *THE UNWANTED GAZE: THE DESTRUCTION OF PRIVACY IN AMERICA* 159-161 (2001).

115. See A. Michael Froomkin, *The Death of Privacy?*, 52 STAN. L. REV. 1461, 1462 (2000) (quoting Sun Microsystems, Inc., CEO Scott McNealy).

forced this idea that online privacy is nonexistent, by forcing ISPs to become the “weak links in the chain of privacy.”<sup>116</sup> A broad subpoena power would allow the veil of anonymity to be pierced with great ease; it would enable just about anyone to pose as a copyright holder and make up a claim of infringement in order to expose another person’s identity.

Part of the reason for this discrepancy between expectations and reality is that it is unclear how strong the right to privacy is. While “there is no specific constitutional right to privacy, informational or otherwise,”<sup>117</sup> “the Supreme Court has developed a limited, ‘penumbral’ conception of this right flowing from a variety of constitutional sources—the First, Third, Fourth, Fifth, Ninth and Fourteenth Amendments.”<sup>118</sup> The United States Supreme Court hinted at a constitutional right to informational privacy in *Whalen v. Roe* in 1977,<sup>119</sup> but only a handful of scholars believe that the Supreme Court will strengthen that argument any further.<sup>120</sup>

In *United States v. Kennedy*, a case involving file-sharing and child pornography, the court rejected the defendant’s arguments raised in support of his expectation of privacy, suggesting that individuals who engage in file-sharing activities essentially have no right of privacy because they have voluntarily turned over information to third parties through sharing files.<sup>121</sup> However, while individuals may be willing to share files with the public, they may not be aware that their identities may also be subject to exposure. In addition, *RIAA v. Verizon* is distinguished in that the DMCA subpoena provision would allow for *private* enforcement and intrusion into online anonymity. While one might not expect to be able to maintain anonymity against a government prosecution, it would seem reasonable to expect that one’s identity would be shielded from the prying of private third parties. Instead, Internet users find that “[r]ather than validating a person’s expectations of privacy, the law eviscerates them.”<sup>122</sup>

The district court quickly dismissed Verizon’s arguments relating to privacy and First Amendment rights to anonymous speech, stating that the subpoena provision is not aimed at suppressing core expression, and that

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116. Elbert Lin, *Prioritizing Privacy: A Constitutional Response to the Internet*, 17 BERKELEY TECH. L. J. 1085, 1088 (2002).

117. Katyal, *supra* note 22, at 10.

118. *Id.* at 10 n.38.

119. 429 U.S. 589, 599-600 (1977) (upholding a New York statute that required the collection of data concerning a patient and prescribed drugs because the statute was a sufficiently grievous threat to privacy interests); Lin, *supra* note 116, at 1089.

120. See Lin, *supra* note 116, at 1089 n.13 (listing supporters of this view).

121. *United States v. Kennedy*, 81 F. Supp. 2d 1103, 1110 (D. Kan. 2000).

122. Katyal, *supra* note 22, at 22.

copyright infringement is not a protected form of expression.<sup>123</sup> However, the court overlooked the chilling effects that its interpretation of the subpoena provision could have. If users know that their ISPs will turn over their identifying information immediately, without even investigating whether any copyright infringement has actually taken place, they will be reluctant to exercise legitimate use of their Internet services out of fear that they may be exposed at any moment. The effects would be especially detrimental when the subpoena power is wielded without judicial supervision, and is thus easily open to abuse.

## 2. *Judicial Power Under Article III*

Verizon had also contended that § 512(h), as interpreted by the RIAA and the district court, “violated Article III of the Constitution because it authorizes federal courts to issue subpoenas in the absence of a pending case or controversy.”<sup>124</sup> Citing a number of cases, Verizon argued that “the power to issue subpoenas exists only in the context of a case that is properly pending before a federal court” and that “federal judges can neither exercise authority outside of the context of an actual case or controversy nor undertake non-judicial functions.”<sup>125</sup> Although the RIAA had not made any allegation of intent to file a lawsuit against the individual in question, the district court noted that § 512(h) does require as a prerequisite to court action “a significant showing as to the existence of a breach or violation into which the court could ultimately be drawn,”<sup>126</sup> and stated that this was an adequate reason to compel Verizon to disclose the individual’s identity.<sup>127</sup>

The district court also considered the issuance of a subpoena to be merely an administrative or clerical duty not requiring actual judicial discretion; if the requirements described in the statute are met, the subpoena must be issued.<sup>128</sup> However, it did not address the heart of the concern and rationale underlying the pending case or controversy requirement—that the invasion of privacy brought about by a subpoena should only be enabled when there is actual justification, so that the subpoena power is not abused. While the problem of lack of judicial oversight is somewhat alleviated by the use of John Doe lawsuits as

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123. *Verizon II*, 257 F. Supp. 2d 244, 260 (D.D.C. 2003).

124. *Id.* at 248.

125. *Id.* at 248-49.

126. *Id.* at 253.

127. *Id.*

128. *Id.* at 256-57.

discussed in Part III.A, the John Doe procedure does not eliminate the potential for abuse, which is still great.

Commentators have often noted that the § 512 subpoena provision is ripe for abuse.<sup>129</sup> The lack of judicial oversight or any requirement for notice or opportunity for objection gives rise to serious concerns about due process:

The DMCA, according to the RIAA, gives [it] broad, unchecked, quasi-judicial authority to any private entity that has a copyright. RIAA wants to use a judicial tool, a subpoena, without judicial oversight. Completely divorced from any judicial oversight. Not only divorced, but in an expedited proceeding so that everybody involved here must act very quickly. There's no time to give the purported copyright infringer notice of the subpoena and an opportunity to object to it. It must happen instantaneously and that is not appropriate.<sup>130</sup>

Critics of the provision say that the provision's language is too broad, for almost everybody is a copyright holder in some manner and thus could fabricate a claim and request information about anybody on the Internet: "With this tool, any copyright holder, any purported copyright holder can silence critics, retaliate against whistle-blowers, harass individuals that they consider their enemies, [and] stop people from distributing politically damaging memos."<sup>131</sup> Thus, no evidence or fact is required for a subpoena—mere suspicion is adequate.<sup>132</sup> Purported copyright holders might use the subpoena powers to "investigate and gather information . . . that would not generally be available in the off-line world."<sup>133</sup>

Recent examples of DMCA abuse clearly justify these concerns. Wal-Mart sent a § 512(h) subpoena to a comparison-shopping website seeking the identity of a user who had anonymously posted information about an upcoming sale, claiming incorrectly that its prices were copyrighted.<sup>134</sup>

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129. 3 NIMMER & NIMMER, *supra* note 2, § 12B.09[A] (quoting *Hearing Before the Subcomm. on Telecomm., Trade, & Consumer Prot.*, 105th Cong. 16 (June 5, 1998) (statement of Electronic Privacy Information Center)).

130. *Transcript*, *supra* note 21.

131. *Id.*

132. Sam Brownback, *Who Will Police the Pirate-Hunters?*, WALL ST. J., Oct. 7, 2003, [http://www.eff.org/share/20031007\\_wsj\\_piratehunters.pdf](http://www.eff.org/share/20031007_wsj_piratehunters.pdf).

133. 3 NIMMER & NIMMER, *supra* note 2, at § 12B.09[A].

134. See Megan E. Gray, *FatWallet Challenges Abusive DMCA Claims and Protects Users' Privacy Rights*, FatWallet.com (Dec. 2, 2002), at <http://www.fatwallet.com/forums/messageview.cfm?catid=18&threadid=129657>; Declan McCullagh, *Wal-Mart Backs Away from DMCA Claim*, CNET NEWS.COM, Dec. 5, 2002 [hereinafter McCullagh, *Wal-Mart*], at [http://news.com.com/2102-1023\\_3-976296.html?tag=st\\_util\\_print](http://news.com.com/2102-1023_3-976296.html?tag=st_util_print).

Titan Media, the leading producer of gay pornographic videos in the U.S., sent a § 512(h) subpoena demanding identities of alleged infringers.<sup>135</sup> Instead, Titan offered an amnesty program which threatened to publicly identify those who had downloaded its copyrighted gay porn unless they paid for the products.<sup>136</sup> Senator Sam Brownback (R-Kan.) has harshly criticized this abusive use of the DMCA: "Titan probably calls that intellectual property protection. I call that blackmail."<sup>137</sup>

Even with legitimate intentions, copyright holders serving subpoenas have made many errors affecting innocent people due to the automated nature of their search methods and lack of responsible checking. The RIAA served a subpoena on a child because of a file on his computer which contained the words "Harry Potter" but which turned out in fact to be a noninfringing book report.<sup>138</sup> In another mistake, the RIAA nearly forced department servers at Penn State University offline during exam period due to misidentifying a song recorded by a group of astronomers posted by an astrophysics professor named Peter Usher, which the RIAA's search crawler had confused with the recording artist Usher.<sup>139</sup> In another example of plain error, the Massachusetts Institute of Technology also received an RIAA subpoena and released the name of a Romanian student associated with the requested IP address.<sup>140</sup> Despite having been out of the country at the time of the alleged infringement and declaring that he did not even own a computer, the student was unable to prevent release of his name and identifying information.<sup>141</sup>

These and many other mistakes indicate that the RIAA does not take care to ensure that the subpoenas it is requesting are actually on people

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135. Complaint for Declaratory Relief, *supra* note 105, ¶ 2.

136. Brownback, *supra* note 132.

137. *Id.*

138. See *Intellectual Prop. Theft Online: Hearing on H.R. 5211 Before the House Judiciary Comm., Subcomm. on Courts, the Internet, and Intellectual Prop.*, 107th Cong. (Sep. 26, 2002) (statement of Gigi B. Sohn, President, Public Knowledge), 2002 WL 100237623; *Transcript*, *supra* note 21.

139. Gil Kaufman, *RIAA Admits Piracy Goof*, ROLLINGSTONE.COM, May 14, 2003, available at <http://www.rollingstone.com/news/newsarticle.asp?nid=18053>; Declan McCullagh, *RIAA Apologizes for Threatening Letter*, CNET NEWS.COM, May 12, 2003 [hereinafter McCullagh, *RIAA Apologizes*], available at [http://news.com.com/2100-1025\\_3-1001095.html](http://news.com.com/2100-1025_3-1001095.html).

140. See Keith J. Winstein, *MIT Names Student As Alleged Infringer*, THE TECH, Sept. 9, 2003, available at <http://www-tech.mit.edu/V123/N38/38riaa.38n.html>.

141. *Id.*

who have committed any acts of copyright infringement at all.<sup>142</sup> This lack of checks or judicial supervision in the exercise of the subpoena power could lead to many abusive invasions of privacy or even harassment and non-copyright-related intimidation. Disincentives for abuse are addressed in the district court's opinion and in subsection 512(f) of the statute.<sup>143</sup> However, the damages are low, including mainly "costs and attorneys' fees," which may be zero when there has been no actual lawsuit filed against the alleged infringer. In addition, all that a copyright holder has to assert to defend against abuse is that the subpoena was issued in "good faith" without any intention to misrepresent. Therefore, the disincentives currently available in the DMCA are inadequate to prevent most abuses.

These concerns do not disappear entirely with the Court of Appeals' decision. Concerns about privacy and anonymity were not addressed by the court, and may continue to arise in other contexts, such as attempts to use the subpoena provision for ISP activities falling under the safe harbors described under § 512(b)-(d). The John Doe lawsuits, while an improvement in many respects over the subpoena provisions, may still be used abusively in ways that are invasive of users' rights of privacy and anonymity.

### C. Proposed Legislation

The *Verizon* case was a significant victory for users and ISPs concerned about privacy. For the time being, the RIAA is forced to resort to more cumbersome methods to enforce their rights, and will doubtless seek new legislation that will allow them to get at the identities of P2P users more directly. Should they succeed, Congress would do well to consider the abuses identified by Verizon in developing its constitutional arguments and instill into any laws sufficient protection to avoid such abuses in the future.

Proposed legislation may be necessary to curb the alarming trend toward more intimidating and intrusive actions by the content industries seeking to protect their interests. Strategies employed by the RIAA and other copyright holders have rapidly multiplied, each strategy more invasive than the last. Through a technique called spoofing, the recording in-

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142. For more examples, see Elect. Frontier Found., *Unsafe Harbors: Abusive DMCA Subpoenas and Takedown Demands*, at [http://www.eff.org/IP/P2P/20030926\\_unsafe\\_harbors.php](http://www.eff.org/IP/P2P/20030926_unsafe_harbors.php) (last visited Mar. 5, 2004).

143. See 17 U.S.C. § 512(f) (2000) (any person who "knowingly materially misrepresents" that activity is infringing "shall be liable for damages, including costs and attorneys' fees, incurred by the alleged infringer" as a result of the misrepresentation); *Verizon II*, 257 F. Supp. 2d 244, 263 (D.D.C. 2003).

dustry has flooded P2P networks with files featuring the names of popular songs and artists, but containing corrupted content.<sup>144</sup> The content industries would like to be able to use even more aggressive tactics in order to prevent infringement. Last term, Representative Howard Berman proposed the Peer-to-Peer Piracy Prevention Act, which would have authorized copyright holders to use illegal means to counter piracy, such as denial of service attacks, domain name hijacking, or even the release of computer viruses.<sup>145</sup> The Act would have immunized copyright holders from damage actions unless the damage to a computer exceeded \$250 and permission is granted by the U.S. Attorney General.<sup>146</sup> Public interest groups and the Computer and Communications Industry Association denounced this proposal as government-sanctioned “vigilante justice.”<sup>147</sup> Essentially, the proposed law would have given copyright holders “the power to ignore the law in pursuit of those that they decide are guilty. There is no warrant requirement, no trial, no prior notice to the targets, no due process, and very little recourse for innocent bystanders caught in the cross-fire.”<sup>148</sup> The bill has not been reintroduced so far this term.

Even more extreme consequences for infringement have been suggested. Senator Orrin Hatch has proposed destroying the computers of individuals who illegally download material, pointing out that damaging someone’s computer “may be the only way you can teach somebody about copyrights.”<sup>149</sup> Republican Congressman John Carter “recently suggested that jailing college students for piracy would deter other infringers, observing, ‘What these kids don’t realize is that every time they

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144. See Dawn C. Chmielewski, *Labels Open New Fire on Piracy*, SAN JOSE MERCURY NEWS, June 28, 2003, at 1A, available at <http://www.mercurynews.com/mlld/mercurynews/2002/06/28/news/3562276.htm>.

145. Peer-to-Peer Piracy Prevention Act, H.R. 5211, 107th Cong. (2002); see also Howard L. Berman, *Just Desserts for Scofflaws*, CNET NEWS.COM, July 9, 2002, at <http://news.com.com/2010-1078-942325.html>; Farhad Manjoo, *Sour Notes*, SALON.COM TECHNOLOGY, July 30, 2002, at [http://www.salon.com/tech/feature/2002/07/30/file\\_trading/print.html](http://www.salon.com/tech/feature/2002/07/30/file_trading/print.html); Declan McCullagh, *Could Hollywood Hack Your PC?*, CNET NEWS.COM, July 23, 2002 [hereinafter McCullagh, *Hollywood*], at <http://news.com.com/2100-1023-945923.html>.

146. McCullagh, *Hollywood*, *supra* note 145.

147. See Declan McCullagh, *Hollywood Hacking Bill Hits House*, CNET NEWS.COM, July 25, 2002 [hereinafter McCullagh, *Hacking Bill*], at <http://news.com.com/2100-1023-946316.html>.

148. Elec. Frontier Found, *The Berman P2P Bill: Vigilantism Unbound*, at [http://www.eff.org/IP/P2P/20020802\\_eff\\_berman\\_p2p\\_bill.php](http://www.eff.org/IP/P2P/20020802_eff_berman_p2p_bill.php) (last visited Mar. 5, 2004).

149. Associated Press *Senator Takes Aim at Illegal Downloads*, USA TODAY, June 18, 2003, available at [http://www.usatoday.com/tech/news/techpolicy/2003-06-18-hatch-wants-computers-dead\\_x.htm](http://www.usatoday.com/tech/news/techpolicy/2003-06-18-hatch-wants-computers-dead_x.htm) (quoting Sen. Orrin Hatch, R-Utah).

pull up music and movies and make a copy, they are committing a felony under the United States code.”<sup>150</sup>

While digital technologies have enabled infringement and piracy over the Internet to reach “epidemic proportions,”<sup>151</sup> such measures seem far too drastic, and can only lead to the content industries increasingly alienating their customers by treading upon their rights.

#### IV. CONCLUSION

The ruling against the RIAA’s use of the subpoena provision of the DMCA was a victory for proponents of privacy rights and P2P, but most likely will not dramatically affect the RIAA’s strategy of suing individual copyright infringers. Following the Court of Appeals’ decision, in January 2004, the RIAA filed lawsuits against 532 individuals using the John Doe procedure which identified the defendants only by their numerical IP addresses.<sup>152</sup> After filing these suits, the RIAA was able to subpoena the information necessary to identify the defendants by name.<sup>153</sup> Therefore, the only real difference is that the RIAA must now go through a slightly more difficult process in order to obtain these identities. As one attorney has commented,

It forces [the RIAA] to go before the judge to prove their case to some degree before they can even request people’s personal information. [¶] But it still doesn’t solve any of the problems that the recording industry is facing. It doesn’t put a single penny in the pockets of artists, and it says nothing about a business model that doesn’t involve lawsuits.<sup>154</sup>

Therefore, although the RIAA now cannot use the DMCA subpoena provision to sue infringers, its current approach to copyright infringement on P2P networks does not seem likely to solve the problem over the long run. New legislation that specifically addresses the problems presented by P2P technology is still ultimately necessary.

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150. Katyal, *supra* note 22, at 2 n.8 (quoting Rep. John Carter).

151. *Verizon II*, 257 F. Supp. 2d 244, 265 (D.D.C.) (quoting *United States v. Elcom, Ltd.*, 203 F. Supp. 2d 1111, 1132 (N.D. Cal. 2002)).

152. *More Song Swappers Sued*, CNNMONEY (Jan. 21, 2004), at [http://money.cnn.com/2004/01/21/technology/riaa\\_suits/index.htm?cnn=yes](http://money.cnn.com/2004/01/21/technology/riaa_suits/index.htm?cnn=yes).

153. *Id.*

154. Katie Dean, *RIAA Strikes Again at Traders*, WIRED NEWS, Jan. 21, 2004, at <http://www.wired.com/news/digiwood/0,1412,61989,00.html> (quoting Jason Schultz, an attorney for the Electronic Frontier Foundation).

## INTEL CORP. V. HAMIDI: TRESPASS TO CHATTELS AND A DOCTRINE OF CYBER-NUISANCE

By *Steven Kam*

It stands to reason that the faster a technology develops, the more rapidly it will surpass preexisting law, and the more prominent common law theories may become . . . . It is not surprising, therefore, that as the Internet geometrically expands its speed . . . intellectual property owners again must consider the common law as a source of protection . . . .<sup>1</sup>

The revival of the once moribund action of trespass to chattels exemplifies the truth of this statement. In *Intel Corp. v. Hamidi*, the California Supreme Court became the first state high court to recognize the application of this tort to networked computers.<sup>2</sup> The court affirmed the tort's expansion as a pragmatic answer to the problem of electronic invasions, but also imposed restraints to prevent the degradation of the Internet's usefulness through misuse of this tort.<sup>3</sup> The court's discussion of harms and benefits also transcended the rule-based construction of trespass to chattels. A reading of the analysis suggests that the tort may well come to resemble a doctrine of nuisance in cyberspace or pave the way for cyber-nuisance as an action unto itself.<sup>4</sup> The economic foundations of nuisance law adapt readily to the social and commercial realities of cyberspace, where the consequences of interconnected behavior demand a more balanced and nuanced analysis than bright-line rules can offer.

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1. Bruce P. Keller, *Condemned to Repeat the Past: The Reemergence of Misappropriation and Other Common Law Theories of Protection for Intellectual Property*, 11 HARV. J.L. & TECH. 401, 428 (1998).

2. *Intel Corp. v. Hamidi*, 30 Cal. 4th 1342 (2003).

3. See generally Dan Hunter, *Cyberspace as Place and the Tragedy of the Digital Anticommons*, 91 CALIF. L. REV. 439 (2003). Misuse could lead to a "tragedy of the anti-commons," in which the Internet never achieves its full potential due to excessive transactions costs (in this case, in the form of burdensome litigation and licensing procedures). *Id.* at 444. The court's opinion reflects that concern by quoting amici curiae, including Professor Mark Lemley, who note that such a tangle of property rights would significantly impede everyday activities on the Internet. See *Hamidi*, 30 Cal. 4th at 1362-63.

4. See Dan L. Burk, *The Trouble with Trespass*, 4 J. SMALL & EMERGING BUS. L. 27, 53-54 (2000) (suggesting "nuisance to websites" or "cyberspace nuisance" are better foundations than a doctrine of trespass for property rights in cyberspace).

Part I of this paper provides a primer on the technical terminology and concepts needed to understand the issues presented by the new generation of trespass to chattels cases. Part II summarizes modern treatment of trespass to chattels prior to *Hamidi*. Part III explains the facts of *Hamidi* and the court's addition of considerable flexibility in allowing the doctrine of trespass to chattels to reflect the realities of networked computers. It also discusses the selective rigidity which the court imposes for the sake of preventing overbreadth. Part IV discusses the court's balancing analysis of harms and benefits, which steps outside the literal, bright-line boundaries of personal property law and into the territory of nuisance law. Part V illustrates possible applications of nuisance law to cyberspace and demonstrates its relative advantages in governing activity on the Internet.

## I. TECHNICAL PRIMER

*Intel Corp. v. Hamidi*, on its most basic level concerns the permissibility of one of the most common forms of electronic communication on the Internet: e-mail. Intel Corporation owns and operates an e-mail system for use by its employees in business and reasonable personal use.<sup>5</sup> An ex-employee, Kenneth Kourosh Hamidi, sent several unsolicited e-mails to thousands of addresses on Intel's system, the contents of which were unsympathetic to Intel.<sup>6</sup> Intel then sought both technical and legal means to forbid Hamidi that use of its system.<sup>7</sup> By itself, e-mail is just a form of electronic communication, but its use in both commercial advertising as well as personal and business communication has given rise to many questions concerning its proper use.

### A. Basic Architecture of the Internet

Though any privately-owned computer qualifies as personal property, it must be understood that connecting such a computer to the Internet makes it accessible to many other entities attached to the architecture. The Internet is a network of computers which transmit information and data to one another through an established series of protocols.<sup>8</sup> Its utility increases exponentially as more computers are connected to it due to the phenomenon of "network benefits."<sup>9</sup> Each computer, as a point on the network,

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5. *Hamidi*, 30 Cal. 4th at 1349 n.1.

6. *Id.* at 1349, 1356.

7. *Id.* 1348-49.

8. See generally *CompuServe Inc., v. Cyber Promotions, Inc.*, 962 F. Supp. 1015, 1018 (S.D. Ohio 1997); *ACLU v. Reno*, 929 F. Supp. 824, 837-38 (E.D. Pa. 1996).

9. See generally Burk, *supra* note 4, at 50-51; Michael L. Katz & Carl Shapiro, *Network Externalities, Competition, and Compatibility*, 75 AM. ECON. REV. 424 (1985);

possesses a permanent or temporary IP address and often an associated alphanumeric domain name.<sup>10</sup> A prearranged protocol<sup>11</sup> uses these addresses to route “packets” of data, containing anything from digital video to malicious viruses or worms, across one or more computers for delivery at its final destination.

## B. Network Congestion

Network congestion adversely affects the speed of Internet communications. Though Internet Service Providers (ISPs)<sup>12</sup> strive to provide facilities that allow fast and uninterrupted flows of information, a deluge of data can still create excessive traffic at individual points on the network. While the Internet’s infrastructure regularly deals with simultaneous transfers to the same address, the intermediaries between two computers may be overwhelmed when the frequency of requests and data packets saturates the server’s capacity.<sup>13</sup> When a legitimate user cannot access the online resource because another party, legitimately or not, occupies it, a “denial of service” has occurred.<sup>14</sup> Moreover, when large amounts of wanted or unwanted data arrive at their destination, they take up storage space on the destination computer.<sup>15</sup> These occurrences constitute denial of service on the Internet, and such actions purposely undertaken to deny access to a given online resource are called denial of service attacks.<sup>16</sup>

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Stan J. Liebowitz & Stephen E. Margolis, *Network Externality: An Uncommon Tragedy*, 8 J. ECON. PERSP. 133, 135, 139-40 (1994). “Utility” is a general measure of value or usefulness, and though it is an abstract concept, economists often use monetary value as a convenient stand-in. “Network effects” describe increases in utility that benefit disproportionately from increased membership, with communications networks being an excellent example.

10. See generally Alan Silverstein, Under the Hood of the World Wide Web, Learn-theNet.com, at <http://www.learnthenet.com/english/html/70alan.htm> (last visited Mar. 16, 2004).

11. Howard Gilbert, Introduction to TCP/IP, at <http://www.yale.edu/pclt/COMM/TCP/IP.HTM> (last updated Feb 2, 1995).

12. See *Reno*, 929 F. Supp. at 832-34; see *Silverstein*, *supra* note 10.

13. See *CompuServe*, 962 F. Supp. at 1028.

14. See Denial of Service, CERT Coordination Center, Carnegie Mellon Software Engineering Institute, at [http://www.cert.org/tech\\_tips/denial\\_of\\_service.html](http://www.cert.org/tech_tips/denial_of_service.html) (last visited Dec. 17, 2003).

15. See *CompuServe*, 962 F. Supp. at 1022.

16. See Denial of Service, *supra* note 14.

### C. Spam

Communication over the Internet is fast, inexpensive, and convenient; a boon to private users as well as to commercial entities.<sup>17</sup> Spam refers to any unwanted unsolicited bulk e-mail (“UBE”) or unsolicited commercial e-mail (“UCE”).<sup>18</sup> While most think of spam as unwanted e-mail, the broad definition of spam can include webpages and “pop-up” ads which arrive in the course of ordinary web surfing<sup>19</sup> or through “adware” or “spyware” which a remote party installs on a computer, often without the owner’s knowing or intended acquiescence.<sup>20</sup> The intent behind the transmission of spam is sometimes commercially “legitimate,” but often it is fraudulent.<sup>21</sup> Even proponents of free speech and open access rarely advocate, much less defend, the practice of “spamming.”<sup>22</sup> Private parties sometimes attempt to stem the tide of spam on their own, generally through the use of filters<sup>23</sup> that selectively block IP addresses or identify unwelcome messages by their e-mail address or message headers. Spam-

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17. See *CompuServe*, 962 F. Supp. at 1018; Carol Jones, *E-Mail Solicitation: Will Opening a “Spam-Free” Mailbox Ever Be a Reality?*, 15 LOY. CONSUMER L. REV. 69, 70-72 (2002) (sending spam is so inexpensive that even a low response rate gives a better return on marketing over the Internet than through junk mail).

18. See generally Scot M. Graydon, *Much Ado about Spam: Unsolicited Advertising, the Internet, and You*, 32 ST. MARY’S L.J. 77, 78 (2000); David E. Sorkin, *Technical and Legal Approaches to Unsolicited Electronic Mail*, 35 U.S.F. L. REV. 325, 327-36 (2001).

19. See, e.g., Reuters, *FTC Accuses Pop-Up Maker of ‘Extortion’*, CNN.COM, Nov. 7, 2003, at <http://www.cnn.com/2003/TECH/internet/11/07/microsoft.popup.reut/index.html>.

20. See Stefanie Olsen, *Gator Sheds Skin, Renames Itself*, CNET NEWS.COM, at [http://news.com.com/2100-1024\\_3-5099212.html](http://news.com.com/2100-1024_3-5099212.html) (last modified Oct. 29, 2003).

21. See generally Calvin Whang, Comment, *An Analysis of California’s Common and Statutory Law Dealing with Unsolicited Commercial Electronic Mail: An Argument for Revision*, 37 SAN DIEGO L. REV. 1201 (2000).

22. See generally Burk, *supra* note 4, at 54; Hunter, *supra* note 3, at 478; Sorkin, *supra* note 18, at 344-57; Whang, *supra* note 21.

23. See *What is Firewall?*, Webopedia Computer Dictionary, at <http://www.webopedia.com/TERM/F/firewall.html> (last visited Feb. 2, 2004). The Webopedia defines “firewall” as

[a] system designed to prevent unauthorized access to or from a private network. Firewalls can be implemented in both hardware and software, or a combination of both. Firewalls are frequently used to prevent unauthorized Internet users from accessing private networks connected to the Internet, especially intranets. All messages entering or leaving the intranet pass through the firewall, which examines each message and blocks those that do not meet the specified security criteria.

*Id.*

mers often employ techniques that circumvent such measures.<sup>24</sup> The problem of spam has reached such magnitude that Congress, after several false starts, recently passed the “CAN-SPAM” Act, the first federal statute aimed at curbing fraudulent and unduly burdensome advertising through electronic communications.<sup>25</sup> In addition, services such as Brightmail<sup>26</sup> turn a profit by selling services specifically designed to thwart or intercept spam.<sup>27</sup> The result is a free-for-all between senders of spam, unwilling recipients of spam, and third parties seeking to turn a profit by aligning themselves with or against one side or the other.<sup>28</sup>

#### D. Spiders and Robots

Spiders, webcrawlers, and robots are all computer programs that automate the process of cataloguing information available on the web.<sup>29</sup> A human web-surfer can peruse pages and copy information of particular interest. A spider does the same thing, requesting webpages or other data from other computers connected to the Internet and combing through such data or text for particular information. These requests and data transfers constitute electronic communication, just like e-mail, instant messages, or other exchanges of information. This activity comprises part of the traffic on the Internet and therefore can contribute to congestion, depending on the frequency and intensity of the spider’s activity.<sup>30</sup>

24. See generally *Intel Corp. v. Hamidi*, 30 Cal. 4th 1342, 1371 n.2 (2003) (Brown, J., dissenting); Sabra-Anne Kelin, Note, *State Regulation of Unsolicited Commercial E-Mail*, 16 BERKELEY TECH. L.J. 435 (2001); Whang, *supra* note 21, at 1205-08.

25. See generally Associated Press, *Bush Signs Anti-Spam Bill*, CNN.COM, Dec. 16, 2003, at <http://www.cnn.com/2003/ALLPOLITICS/12/16/bush.bills.ap/index.html>; Grant Gross, *U.S. Senate Approves Antispam Bill*, InfoWorld, Dec. 16, 2003, at [http://www.infoworld.com/article/03/10/25/HNantispambill\\_1.html](http://www.infoworld.com/article/03/10/25/HNantispambill_1.html). The bill was approved on December 19, 2003, and codified at 15 U.S.C. §§ 7701-7713 (2000).

26. See Jones, *supra* note 17, at 73.

27. *Id.*

28. See, e.g., Reuters, *FTC Accuses Pop-Up Maker of ‘Extortion’*, CNN.COM, Nov. 7, 2003, at <http://www.cnn.com/2003/TECH/internet/11/07/microsoft.popup.reut/index.html>.

29. See generally Stephen T. Middlebrook & John Muller, *Thoughts on Bots: The Emerging Law of Electronic Agents*, 56 BUS. LAW. 341 (2000) (describing the technology behind spiders and laws which bear on automated search and indexing).

30. See, e.g., *eBay, Inc. v. Bidder’s Edge, Inc.*, 100 F. Supp. 2d 1058 (N.D. Cal. 2000). Bidder’s Edge’s robots accessed eBay’s site approximately 100,000 times per day. *Id.* at 1063. While a search engine aggregating website locations and subject matter might need to visit a site only periodically to make sure its data is up-to-date, Bidder’s Edge was in the business of aggregating auction data. *Id.* at 1061-62. Timeliness of information in an online auction is, of course, critical to bidders, and time-sensitivity is a feature of many subjects of online commerce besides auctions. See, e.g., Press Release, Smith

As with e-mail, an entity may employ spiders for good aims or ill purposes. Search engines, indispensable in the realization of the Internet's utility,<sup>31</sup> use spiders to aggregate indexing information.<sup>32</sup> But spiders also enable spammers to comb webpages for personal and commercial e-mail addresses that they can add to their distribution lists.<sup>33</sup>

## II. LEGAL BACKGROUND: PRIOR APPLICATIONS OF TRESPASS TO CHATTELS TO CYBERSPACE

Several years of litigation preceding *Hamidi* produced a substantial body of cases which revived the doctrine of trespass to chattels by applying it to Internet activities.<sup>34</sup> Essentially moribund, the tort caught the attention of creative attorneys seeking a private cause of action applicable to the concept of trespass on the Internet. Although metaphors and analogies relating cyberspace to real property pervaded academic literature and case law,<sup>35</sup> courts began to view such arguments with suspicion during the 1990s.<sup>36</sup> But even if analogies comparing cyberspace to real property fail under legal scrutiny, computers still qualify as personal property. Armed with this reinvigorated doctrine, plaintiffs succeeded in obtaining selective injunctions against outsiders' intrusions on their computers.<sup>37</sup>

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School of Business Gets \$2 Million NSF Grant to Study e-Markets, Robert H. Smith School of Business, University of Maryland (Aug. 26, 2002), at <http://www.rhsmith.umd.edu/pr/news-nsf.htm>.

31. See, e.g., Laura Quilter, Note, *The Continuing Expansion of Cyberspace Trespass to Chattels*, 17 BERKELEY TECH. L.J. 421, 436 (2002).

32. See Maureen O'Rourke, *Property Rights and Competition on the Internet: In Search of an Appropriate Analogy*, 16 BERKELEY TECH. L.J. 561, 570-74 (2001).

33. See Jones, *supra* note 17, at 71-31. For example, a spider may search for text strings within the code of personal and commercial websites, whether text or HTML markup, that matches the format of an e-mail address. Public, unprotected publishing on the World Wide Web makes the e-mail address available by default to anyone with Internet access.

34. See, e.g., *Ticketmaster Corp. v. Tickets.com*, No. 99CV7654, 2000 WL 1887522 (C.D. Cal. Aug. 10, 2000); *eBay*, 100 F. Supp. 2d 1058; *Am. Online, Inc. v. IMS*, 24 F. Supp. 2d 548 (E.D. Va. 1998); *CompuServe, Inc. v. CyberPromotions, Inc.*, 962 F. Supp. 1015 (S.D. Ohio 1997); *Thrifty-Tel v. Bezenek*, 46 Cal. App. 4th 1559 (1996).

35. See Hunter, *supra* note 3, at 443.

36. *Id.* at 447.

37. See generally Burk, *supra* note 4, at 37 (noting that the harm associated with spam is "unwanted content, and not some fictional lessening of goodwill or the capacity of the proprietary network," because if the spam were offering something desirable, for instance "certificates for free beer, or \$100 in e-cash—not a word would have been said"); Edward W. Chang, *Bidding on Trespass: eBay, Inc. v. Bidder's Edge, Inc. and the Abuse of Trespass Theory in Cyberspace-Law*, 29 AIPLA Q.J. 445 (2001); Hunter, *supra* note 3, at 483; Quilter, *supra* note 31, at 428-36.

The original tort provided redress for unauthorized use of, or intermeddling with, the personal property of another.<sup>38</sup> The tort requires proof of intentional physical contact, causation, and the infliction of actual, substantial harm to the chattels.<sup>39</sup> The definitions of “intentional physical contact” and “actual harm” underwent radical changes in order to apply this ancient doctrine, more associated with livestock disputes, to the World Wide Web.

### A. Electron Trespass as Physical Trespass

In the 1996 decision of *Thrifty-Tel, Inc. v. Bezenek*, a case involving phreaking (unorthodox access to telephone systems) in telephone networks, a California Court of Appeal held that a flow of electrons is sufficiently physical to satisfy the requirement of intentional physical contact for purposes of Trespass to Chattels.<sup>40</sup> *CompuServe, Inc. v. Cyber Promotions, Inc.* followed in 1997, explicitly applying *Thrifty-Tel*'s doctrine of electron trespass directly to electronic communications on the Internet.<sup>41</sup> But electronic communications of any sort inherently involve this kind of electron “trespass,” leaving the element of “intentional physical contact” completely trivial when applying trespass to chattels to activity in cyberspace.<sup>42</sup>

### B. Courts Broaden “Actual Harm” to Include “Threatened Harm”

“Substantial” actual harm, originally meant harm that amounted to more than a mere theoretical or de minimis deprivation,<sup>43</sup> but when faced

38. Quilter, *supra* note 31, at 424-26.

39. PROSSER AND KEETON ON TORTS § 14, at 85-86 (5th ed. 1984).

40. 46 Cal. App. 4th 1559, 1567 n.6 (1996); Burk, *supra* note 4, at 29 (describing “phreaking” and the *Thrifty-Tel* court’s reliance on other cases which hold that colloquially “intangible” interferences such as dust or sound waves constitute trespass when they result in tangible harm); *see also* Fairview Farms, Inc. v. Reynolds Metals Co., 176 F. Supp. 178, 186-88 (D. Or. 1959) (holding that advancements in science have allowed for the apprehension and measurement of gases, shockwaves, and particulates once considered uncertain and intangible for purposes of trespass); *Martin v. Reynolds Metals Co.*, 342 P.2d 790 (Or. 1959) (holding that gases and particulates, while invisible to the naked eye, can be agents of direct trespass).

41. *See* *CompuServe, Inc. v. CyberPromotions, Inc.*, 962 F. Supp. 1015, 1021-22 (S.D. Ohio 1997).

42. *See* Burk, *supra* note 4, at 34 (“Such ‘dispossession’ by impinging electrons amounts to a rule of inviolability—the equipment was contacted by electrons, not touched, not damaged, not removed, not rendered inoperable. One wonders where the limits of such ‘trespass by electrons’ might lie.”).

43. RESTATEMENT (SECOND) OF TORTS § 218 cmt. i (1965) (“A mere momentary or theoretical deprivation of use is not sufficient unless there is a dispossession.”).

with Internet-related cases, courts expanded their interpretations to include threatened, inchoate harms. Prosser and Keeton write that, despite a “surprising dearth of authority” on the lower bounds of the requirement,

[T]he dignitary interest in the inviolability of chattels . . . is not sufficiently important to require any greater defense than the privilege of using reasonable force when necessary to protect them. Accordingly it has been held that nominal damages will not be awarded, and that in the absence of any actual damage the action will not lie.<sup>44</sup>

The line of cases which expanded actual harms to include threatened harms involved various uses of spiders or robots. In *Register.com, Inc. v. Verio, Inc.*, defendant Verio used spiders to cull information from Register.com’s publicly accessible database in furtherance of its spamming activities.<sup>45</sup> In *eBay, Inc. v. Bidder’s Edge, Inc.*, defendant Bidder’s Edge sent spiders 100,000 times daily<sup>46</sup> to eBay’s site for the purpose of maintaining an online auction data aggregation service.<sup>47</sup> In both cases, the courts found no significant actual harm but granted judgment for the plaintiffs because of the potential for copycat crime.<sup>48</sup> Though actual harm had yet to occur, these courts found it likely that others would copy the defendants’ behavior, collectively causing congestion or creating unintended but foreseeable denial of service if not preemptively enjoined.<sup>49</sup>

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44. PROSSER & KEETON, *supra* note 39, at 87. The Restatement (Second) of Torts contains a comment which says substantially the same thing: “The interest of a possessor of chattel in its inviolability, unlike the similar interest of a possessor of land, is not given legal protection by an action for nominal damages for harmless intermeddlings with the chattel.” RESTATEMENT (SECOND) OF TORTS § 218, ¶ e.

45. 126 F. Supp. 2d 238, 249-51 (S.D.N.Y. 2000).

46. 100,000 is not necessarily a large number in context. This activity caused no visible end-user impact on the service. Computer systems vary widely in power and purpose, and numbers should always be read with any relevant technical facts in mind. *eBay, Inc. v. Bidder’s Edge, Inc.*, 100 F. Supp. 2d 1058, 1063-65 (N.D. Cal. 2000).

47. *Id.* at 1061-62.

48. See *Register.com*, 126 F. Supp. 2d at 250 (quoting Register.com’s VP for technology’s declaration, “I believe that if Verio’s searching of Register.com’s WHOIS database were determined to be lawful, then every purveyor of Internet-based services would engage in similar conduct”); see also *eBay*, 100 F. Supp. 2d at 1071-72 (“[I]f the court were to hold otherwise, it would likely encourage other auction aggregators to crawl the eBay site, potentially to the point of denying effective access to eBay’s customers.”).

49. See, e.g., *Register.com*, 126 F. Supp. 2d at 252. The court found:

[I]t is highly probable that other Internet service vendors would also use robots to obtain this potential customer information were it to be permitted . . . . If the strain on Register.com’s resources generated by

However, not all courts adopted such lenient standards for inchoate harms. The court in *Ticketmaster Corp. v. Tickets.com, Inc.* found for the defendant.<sup>50</sup> Although it noted that no actual harm had occurred, it distinguished *eBay* on the ground that in its present case, there was no “specter of dozens or more parasites joining the fray, the cumulative total of which could affect the operation of business,” implicitly accepting the *eBay* court’s interpretation of cognizable harms, only disagreeing as to the threshold of harm.<sup>51</sup>

The application of trespass to chattels against senders of spam was not nearly as controversial because the volume of spammers’ activities provided straightforward, plausible measurements of actual harm.<sup>52</sup> The *CompuServe* court also found that actual harm had occurred because CompuServe’s end users experienced significant degradations in utility and increases in cost.<sup>53</sup> These harms resulted from the defendant’s activity on CompuServe’s chattels, but the inconvenience to end users was certainly one degree removed from the computers’ literal physical condition or functionality.<sup>54</sup>

### C. Creeping Strict Liability

Scholars, judges, and commentators began to fear a creeping doctrine of strict liability for any unwanted or unsolicited electronic trespass, since the plaintiffs were winning most of the cases even when the defendant was not sending spam or engaging in spam-related activities.<sup>55</sup> In the absence

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robotic searches becomes large enough, it could cause Register.com’s computer systems to malfunction or crash.

*Id.*

50. *Ticketmaster Corp. v. Tickets.com*, No. 99CV7654, 2000 WL 1887522, at \*4 (C.D. Cal. Aug. 10, 2000).

51. *Id.* The *Ticketmaster* court was quite cognizant of the holding in *eBay*, but held for the defendant, stating that the threat of copycat behavior was too low in this case to find for the plaintiff.

52. See *Hotmail Corp. v. Van\$ Money Pie, Inc.*, No. 98-20064 JW, 1998 U.S. Dist. LEXIS 10729, at \*7 (N.D. Cal. 1998); *Am. Online, Inc. v. LCGM, Inc.*, 46 F. Supp. 2d 444, 451-52 (E.D. Va. 1998); *Am. Online, Inc. v. IMS*, 24 F. Supp. 2d 548, 550-51 (E.D. Va. 1998); *CompuServe, Inc. v. CyberPromotions, Inc.*, 962 F. Supp. 1015, 1015 (S.D. Ohio 1997).

53. *CompuServe*, 962 F. Supp. at 1019.

54. See *id.* at 1022.

55. See *Intel Corp. v. Hamidi*, 30 Cal. 4th 1342, 1350 (2003) (quoting the dissenting justice in the prior decision, who stated that the Court of Appeal’s affirmation of the doctrine’s expansion would “expand the tort of trespass to chattel in untold ways and to unanticipated circumstances”); see also Burk, *supra* note 4, at 32 (noting that, at the time, the lower court’s injunction against Hamidi “further suggests that the claim of ‘trespass’ is mutating from an innovative claim to deter commercial spam into a more general claim

of any appellate decisions, writers had to speculate as to the doctrine's ultimate reach. While some writers defended the expanded doctrine's usefulness in filling a legislative void,<sup>56</sup> many more worried that trespass to chattels had been expanded beyond reasonable bounds as a nearly unbridled cause of action in cyberspace, capable of defending an interest in inviolability that the old doctrine did not countenance.<sup>57</sup> Even *Ticketmaster*, despite its relative restraint, still respected *eBay*'s standard of potential or threatened harm.<sup>58</sup> Writers predicted that continued broad application of trespass to chattels would eventually create a tragedy of the anticommons, an over-protection of private rights which would hamper basic activities on the Internet.<sup>59</sup>

### III. INTEL V. HAMIDI: THE CALIFORNIA SUPREME COURT

#### A. Factual Background

Intel Corporation maintains and operates an intranet,<sup>60</sup> which it uses to transmit messages among its employees, its customers, and other third par-

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to deter unwanted messages. This change has troubling implications for the free flow of information on the network . . .").

56. See, e.g., Mark D. Robins, *Electronic Trespass: An Old Theory in a New Context*, 15 No. 7 COMPUTER LAW. 1 (1998).

57. See generally Burk, *supra* note 4, at 35 (attributing the expansion of the doctrine to a blurring between the traditional divide between real property law and personal property law); Hunter, *supra* note 3, at 487; Quilter, *supra* note 31, at 440-42. Real property trespass recognizes a legally defensible interest in inviolability and injunction is a natural remedy for this kind of right. It is argued that the power of these remedies should not be allowed to leak into other theories of trespass unless it addresses an interest of similar gravity.

58. Quilter, *supra* note 31, at 433.

59. See generally Burk, *supra* note 4, at 42; Hunter, *supra* note 3, at 509-14; Quilter, *supra* note 31, at 441. Quilter writes,

[t]he doctrine has become completely malleable, able to fit any and all situations. With trespasses as they have now been defined, and without a harm requirement, it would be difficult to conceive of anything that might not constitute a trespass; trespass is effectively defined purely at the owner's will and can encompass almost any kind of act.

Quilter, *supra* note 31, at 441. The California Supreme Court also notes academic opinions that warn against propertization of the Internet which would have resulted from enforcement under Intel's theory. *Hamidi*, 30 Cal. 4th at 1362-63. Anticommons concerns were also anticipated in the literature. For example, Edward Chang states that "cyber-trespass theory will curtail the free flow of price and product information on the Internet by allowing website owners to tightly control who and what may enter and make use of the information housed on its Internet site." Chang, *supra* note 37, at 459.

60. *Hamidi*, 30 Cal. 4th at 1349 n.1 ("An 'intranet' is 'a network based on TCP/IP protocols (an internet) belonging to an organization, usually a corporation, accessible

ties. Though Intel maintains the intranet to facilitate business, its policy also allows employees to make “reasonable nonbusiness use” of the intranet.<sup>61</sup> Kenneth Kourosh Hamidi, a former Intel employee, had an acrimonious falling out with Intel and subsequently founded FACE-Intel (Former and Current Employees of Intel).<sup>62</sup> For a period of over twenty-one months Hamidi, as president of FACE-Intel, sent six unsolicited mass e-mails to a list of thousands of addresses.<sup>63</sup> The contents of these e-mails criticized Intel’s employment practices, warned employees that work at Intel was damaging to their health and to their careers, encouraged employees to leave Intel and work elsewhere, and invited them to visit [www.faceintel.com](http://www.faceintel.com).<sup>64</sup> Intel disapproved of the messages, asked Hamidi to stop sending them, and engaged in technical self-help in an attempt to block the messages.<sup>65</sup> Hamidi used techniques similar to those of spammers to circumvent Intel’s self-help, but did not actually breach any security barriers or hack into Intel’s computers in the process.<sup>66</sup> No evidence suggests that Hamidi’s unsolicited e-mails adversely affected the technical performance of any part of Intel’s computer systems. The missives were only e-mails, and the system handled them as it handled all e-mail.<sup>67</sup> Though Hamidi refused to heed Intel’s requests to cease sending his unsolicited e-mails, he did include within his messages an opt-out provision for the end recipients, which Hamidi honored.<sup>68</sup>

## B. The Holding

The California Supreme Court held that, in California, the common law tort of trespass to chattels did “not encompass, and should not be extended to encompass, an electronic communication that neither damages the recipient computer system nor impairs its functioning.”<sup>69</sup> The court also stated that the dispositive issue in a case such as this was whether the

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only by the organization’s members, employees, or others with authorization.’ <http://www.webopedia.com/TERM/i/intranet.html> [as of June 30, 2003]. Hamidi used only a part of Intel’s computer network accessible to outsiders.”)

61. *Id.* at 1346.

62. See Ken Hamidi WON, Intel LOST, FACE Intel, at <http://www.faceintel.com/kenwonintellost.htm> (last visited Dec. 17, 2003) (providing a comprehensive account of this case and its preceding history from Hamidi’s point of view).

63. *Hamidi*, 30 Cal. 4th at 1349, 1356 (noting that the extent of Hamidi’s activity is miniscule compared to that of a typical spammer).

64. *Id.* at 1348-49.

65. *Id.*

66. *Id.*

67. *Id.*

68. *Id.* at 1346.

69. *Id.* at 1347.

activity “caused or threatened to cause damage,” in an explicit acceptance of the doctrine’s expansion in *eBay*, *Register.com*, and *Ticketmaster*.<sup>70</sup>

### 1. *Demonstrating Flexibility in the Common Law*

The court thus adopted the changes imposed upon trespass to chattels by federal district courts in California. In so doing, the court recognized the need for a limited private cause of action against trespass to personal computers. At the very least, the court’s decision makes it clear that trespass to chattels, though ancient in its lineage, includes trespass to networked computers.<sup>71</sup> Without this adaptation of the common law, individuals would be limited to statutorily-defined theories of relief, which are typically slow to arrive.<sup>72</sup> As a first step, however, this change to trespass to chattels remained consistent with the historical adaptability of trespass law to changing times and technologies. If this adaptability to cyberspace extends to other forms of trespass law, the result may be a doctrine of cyber-nuisance. This has the potential to thwart any anticommons problems that the Internet and its successors would otherwise face in the future.

### 2. *The California Supreme Court Embraces the Holdings of Prior Courts*

If the California Supreme Court wished to repudiate the trend towards breadth in trespass to chattels, it could have done so.<sup>73</sup> It instead embraced the prior decisions—including *eBay*, which is the most controversial of the spidering cases—and from their holdings harmonized a new threshold of harm for the tort.

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70. *Id.* at 1353 (emphasis added).

71. *Id.* at 1361 (“The plain fact is that computers, even those making up the Internet, are—like such older communications equipment as telephones and fax machines—personal property, not realty.”). The court made this point and avoided settling the “cyberspace as real property” debate, and thus, it would actually be quite premature to call this doctrine “Trespass to Chattels in Cyberspace” given its implicit real-property bias.

72. Legislative progress is notoriously slow, while communications technology has advanced rapidly in the past few decades. The motivations for other courts’ extensions to trespass to chattels are obvious enough. See Quilter, *supra* note 31, at 435-36. This is not to say that the legislature has been inactive, however—gridlock and political considerations have caused the demise of several federal anti-spam measures. See generally Associated Press, *supra* note 25; Gross, *supra* note 25.

73. *Hamidi*, 30 Cal. 4th at 1357 n.5 (concluding that a federal magistrate judge in *Oyster Software, Inc. v. Forms Processing, Inc.*, No. C-00-0724 JCS, 2001 U.S. Dist. LEXIS 22520, at \*37-38 (N.D. Cal. Dec. 6, 2001), “incorrectly read *eBay* as establishing, under California law, that mere unauthorized use of another’s computer system constitutes an actionable trespass” and that the court did “not read *eBay* . . . as holding that the actual injury requirement may be dispensed with”).

a) Trivial Trespass: Electronic Communication is Intentional Physical Trespass

The court implicitly accepted the theory of trespass by electrons without substantive criticism. At no time during its review of electronic trespass cases, including telephone,<sup>74</sup> spamming,<sup>75</sup> and spidering cases<sup>76</sup> did the court question whether trespass by electrons legally satisfied the intentional physical trespass element. If the court had decided to reject the theory, it could not have endorsed any of these cases as good law and would not have even needed to analyze the issue of harm to find for Hamidi.

b) Expanded Harms: Either Actual Harm or Threatened Harm Sufficient to Sustain Cause of Action

By focusing on the holdings of the spidering cases, the court also endorsed the expansion of the requirement of actual harms to include physical harms. As noted above, no evidence supported a finding of substantial or actual harm in *eBay*, *Register.com*, or *Ticketmaster*. Though fact patterns varied in each of these cases, a common thread was the courts' determinations of the probability or improbability of "copycat crime." *eBay* and *Register.com* held for the plaintiffs because the courts believed that they would suffer from overwhelming copycat activity if they lost their cases.<sup>77</sup> *Ticketmaster* found copycats situationally unlikely and held for the defendant.<sup>78</sup>

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74. *Id.* at 1353 (discussing *Thrifty-Tel v. Bezenek*, 46 Cal. App. 4th 1559 (1996)).

75. *Id.* at 1353-54 (discussing *Am. Online, Inc. v. LCGM, Inc.*, 46 F. Supp. 2d 444 (E.D. Va. 1998); *Am. Online, Inc. v. IMS*, 24 F. Supp. 2d 548 (E.D. Va. 1998); *Hotmail Corp. v. Van\$ Money Pie, Inc.*, No. C 98-20064 JW, 1998 U.S. Dist. LEXIS 10729 (N.D. Cal. Apr. 16, 1998); *CompuServe, Inc. v. Cyber Promotions, Inc.*, 962 F. Supp. 1015 (S.D. Ohio 1997)).

76. *Id.* at 1354-56 (summarizing "unauthorized robotic data collection" in *Register.com, Inc. v. Verio, Inc.*, 126 F. Supp. 2d 238 (S.D.N.Y. 2000); *Ticketmaster Corp. v. Tickets.com*, No. 99CV7654, 2000 WL 1887522 (C.D. Cal. Aug. 10, 2000); *eBay, Inc. v. Bidder's Edge, Inc.*, 100 F. Supp. 2d 1058 (N.D. Cal. 2000)).

77. *Register.com*, 126 F. Supp. 2d at 251-52; *eBay*, 100 F. Supp. 2d at 1071-72.

78. *Ticketmaster.com*, 2000 WL 1887522, at \*4.

#### IV. FIRST STEPS TOWARD A DOCTRINE OF CYBER-NUISANCE

##### A. Legal Primer: The Real Property Doctrine of Private Nuisance

The nuisance doctrine has its genesis in real property law,<sup>79</sup> but embodies an economic rule of conduct, consequences, and context that would make an excellent foundation for a rule of liability in cyberspace. Nuisance evolved to handle “nontrespasory” invasions of the public or private interest in the use and enjoyment of land.<sup>80</sup> A modern understanding of physics blurs the line between actions that qualified traditional trespass, such as bodily intrusion and bricks thrown through windows and “intangible” invasions now understood to be “physical,” such as particulate matter (smog, industrial fumes) and electromagnetic energy.<sup>81</sup> The semantic niceties of “invasion” or “interference” and the involvement of real property serve as the gatekeepers to this doctrine, which otherwise is chiefly concerned with aggregate social utility and efficient economic outcomes.<sup>82</sup>

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79. RESTATEMENT (SECOND) OF TORTS § 822 cmt. b (1965) (discussing the growth of modern nuisance doctrine from the former rule of strict liability articulated in *Fletcher v. Rylands*, L.R. 1 Ex. 265 (1866), and affirmed in *Rylands v. Fletcher*, L.R. 3 E. & I. App. 330 (H.L. 1868)). Early in its history, strict liability encompassed some of the legal territory covered by nuisance law. Strict liability’s doctrinal inflexibility was incompatible with the realities of the then-dawning Industrial Age, and so the nuisance doctrine developed, a sensible compromise necessitated by the proximity and press of modern living. See RESTATEMENT (SECOND) OF TORTS § 822 cmt. f (“Not every intentional and significant invasion . . . is actionable, even when he is the owner of the land in fee simple absolute . . . . Life in organized society and especially in populous communities involves an unavoidable clash of individual interests.”). A similar development is presently in the works, as the previous extensions of TTC in cyberspace began establishing a doctrine of near-strict liability. Only *Ticketmaster* and *eBay* suggested any resistance to this trend until *Hamidi*’s authoritative limitations. See *Ticketmaster*, 2000 WL 1887522 at \*4; *eBay*, 100 F. Supp. 2d at 1065-66. The earlier cases could be seen as an Information Age analog to *Fletcher v. Rylands*, which was an early doctrine of strict liability developed for a situation in which there was no established tradition of case law. See, e.g., *Am. Online, Inc. v. IMS*, 24 F. Supp. 2d 548; *CompuServe*, 962 F. Supp. 1015; *Thrifty-Tel*, 46 Cal. App. 1559. But the aggregate realities of the Internet demand a rule of give and take, so the common law must move past cyberspace’s *Fletcher v. Rylands* and into the land of nuisance.

80. See RESTATEMENT (SECOND) OF TORTS § 822 cmt. a.

81. *Fairview Farms, Inc. v. Reynolds Metal Co.*, 176 F. Supp. 178, 186-88 (D. Or. 1959).

82. RESTATEMENT (SECOND) OF TORTS § 829 cmt. d, illus. 2 states:

A and B own small farms on the outskirts of a village. Their farms are on opposite sides of a highway and their residences are directly opposite one another and about 75 yards apart. A makes a practice of breeding livestock in his front yard and in full view of persons in the front

An action for private nuisance arises when an activity or invasion is both intentional and unreasonable.<sup>83</sup> The determination of unreasonableness is principally an economic question, turning upon whether the gravity of the harm caused by the defendant's conduct outweighs its social, or aggregate, utility.<sup>84</sup> Unreasonableness alternatively may exist if the activity is meritorious but the defendant fails properly to internalize the costs of his activity, thereby imposing a negative externality on society in addition to whatever social utility his activity provides.<sup>85</sup> Section 827 of the Restatement Second of Torts lists five disjunctive<sup>86</sup> factors which weigh the gravity of the harm caused by the defendant's conduct in context:

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rooms of B's house. This is a source of considerable annoyance and embarrassment to B and his family. A's conduct is indecent and he is subject to liability to B.

*Id.* Section 829 states that an actionable nuisance can consist solely of sight and sound, when the principle object of the conduct is to cause harm to the other or is contrary to common standards of decency. *Id.* § 829.

83. *Id.* §§ 822, 825-31. These balancing tests do not apply to unintentional conduct, which was not at issue in *Hamidi*. Nuisance doctrine deals with such questions separately. *See id.* § 822(b) cmt. a. The legislature may deem certain activities, even if unintentional, to be inherently unreasonable, which obviates the need for a nuisance analysis. Judicial rules for determining unreasonableness otherwise reside in §§ 519-20. *See also id.* § 822 cmt. j. Some courts, often informally, consider certain activities so inherently risky that they apply a standard similar to strict liability. Though damages for worms, viruses, and hacker intrusions are usually adjudicated under the Computer Fraud and Abuse Act, 18 U.S.C. § 1030 (2000), it stands to reason that such activities that have the power to cripple the Internet and inflict billions of dollars in damage or endanger human life in the hundreds or more would qualify as ultrahazardous activities. *See, e.g.,* Philip W. Esbenshade, *Hacking: Juveniles and Undeterred Recreational Cybercrime*, 23 J. JUV. L. 52, 58 (2003) (describing an incident where another juvenile hacker unwittingly shut down the FAA control tower at Worcester airport); Rebecca Allison, *Hacker Attack Left Port in Chaos*, GUARDIAN UNLIMITED, Oct. 7, 2003 (detailing a case being heard in the UK, where a 19-year-old hacker disabled a major Texas port through a denial-of-service attack intended only for one individual user's computer; the interconnected, relatively decentralized structure of the Internet makes it all the more likely that a denial-of-service attack may have serious but unanticipated consequences), at <http://www.guardian.co.uk/online/news/0,12597,1057454,00.html>. The creation and release of malicious viruses might also be considered ultrahazardous activities. *See, e.g.,* Melissa Virus Creator Jailed, BBC NEWS, May 2, 2002, at <http://news.bbc.co.uk/1/hi/world/americas/1963371.stm>; House Science Subcomm. on Tech., *The Love Bug Virus: Protecting Lovesick Computers from Malicious Attack* (May 10, 2000), available at <http://www.nist.gov/hearings/2000/lovebug.htm>.

84. RESTATEMENT (SECOND) OF TORTS §§ 822(a), 826(a).

85. *Id.* § 826(b). *But see id.* § 830 cmt. c, illus. 2, 3 (noting that if the defendant reasonably internalizes the costs to the extent possible, he may not always be liable even though the conduct causes both utility and harm).

86. The Restatement suggests:

the extent of the harm involved;  
 the character of the harm involved;  
 the social value that the law attaches to the type of use or enjoyment invaded;  
 the suitability of the particular use or enjoyment invaded to the character of the locality; and  
 the burden on the person harmed of avoiding the harm.<sup>87</sup>

Still, the defendant's conduct may be excused or justified if it does more good than harm. Section 828 lists three conjunctive<sup>88</sup> factors which analyze the utility of the defendant's conduct:

the social value that the law attaches to the primary purpose of the conduct;  
 the suitability of the conduct to the character of the locality; and  
 the impracticability of preventing or avoiding the invasion.<sup>89</sup>

## B. First Steps Toward a Nuisance Doctrine in Cyberspace

Several parts of the court's analysis, especially those sections justifying the expansion of traditional thresholds, resounded with reasoning that would be appropriate under an analysis of nuisance. At least one other court had read past case history to mean that trespass to chattels embodied

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Since the gravity of harm is its seriousness from an objective standpoint, it is the product of all relevant factors. There is no general rule as to the relative weight of the particular factors in all the ever-varying cases . . . . The list of factors here stated is not intended to be exhaustive.

*Id.* § 827 cmt. b.

87. *Id.* § 827(a)-(e).

88. *Id.* § 828 cmt. c.

It is only when the conduct has utility from the standpoint of *all the factors as a whole* that its merit is ever sufficient to outweigh the gravity of the harm it causes. If the conduct has no utility from the standpoint of *one* of the factors, the fact that it has utility from the standpoint of other factors is not controlling.

*Id.* (emphasis added). Supposing for the sake of argument that nuisance does apply to cyberspace, if an ISP were to send a mail bomb back to a spammer, it would fail this test outright. The ISP nonetheless may attempt to excuse its retaliatory self-help by arguing that the social value the law attaches to the use or enjoyment invaded—a spammer's capacity to attack spam—has almost no social value, and that a spammer could easily avoid the retaliation by not subjecting the ISP and its customers to outrageous amounts of spam in the first place.

89. *Id.* § 828(a)-(c).

a rule approaching strict liability,<sup>90</sup> a ruling which the California Supreme Court authoritatively denounced in *Hamidi*.<sup>91</sup>

. 1. *Employing Nuisance-Like Reasoning*

Proper analysis of actual harms under trespass to chattels is a quantitative discipline that emphasizes categorical rules and measurable effects, but the substance of the court's opinion emphasizes utilities and harms in a manner reminiscent of the balancing tests in the nuisance doctrine.<sup>92</sup> Literature analyzing the traditional doctrine of trespass to chattels states that deprivations must occur for a substantial or measurable period of time and cannot be merely theoretical.<sup>93</sup>

a) The Gravity of the Harm (§ 827)

The court noted that though Hamidi employed evasive tactics in sending his UCEs to Intel's servers, he never actually breached any security barriers.<sup>94</sup> This fact has relevance in the calculation of damages only in the negative because the calculation of employee time and resources spent in deleting Hamidi's e-mails from the system could not contain figures for time and resources *not* expended on damages that did not occur. The court implicitly made value judgments on the nature of Hamidi's behavior that would weigh upon the extent and the character of the harm involved.<sup>95</sup> The court also noted that the extent of the harm of Hamidi's conduct was miniscule compared to the impact of a typical spammer's activity, which was the cornerstone of its finding in favor of Hamidi under trespass to chattels.<sup>96</sup>

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90. *Oyster Software, Inc. v. Forms Processing, Inc.*, No. C-00-0724 JCS, 2001 WL 1736382 (N.D. Cal. Dec. 6, 2001).

91. *Intel Corp. v. Hamidi*, 30 Cal. 4th 1342, 1357 n.5 (2003).

92. See generally PROSSER & KEETON, *supra* note 39; RESTATEMENT (SECOND) OF TORTS § 218. The Restatement notes that for an interference or intermeddling to give rise to an action, the deprivation of use "must be for a time so substantial that it is possible to estimate the loss caused thereby. A mere momentary or theoretical deprivation of use is not sufficient unless there is a dispossession." RESTATEMENT (SECOND) TORTS § 218.

93. See RESTATEMENT (SECOND) OF TORTS §§ 218-19.

94. *Hamidi*, 30 Cal. 4th at 1346, 1349, 1353.

95. Recall that these are the first two listed factors weighing against the defendant's activity or behavior. RESTATEMENT (SECOND) OF TORTS § 827(a)-(b).

96. *Hamidi*, 30 Cal. 4th at 1356.

b) The Utility of the Conduct (§ 828)

i) Social Value and Purpose

For the defendant to justify or excuse his activity, the law must attach some social value to the primary purpose of the conduct.<sup>97</sup> The court did *not* decide *Hamidi* on First Amendment grounds,<sup>98</sup> but there was a hint of similar sympathy in the court's characterization of Hamidi's UBEs as "occasional advocacy messages," not spam.<sup>99</sup>

ii) Suitability

Secondly, the court must consider the suitability of the conduct to the character of the locality.<sup>100</sup> The court placed special emphasis on the fact that Hamidi merely used an e-mail system connected to the Internet for the transmission of e-mail. Specifically, the court found that Hamidi did not use Intel's system "in any manner in which it was not intended to function . . . ."<sup>101</sup> Intel's e-mail system was equipment designed for speedy communication between employees and the outside world; Hamidi communicated with Intel employees over that system in a manner entirely consistent with its design."<sup>102</sup> The court had no need to make statements such as these in an analysis of damages. Within the confines of trespass to chattels doctrine, it would have sufficed to say that the effect of six UBEs in twenty-one months consumes negligible storage space and computing power.<sup>103</sup> Applied to nuisance analysis, however, these statements would

97. RESTATEMENT (SECOND) OF TORTS § 828(a).

98. *Hamidi*, 30 Cal. 4th at 1364-65. First Amendment issues were important to a number of people working on this case. Hamidi considered them the most important aspect of the case and was disappointed that the court chose not to answer these questions. See Ken Hamidi WON, Intel LOST, *supra* note 62.

99. *Hamidi*, 30 Cal. 4th at 1356.

100. THE RETATEMENT (SECOND) OF TORTS § 828(b).

101. *Hamidi*, 30 Cal. 4th at 1353.

102. *Id.* at 1360-61 n.7. The Court also stated,

Intel connected its e-mail system to the Internet and permitted its employees to make use of this connection both for business and, to a reasonable extent, for their own purposes. In doing so, the company necessarily contemplated the employees' receipt of unsolicited as well as solicited communications from other companies and individuals. That some communications would, because of their contents, be unwelcome to Intel management was virtually inevitable.

*Id.* This language should bring to mind the "give-and-take," "live and let live" characterizations in RESTATEMENT (SECOND) OF TORTS § 822 cmt. g.

103. *Hamidi*, 30 Cal. 4th at 1356.

reduce the weight of harm in the context of the “suitability of the conduct to the character of the locality.”<sup>104</sup>

iii) Unavoidable/Unpreventable Harm

Finally, there must be some impracticability of preventing or avoiding the invasion, without which the defendant cannot excuse his conduct despite its value, as otherwise the defendant inflicts unnecessary harm.<sup>105</sup> The court noted that Intel’s employees would have had an easy time opting out of Hamidi’s mailings, as Hamidi made this option explicit and genuine in the content of his UBE.<sup>106</sup> The court in effect emphasized that the burden on the person harmed of avoiding the harm<sup>107</sup> was slight, and hence, the harm was also small.<sup>108</sup> Certainly, Hamidi could have avoided completely any distraction to Intel’s employees by not sending the UBE. Still, by including an opt-out provision in his messages, Hamidi went to lengths to notify recipients of their right to refuse further missives and his willingness to abide by their wishes, which demonstrates respect for the intent behind § 828(c).<sup>109</sup>

2. *Rigid Categorization: This is Still Not Cyber-Nuisance*

Fundamentally, trespass to chattels still only protects possession and related interests in personal property. Though the analysis in *Intel v. Hamidi* often sounds like nuisance-based reasoning, the decision does not rest primarily upon balancing economic efficiency or social utility, but upon categorical pronouncements of what constitutes “harm” and “interests” under the rules of the tort.<sup>110</sup> Thus, the decision does not actually create a common-law doctrine of cyber-nuisance under the name of trespass to chattels. The court made rigid and categorical rejections of em-

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104. RESTATEMENT (SECOND) OF TORTS § 828(b).

105. *Id.* § 828(c).

106. *Hamidi*, 30 Cal. 4th at 1346, 1349.

107. RESTATEMENT (SECOND) OF TORTS § 827(e).

108. *Hamidi*, 30 Cal. 4th at 1352-53.

109. RESTATEMENT (SECOND) OF TORTS § 828 cmt. h. This comment on clause (c) states,

An invasion is practicably avoidable by the actor if the actor by some means can substantially reduce the harm without incurring prohibitive expense or hardship. Thus, if the actor can carry on his activity with more skill or care or in a different manner or at a different time and thereby avoid a substantial part of the harm without substantially diminishing the value of his own enterprise, the invasion is practicably avoidable.

*Id.*

110. *Hamidi*, 30 Cal. 4th at 1352-53, 1356, 1358-60.

ployee time and productivity as interests in the “condition, quality, or value” of the computer system.<sup>111</sup> Therefore, practitioners seeking to employ trespass to chattels against unwanted electronic communications must be able to identify a defensible interest attaching tightly to the basic interest of possession; an interest too tangential or remote from possession or technical performance is likely to face dismissal. Nuisance law countenances no such rigidity; “enjoyment and use” covers any legally protectible interest, weighted by utility and harm.<sup>112</sup>

The court kept trespass to chattels lashed to its foundations, despite some newfound flexibility. It dismissed several metaphors equating cyberspace and real property<sup>113</sup> and flatly stated that “computers, even those making up the Internet, are . . . personal property, not realty.”<sup>114</sup> Though trespass to chattels has been extended to include trespass to networked computers, this did not create a distinct theory of trespass via cyberspace. In addition, the court categorically rejected characterizations of employee time and attention as interests in computers or their functionality.<sup>115</sup> The court also viewed the loss of consumer goodwill and economic revenues recognized by the *CompuServe* court with suspicion.<sup>116</sup> Common sense suggests that the user or owner of a personal computer has an interest in a mailbox free of spam and a computer free from unwanted spyware,<sup>117</sup> but Intel’s complaint was only indirectly related to the computer system’s functional condition.<sup>118</sup> Even so, quantities of spam and pop-ups will harm a private user’s utility long before the computer itself suffers actual degra-

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111. See RESTATEMENT (SECOND) OF TORTS § 218(b).

112. In economic terms, these are benefits and costs, respectively. See generally JOSEPH W. SINGER, PROPERTY LAW 322-23 (3d ed. 2002).

113. *Hamidi*, 30 Cal. 4th at 1360-61.

114. *Id.* at 1361 (describing networked computers as being literally similar to other communications networks, like telephones and fax machines, whereas comparison of such computers to real property requires a metaphor).

115. *Id.* at 1347, 1359. (“Whatever interest Intel may have in preventing employees from receiving disruptive communications, it is not an interest in personal property, and trespass to chattels is therefore not an action that will lie to protect it.”). As part of this argument, the California Supreme Court quoted Burk, *supra* note 4, at 36: “The Restatement test clearly speaks in the first instance to the impairment of the chattel . . . . But employees are not chattels (at least not in the legal sense of the term).” *Hamidi*, 30 Cal. 4th. at 1359.

116. *Id.* at 1357-59.

117. See generally Whang, *supra* note 21, at 1203-04; John Simons, *The Battle over Spam Gets Ugly*, U.S. NEWS & WORLD REP., May 12, 1997, at 55.

118. *Hamidi*, 30 Cal. 4th at 1348, 1353 (“In the present case, the claimed injury is located in the disruption or distraction caused to recipients by the contents of the e-mail messages, an injury entirely separate from, and not directly affecting, the possession or value of personal property.”).

dation in performance.<sup>119</sup> The receipt of several thousand pieces of spam in one's mailbox might not noticeably affect a computer's technical performance, but it does reduce the usefulness of the e-mail system to the user.

### C. Historical Parallel: The Development of the Original Nuisance Doctrine

*Intel v. Hamidi* added another page in a story that mirrors the development of the original doctrine of private (real-property) nuisance from its beginnings in strict liability. *Fletcher v. Rylands* originally established a doctrine of strict liability for trespass to land.<sup>120</sup> This doctrine did not stand unmodified in the face of technological progress. Over time, courts incorporated rules of context and economically-motivated balancing tests into the doctrine, changing it from a landowner's weapon into a mechanism designed to safeguard the economic goals of aggregate utility maximization and cost internalization.<sup>121</sup> For instance, a Texas court held that above-ground reservoirs, which *Rylands v. Fletcher* did not consider a "natural use of the land" in England, were, in fact, a necessary and therefore natural use of Texan land, given the realities of Texan climate.<sup>122</sup> And a series of cases decided during and after the Industrial Revolution repudiated strict liability except in cases of negligence, recklessness, or inherently dangerous activities because the proximity and congestion characteristic of an increasingly mechanized, industrialized urban life demanded that everyone accept a degree of give-and-take.<sup>123</sup>

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119. See *eBay, Inc. v. Bidder's Edge, Inc.*, 100 F. Supp. 2d 1058, 1071-72 (N.D. Cal. 2000). Also, some pop-up ads can be so aggressive as to render the computer unusable until it is rebooted or until the user performs an action dictated by the pop-up maker. Though the computer may still have memory or processing power available for other tasks, the user's ability to enter input or access desired programs may be wholly disrupted. See, e.g., *Shields v. Zuccarini*, 254 F.3d 476, 479-80 (3d Cir. 2001) (affirming a judgment against the defendant for cybersquatting). In conjunction with cybersquatting, the defendant in designed sites that "mousetrapped" visitors, rendering them "unable to exit without clicking on a succession of advertisements." *Id.*

120. *Fletcher v. Rylands*, L.R. 1 Ex. 265 (1866). The court in *Fletcher* held that the person who for his own purposes brings on his lands and collects and keeps there anything likely to do mischief if it escapes, must keep it in at his peril, and, if he does not do so, is prima facie answerable for all the damage which is the natural consequence of its escape.

*Id.*

121. *Martin v. Reynolds Metals Co.*, 342 P.2d 790, 790 (Or. 1959).

122. *Turner v. Big Lake Oil Co.*, 96 S.W.2d 221 (Tex. 1936).

123. See RESTATEMENT (SECOND) OF TORTS §§ 822 cmt. b, 828 cmt. g (1965); see also *Spano v. Perini Corp.*, 250 N.E.2d 31 (N.Y. 1969) (abolishing the former distinction between "debris" as a tangible agent of trespass and "concussion" as an intangible which

Context, cost internalization, and network benefits are all concerns that favor the development of a doctrine of cyber-nuisance. Whereas nuisance in real property usually affects only neighbors or other landowners in the immediate geographical vicinity, on the Internet, everyone is just an IP address away. This interconnectedness magnifies network benefits—and network harms. That many activities on the Internet have both highly productive and highly destructive uses makes the inclusion of context, costs, and benefits indispensable for fair and efficient adjudications.

The greatest obstacle to the development of cyber-nuisance lies in the formalistic objection that one should not equate cyberspace with realty and that nuisance is, by lineage, a real-property doctrine. Despite this formalistic obstacle, the efficiency aims that comprise the underlying principles of nuisance apply aptly to the problems of inherently communal cyberspace.<sup>124</sup> The networked nature of the Internet leads to the conclusion that a balancing of benefits and harms will achieve results that are superior to the overdeterrence threatened by bright-line rules.<sup>125</sup>

## V. COMPARATIVE ANALYSIS: CYBER-NUISANCE VERSUS TRESPASS TO CHATTELS

### A. Give-and-Take: Nuisance Is the Preferable Rule of Aggregate Utility, While Trespass to Chattels Is Provincial and Absolutist

Trespass to chattels exists to defend possession and related harms, and its harm-based analysis focuses on literal damages but asks few questions as to the worth of the trespassory activity.<sup>126</sup> Had the *Ticketmaster* court employed the California Supreme Court's analysis, it could not have permitted or justified defendant Tickets.com's activity simply because Tickets.com furnished more good (data aggregation that facilitates comparison shopping) than harm (light activity on *Ticketmaster's* website) to the community. The theory of trespass by electrons, by its very scope, implicates all electronic communications, and as a strict damages analysis,

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will not support a claim of trespass). Use of the Internet and networked computers for electronic communications would appear to be a "natural use" of such a system, qualified by context. The California Supreme Court states that occasional unwanted communication is inevitable when a computer or system is connected to a network as large as the Internet. *Hamidi*, 30 Cal. 4th at 1359-60. And frequently, as in the case with personal e-mail, unsolicited communication is often welcome.

124. SINGER, *supra* note 112, at 325-31.

125. Recall the "tragedy of the anticommons" described by Hunter, *supra* note 3.

126. See PROSSER & KEETON, *supra* note 39, at 85-87. Though there is some analysis as to the trespasser's intent or purpose, the analysis deals more with questions of culpability or thresholds than it deals with utility or defenses.

wholly controls liability. But use of a spider to aggregate data for search engines or comparison shopping and use of a spider to collect e-mail addresses for facilitating spam should be treated differently, though the technical impact of their activity on the visited sites may be similar. Trespass to chattels examines only the harm to the property's owner; the doctrine does not address network harms or benefits.

### B. *Hamidi*: Speech and Advocacy

Assume for the moment that a nuisance doctrine in cyberspace exists.<sup>127</sup> *Hamidi*'s FACE-Intel messages dance on the borderline of UBE versus UCE; *Hamidi* undoubtedly received some measure of personal satisfaction in the activity and its results, and the court still recognized an aspect of "advocacy" in his speech without a detailed analysis of First Amendment concerns.<sup>128</sup> If the court had considered the speech argument under nuisance, it would have had to consider the social value of *Hamidi*'s speech.<sup>129</sup> The court did not endorse using electronic communication as a means of harassment, but noted that if Intel wished to object to the content or consequences of *Hamidi*'s speech, it had other avenues of relief.<sup>130</sup>

Connecting an intranet to the Internet results in inevitable give-and-take and requires a degree of reasonable tolerance sufficient to grant *Hamidi* leeway under § 828(b).<sup>131</sup> Moreover, *Hamidi* mitigated the burden of his conduct upon his audience to the extent possible through an opt-out policy, satisfying § 828(c). In general, the extent of the harm of *Hamidi*'s

127. As noted, the only reason why nuisance does not already apply to the Internet is because by tradition it has always been a doctrine protecting "use and enjoyment of land." RESTATEMENT (SECOND) OF TORTS § 827. Therefore, either nuisance must be expressly expanded to include electronic communications in cyberspace (the preferable route) or the academic debate over Cyberspace as Place must be resolved in favor of treating cyberspace as real property (undesirable due to anticommons concerns).

128. See *Hamidi*, 30 Cal. 4th at 1356.

129. *Id.* at 1364-65. The court said nothing specific about the value of *Hamidi*'s speech per se. Its brief discussion of constitutional concerns implied that it would have decided in *Hamidi*'s favor. The court offered no opinion as to whether the content of *Hamidi*'s speech was valuable, nor did it suggest that he had an absolute right to use the Internet as an avenue of expression. The court based its dicta on two facts: that Intel had recourse to self-help, and that it does not find the constitutional right "not to listen" to grant an employer the right to decide when its employees should or should not listen. *Id.*; see also RESTATEMENT (SECOND) OF TORTS § 828(a) (providing commentary and examples on evaluating the "social value" the law attaches to the defendant's conduct).

130. *Hamidi*, 30 Cal. 4th at 1347-48.

131. See *id.* at 1359-60; RESTATEMENT (SECOND) OF TORTS § 822 cmt. g. This also implicates § 828(b) because *Hamidi*'s conduct was not beyond the extent of unwanted communications that Intel would expect from connection to the Internet.

conduct under § 827 is quite low.<sup>132</sup> Therefore, the weighing of harms and balances under nuisance would also result in a finding for Hamidi. Note also that if Hamidi's activities achieved a volume approaching commercial spam, a court applying nuisance would find the gravity of the harms under § 827 sufficient to justify enjoining Hamidi. Such conduct would have gone inexcusably beyond what is needed for the dissemination of speech, and as a matter of policy, the extension of unbounded spamming rights to everyone with a private opinion would encourage waste of Internet resources. Intel's employees are not chattels and neither is Intel's interest in their time,<sup>133</sup> but nuisance measures the value of conduct, use, and enjoyment, not just the right of possession.<sup>134</sup> Hamidi's e-mails are neither categorically condoned nor forbidden, but weighed in context.

### C. Spidering: *eBay*, *Ticketmaster*, and *Register.com* Revisited

Nuisance would handle the spidering cases with greater factual consistency than trespass to chattels because its analysis pays heed to the purposes of the spidering. Although the California Supreme Court managed to synthesize a rule from these cases, the outcomes remain awkward. *eBay* and *Ticketmaster* both involve defendants who employ spiders to perform data aggregation services thereafter made available to the public.<sup>135</sup> In both cases, the impact was too small to result in actual harm, yet courts found threatened harm cognizable in *eBay* but not in *Ticketmaster*.<sup>136</sup> A "specter" of copycat auction aggregators was deemed likely, but not a specter of copycat ticket sales aggregators. Why? The *Register.com* court's concern about copycat spammers is legitimate because spammers do not curtail their activities unless an outside agency imposes penalties on their behavior, and spammers are not known for their concern about the impact of behavior beyond their own profit margins or liability for dam-

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132. *Hamidi*, 30 Cal. 4th at 1355-56.

133. *Id.* at 1359.

134. See RESTATEMENT (SECOND) OF TORTS §§ 822, 828.

135. *Ticketmaster Corp. v. Tickets.com*, No. 99CV7654; 2000 WL 1887522, \*2 (C.D. Cal. Aug. 10, 2000); *eBay, Inc. v. Bidder's Edge, Inc.*, 100 F. Supp. 2d 1058, 1061-62 (N.D. Cal. 2000).

136. *Id.*

ages.<sup>137</sup> But how many data aggregators are likely to enter the same market, where profits derive from competitive popularity of use?<sup>138</sup>

A nuisance analysis would capture this concern under § 828 or its equivalent. Section 828(a) addresses the social value that the law attaches to the *primary* purpose of the conduct. Search engines have proven value in cyberspace and have contributed immensely to the utility of the Internet.<sup>139</sup> But when the *primary purpose* of the spidering is to facilitate spam, the outcome of an application of § 828(a) is clear: the law attaches very little social value to spam. Many states have already enacted anti-spam statutes, with some even imposing criminal liability for failure to comply with provisions that facilitate opt-out mechanisms,<sup>140</sup> and the CAN-SPAM Act, which also provides for per-violation fines for spam-related offenses, was approved on December 19, 2003.<sup>141</sup> This factor alone would be enough to halt fraudulent or misleading spam under nuisance without regard to the resultant degree of harm.<sup>142</sup> Section 828(c) also examines the

137. See Jones, *supra* note 17, at 70-72 (sending spam is so inexpensive that even a low response rate gives a better return on marketing over the Internet than through junk mail). Much of the cost of dealing with spam is not borne by the spammers themselves, and this failure to internalize the cost of their activity upon the end user results in a predictable, empirically obvious overproduction of spam.

138. Many businesses may pursue the same market, but the field becomes highly competitive. Revenue models employed in Internet business have evolved from support via advertising revenue to actual e-commerce involving fees, transactions, and the sale of actual goods. The result is a crowded space, where generally a few firms pursue similar revenue models but in different fields, waging a constant battle to maintain name recognition. See generally Gary P. Schneider, *Chapter 3: Selling on the Web: Revenue Models and Building a Web Presence*, in ELECTRONIC COMMERCE (3d ed. 2002), available at <http://www.course.com/downloads/mis/e-commerce3eoc/ch03.cfm>.

139. Quilter, *supra* note 31, at 424 (“[L]ocating any information on the Internet would be an almost impossible task without search engines such as Google, Yahoo, or FindLaw.”).

140. See Kelin, *supra* note 24, at 441-49.

141. See 15 U.S.C. §§ 7701-7713 (2000). The chapter is titled “Controlling the Assault of Non-Solicited Pornography and Marketing” and leaves no doubt as to the contemporary target of the legislation. The act does not make spam illegal per se, but § 7703 imposes mandatory opt-out provisions and prohibits “predatory and abusive commercial e-mail.” Section 7704(b) targets other techniques including use of spidering and dictionary attacks as “aggravated violations” when employed in preparation for or execution of spamming activities.

142. RESTATEMENT (SECOND) OF TORTS § 828 cmt. c (1965).

It is only when the conduct has utility from the standpoint of all of the factors as a whole that its merit is ever sufficient to outweigh the gravity of the harm it causes. If the conduct has no utility from the standpoint of one of the factors, the fact that it has utility from the standpoint of other factors is not controlling.

impracticability of preventing or avoiding the invasion, which would force spammers to comply with any statutes that govern their behavior or face nuisance liability. Compliance with several current statutes is often trivial. For instance, one statute merely requires that the first characters in the subject header be "ADV:", which allows any user of e-mail to employ a filter that automatically screens out every such message.<sup>143</sup> It would be difficult for a spammer to prove that this requirement imposes an unreasonable burden.<sup>144</sup>

Nuisance is also versatile with respect to remedies, with both damages and injunctions available.<sup>145</sup> Bidder's Edge provided a useful service, but did not pay for the impact of its activity.<sup>146</sup> Nuisance analysis would find in favor of Bidder's Edge's spidering under equivalents to § 827(a) and (b) since actual harm was not substantial, and under § 827(d) because spidering is a form of electronic communication that has long existed as an element of other useful information services. The relative lightness of the harm weighs against the utility of the conduct. Section 828(a) would ascribe significant value to the primary purpose of the spidering, in this case legitimate data aggregation.<sup>147</sup> Bidder's Edge would only fail § 828(c) for not paying for the impact of its activity on eBay's servers, but the nuisance doctrine would encourage damages instead of an injunction, allowing society to enjoy the benefits of Bidder's Edge's service while Bidder's Edge internalizes its costs.<sup>148</sup>

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*Id.*

143. See CAL. BUS. & PROF. CODE § 17538.4(g) (West 1997 & Supp. 2003); Kelin, *supra* note 24, at 444-49.

144. But see Jones, *supra* note 17, at 76-77. The statement is true if the various spam regulations are internally consistent; if one jurisdiction requires that the message header begin with "ADV:" and another jurisdiction requires that the message header begin with "XXXSPAM:" then literal compliance with both will prove tricky if not impossible. This is a strong argument for preferring a federal anti-spam statute enabled by the Commerce Clause over separate and potentially inconsistent state commercial e-mail statutes.

145. See RESTATEMENT (SECOND) OF TORTS §§ 822, 827, 828 cmt. h, 830.

146. See *eBay, Inc. v. Bidder's Edge, Inc.*, 100 F. Supp. 2d 1058, 1071 (N.D. Cal. 2000); see also RESTATEMENT (SECOND) OF TORTS § 830 (discussing the balancing consideration regarding the defendant's attempt to mitigate the harm imposed by his or her conduct). Even when the overall utility of a defendant's conduct may outweigh the harm it inflicts, this does not by itself excuse the defendant from a duty reasonably to mitigate that harm. See RESTATEMENT (SECOND) OF TORTS § 803.

147. See Quilter, *supra* note 31, at 424.

148. See generally SINGER, *supra* note 112, at 325-31.

## VI. CONCLUSION

The California Supreme Court clarified the newly revived doctrine of trespass to chattels in a way that achieved consistency with the majority of prior case history and harmony with the concerns of economic efficiency and freedom of expression. The expansion reflected the need for ready relief against network congestion in a technology characterized by rapid advances and geometric growth. The court also restricted the tort, anchoring it to its traditional foundation as a means for defending possession in personal chattels, and thereby forestalled the rise of a crippling rule of strict liability in cyberspace. Though a landmark decision in tort law, *Intel v. Hamidi* does not end the controversy regarding trespass law in cyberspace. Rather, it highlights the limitations of one doctrine and encourages further development of a responsible doctrine that prefers an efficient balancing of rights to an awkward system of rigid rules and absolute interests. Law has historically moved to accommodate changes in reality arising from changes in technology, and just as tort law adapted to the advances of the Industrial Age, so too will it adapt to the advances of the Information Age.

**BERKELEY TECHNOLOGY LAW JOURNAL**

## IN RE PHARMATRAK & THEOFEL V. FAREY-JONES: RECENT APPLICATIONS OF THE ELECTRONIC COMMUNICATIONS PRIVACY ACT

By *Raechel V. Groom*

A significant gap divides the popular perception of anonymity on the Internet and the reality of large amounts of data that users actually reveal during even a casual session of web browsing. Many Internet users may not know that they cannot anonymously shop or conduct research as they might in a physical store or library. The Internet has made accessible vast amounts of information on every topic imaginable. However, the very technologies that help us navigate the Internet also make users' web habits transparent and collectable to many individuals and businesses. Imagine, for example, that you have recently developed a health ailment and you use the Internet to visit pharmaceutical and preventative health care sites. These sites ask for information about you and your condition, which you provide. Without your knowledge, a third party records every website you visit, the information you provide to them, and the keywords you use to search them. The collection of such personal information could cause insurance companies to raise premiums if they discover that subscribers have expensive illnesses. Such surveillance could also lead to employers learning of employees' medical conditions, real or imagined, potentially affecting the employee's prospects for career advancement. Put simply, Internet users take the risk that their personal information could get into the wrong hands.

When Internet users have objected to profiling on the Web and to cookies and web bugs from Internet sites,<sup>1</sup> courts have refused to hold that such collection of personal information violates any right to privacy, but rather promotes a legitimate business practice.<sup>2</sup> Plaintiffs generally file

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1. See *infra* Part I for an explanation of cookies and web bugs.

2. See, e.g., *Chance v. Ave. A, Inc.*, 165 F. Supp. 2d 1153, 1161 (W.D. Wash. 2001); *In re DoubleClick, Inc. Privacy Litig.*, 154 F. Supp. 2d 497, 519 (S.D.N.Y. 2001). For a thorough discussion of collecting and submitting an Internet user's personal data to law enforcement authorities, see U.S. Internet Serv. Provider Ass'n, *Electronic Evidence Compliance—A Guide for Internet Service Providers*, 18 BERKELEY TECH. L.J. 945 (2003) [hereinafter *USISPA, Guide*]. Although the Electronic Communications Privacy Act (ECPA) "regulate[s] how the government conducts electronic surveillance, [it] also impose[s] obligations on private parties, including ISPs." *Id.* at 947.

these claims based on the Electronic Communication Privacy Act (ECPA).<sup>3</sup> ECPA is the only viable federal statute for electronic privacy protection, but two recent cases demonstrate that it is at best a limited tool for protecting privacy on the Internet. Drafted in an era when only 50,000 computers were connected to the Internet, ECPA defines the core elements of a violation—intentionally “intercepting” or gaining unauthorized access to “stored” communications—in a way that is too strict for the Internet age.<sup>4</sup> To make matters worse, ECPA provides a consent-based defense for would-be violators that is so permissive as to render the statute ineffective in many situations. For example, in *In re Pharmatrak, Inc. Privacy Litigation*<sup>5</sup> the First Circuit held that a company that tracked and compared users’ visits to pharmaceutical companies’ websites had “intercepted” personally identifiable information, but in so holding set a standard for intent that eventually led to a summary judgment for the defendants.<sup>6</sup> In *Theofel v. Farey-Jones*,<sup>7</sup> the Ninth Circuit reversed a district court holding that e-mail turned over by an Internet Service Provider (ISP) pursuant to an overbroad civil subpoena was a stored communication, and the overbreadth of the subpoena had vitiated the ISP’s consent.<sup>8</sup> Although *Theofel* vindicated the plaintiffs’ privacy interest in their e-mail,<sup>9</sup> the manner in which the court reached this result points to the lack of clarity in ECPA, and suggests that other courts could reach contrary results.<sup>10</sup>

Part I of this Note provides a primer on the technologies at issue in *Pharmatrak*, which are also of more general significance for digital privacy. Part II describes the relevant provisions of ECPA and situates the Act in the larger framework of privacy regulation. Finally, Part III discusses how the major provisions of the Wiretap Act and ECPA were treated in *Pharmatrak* and *Theofel*, respectively.

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3. 18 U.C.S. § 2707 (2000) (providing for civil remedies).

4. *See id.* § 2701.

5. 329 F.3d 9 (1st Cir. 2003) [hereinafter *Pharmatrak II*].

6. *Id.* at 32-35.

7. 341 F.3d 978 (9th Cir. 2003).

8. *Id.* at 983, 985.

9. *See id.* at 982 (noting that it was “Congress’s judgment that users have a legitimate interest in the confidentiality of communications in electronic storage”).

10. *See* USISPA, *Guide*, *supra* note 2, at 961 (“[*Theofel*] is the first appellate interpretation . . . and other circuits may come to different conclusions on the meaning of the language in [ECPA].”).

## I. TECHNOLOGICAL BACKGROUND

The plaintiffs in *Pharmatrak* alleged that Pharmatrak collected personal information from them via “web bugs,” “cookies,” and other devices.<sup>11</sup> A basic understanding of these technologies will help the reader understand why ECPA has become a common choice for privacy-related claims.

### A. Cookies

Cookies are pieces of information sent when a person visits certain websites. They are often stored as small text files on the hard disk of the recipient.<sup>12</sup> Cookies may contain a username and password for a particular site, the last time a person visited the site, the person’s favorite sites, and other customizable information.<sup>13</sup> In summary, cookies allow the key descriptive term to be tied to web users over time, which at least enables a website to say that the same computer has returned to the site. In addition, a website can allow third parties to set and read cookies.<sup>14</sup> They are often used to garner statistics about what types of pages people like to visit.<sup>15</sup>

### B. Web Bugs

A web bug is an image in an e-mail or on a webpage used to allow a third party to detect when the webpage or e-mail is viewed. E-mail and webpages can contain instructions that direct the user’s e-mail program or web browser to load an image—often invisible to the user—from a third party.<sup>16</sup> When the user’s software loads the image from the remote server, the third party can record such information as the computer’s IP address and the time the message was read or the webpage was accessed.<sup>17</sup> The server can also send a cookie along with the image.<sup>18</sup> This cookie can then be used to match a computer with personally identifying information.<sup>19</sup>

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11. *In re Pharmatrak, Inc. Privacy Litig.*, 220 F. Supp. 2d 4, 5, 7 (S.D.N.Y. 2001) [hereinafter *Pharmatrak I*].

12. PRESTON GRALLA, *HOW THE INTERNET WORKS* 299 (7th ed. 2003); D. Kristol & L. Montulli, *HTTP State Management Mechanism 2-4* (Feb. 1997), at <http://www.ietf.org/rfc/rfc2109.txt?number=2109>.

13. GRALLA, *supra* note 12, at 299.

14. *See id.* at 299, 302-03.

15. *Id.* at 299.

16. Richard M. Smith, *The Web Bug FAQ, Version 1.0* (Nov. 11, 1999), at [http://www.eff.org/Privacy/Marketing/web\\_bug.html](http://www.eff.org/Privacy/Marketing/web_bug.html).

17. GRALLA, *supra* note 12, at 305.

18. *Id.*

19. *Id.*

## II. LEGAL BACKGROUND: FEDERAL ELECTRONIC SURVEILLANCE STATUTES

An all-encompassing definition of privacy has proven elusive,<sup>20</sup> but it is a concept that includes elements of freedom of speech, freedom from government intrusions upon property and communications, and control over the dissemination of one's thoughts.<sup>21</sup> This Note is concerned with one aspect of privacy: the interest in the security of personal communications.<sup>22</sup> This interest has its foundation in the Fourth Amendment, which creates the "right of the people to be secure in their persons, houses, papers, and effects, against unreasonable searches and seizures" by the government.<sup>23</sup> In two landmark cases, *Berger v. New York* and *Katz v. United States*, the Supreme Court held that this protection against government intrusion applied to warrantless, electronic eavesdropping.<sup>24</sup>

### A. Statutory Prohibition of Intercepting Communications

Congress codified the holdings in *Berger* and *Katz*, as well as protection against private eavesdropping, in the Wiretap Act.<sup>25</sup> In its original form, the Wiretap Act prohibited warrantless interceptions of "wire or oral communication,"<sup>26</sup> with wire communications defined 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 . . . between the point of origin

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20. See Daniel J. Solove, *Conceptualizing Privacy*, 90 CALIF. L. REV. 1087, 1088 (2002) (summarizing attempts to define privacy and noting that "privacy is a sweeping concept, encompassing . . . freedom of thought, control over one's body, solitude in one's home, control over information about oneself, freedom from surveillance, protection of one's reputation, and protection from searches and interrogations").

21. See *id.* at 1088, 1094.

22. See *Theofel v. Farey-Jones*, 341 F.3d 978, 982 (9th Cir. 2003) (noting that the "[Stored Communications] Act reflects Congress's judgment that users have a legitimate interest in the confidentiality of communications in electronic storage at a communications facility").

23. U.S. CONST. amend. IV.

24. See *Katz v. United States*, 389 U.S. 347, 351, 359 (1967) (holding that electronic eavesdropping by FBI agents on the conversation of a criminal suspect in a public telephone booth violated the Fourth Amendment and ordering evidence obtained in this search excluded from trial); *Berger v. New York*, 388 U.S. 41, 58-60 (1967) (invalidating a New York wiretap statute).

25. The statute originated as Title III of the Omnibus Crime Control and Safe Streets Act of 1968, Pub. L. 90-351, 82 Stat. 213 (1968) (codified at 18 U.S.C. §§ 2510-2522 (2000)), and is sometimes referred to simply as "Title III." To add to this confusion, some courts and commentators refer to the Wiretap Act as "Title I," because the Act was amended by Title I of the Electronic Communications Privacy Act of 1986. See *infra* note 30.

26. Wiretap Act, Pub. L. No. 90-351, § 802, 48 Stat. 1066 (1968).

and the point of reception.”<sup>27</sup> In its current form, the Wiretap Act prohibits “intentionally intercept[ing], endeavor[ing] to intercept, or procur[ing] any other person to intercept or endeavor to intercept, any wire, oral, or electronic communication.”<sup>28</sup> A warrant is not required, however, if one of the parties to the communication consents to its interception. The scope of this statutory consent exception was central to the controversy in *Pharmatrak*.

## B. Statutory Protection for Stored Communications

As computers became more common, it became increasingly apparent that the Wiretap Act’s definition of “wire communications” did not extend to documents transmitted over computer networks.<sup>29</sup> In 1986, Congress addressed this shortcoming in ECPA,<sup>30</sup> which barred warrantless interception of “electronic communications,”<sup>31</sup> a category that encompasses “[m]ost Internet communications.”<sup>32</sup>

ECPA also established protection for the contents of electronic and wire communications in “electronic storage.”<sup>33</sup> This provision, commonly known as the Stored Communications Act (SCA), prohibits the access or disclosure of stored wire communications (e.g., voicemail) and electronic communications in the absence of a valid subpoena.<sup>34</sup> The SCA exempts

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27. 18 U.S.C. § 2510(1); *see also* COMPUTER CRIME & INTELLECTUAL PROP. SECTION, U.S. DEP’T OF JUSTICE, SEARCHING AND SEIZING COMPUTERS AND OBTAINING ELECTRONIC EVIDENCE IN CRIMINAL INVESTIGATIONS 117-18 (2002) [hereinafter CCIPS MANUAL], <http://www.cybercrime.gov/s&smanual2002.pdf> (discussing the original definition of “wire communication”).

28. 18 U.S.C. § 2511(1)(a).

29. *See* Orin S. Kerr, *Lifting the “Fog” of Internet Surveillance: How a Suppression Remedy Would Change Computer Crime Law*, 54 HASTINGS L.J. 805, 810-16 (2003) (discussing development of statutory Internet surveillance law against background of constitutional law).

30. Electronic Communications Privacy Act of 1986, Pub. L. No. 99-508, 100 Stat. 1848 (codified as amended in scattered sections of 18 U.S.C.); *see* USISPA, *Guide, supra* note 2, at 950 (demonstrating that legislative history showed that Congress attempted to make ECPA comprehensive).

31. *See* 18 U.S.C. § 2520.

32. CCIPS MANUAL, *supra* note 27, at 118.

33. The Act provides two definitions of “electronic storage”: “any temporary, intermediate storage of a wire or electronic communication incidental to the electronic transmission thereof,” 18 U.S.C. § 2510(17)(A), and “any storage of such communication by an electronic communication service for purposes of backup protection of such communication.” *Id.* § 2510(17)(B).

34. Stored Communications Act, Pub. L. No. 99-508, 100 Stat. 1860 (1986) (codified as amended in sequence starting at 18 U.S.C. § 2701). However, the passage of the USA PATRIOT Act weakened the protection for stored wire communications, creating parity with electronic communications. USA PATRIOT Act, Pub. L. No. 107-56, § 209, 115 Stat. 272 (2001). For a thorough account of the degrees of protection given to various

access to stored communications that is authorized “by the person or entity providing a[n] electronic communications service.”<sup>35</sup> Explicitly, the SCA forbids someone from “intentionally access[ing] without authorization a facility through which an electronic communication service is provided . . .” and thereby obtaining, altering or preventing “authorized access to a wire or electronic communication while it is in electronic storage.”<sup>36</sup> Both the definition of a communication in “electronic storage” and the permissible scope of third-party authorization to access such communications were at issue in *Theofel*.<sup>37</sup> As that case shows, eighteen years of technological advances raise doubts about the ability of ECPA to address the problem of privacy violations on the Internet.<sup>38</sup>

### III. RECENT CASES: *IN RE PHARMATRAK PRIVACY LITIGATION & THEOFEL V. FAREY-JONES*

As *Pharmatrak* and *Theofel* demonstrate, courts continue to struggle with federal electronic surveillance statutes. In *Pharmatrak*, the First Circuit found that an interception was made without consent, but the court articulated a standard for intent that ultimately defeated the plaintiffs’ claim under the Wiretap Act.<sup>39</sup> In *Theofel*, the Ninth Circuit held that e-mail stored on an ISP’s computers is in “electronic storage,” but the “bad faith” and “gross negligence” that defendants employed to gain access to the communications leaves some doubt as to the case’s broader applicability.<sup>40</sup> Nonetheless, these cases bring some clarity to these complex statutes.

#### A. *Pharmatrak*: Scope of Consent to Intercept Communications

*Pharmatrak* was a class action based upon alleged violations of the Wiretap Act through the use of cookies and web bugs.<sup>41</sup> A number of

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forms of communications and the remedies for violations of the SCA, see the discussion in CCIPS MANUAL, *supra* note 27, at 93-110.

35. 18 U.S.C. § 2701(c)(1).

36. *Theofel v. Farey-Jones*, 341 F.3d 978, 982 (9th Cir. 2003) (quoting 18 U.S.C. §§ 2701(a)(1), 2707(a)).

37. *Id.* at 982-87.

38. See, e.g., Jerry Berman & Deirdre Mulligan, *The Internet and the Law: Privacy in the Digital Age: Work in Progress*, 23 NOVA L. REV. 549, 567-68 (1999); Elbert Lin, *Prioritizing Privacy: A Constitutional Response to the Internet*, 17 BERKELEY TECH. L.J. 1085, 1113-117 (2002); Will Thomas DeVries, Note, *Protecting Privacy in the Digital Age*, 18 BERKELEY TECH. L.J. 283, 291 (2003).

39. *Pharmatrak II*, 329 F.3d 9, 21-23 (1st Cir. 2003) [hereinafter *Pharmatrak II*].

40. *Theofel*, 341 F.3d at 984.

41. *Pharmatrak II*, 329 F.3d at 12-14.

pharmaceutical companies licensed a service called "NETcompare" from Pharmatrak.<sup>42</sup> One capability of NETcompare was to record which pages individual users visited at a client's site, along with how long a user spent looking at each page, the path that he or she took through the site, and the location of the page that the user had visited immediately before.<sup>43</sup> The other purpose of NETcompare was to allow comparisons of how people used different companies' websites; Pharmatrak released these comparisons in monthly reports to its clients.<sup>44</sup>

Pharmaceutical companies used NETcompare by adding a small amount of code to each of their webpages.<sup>45</sup> This code instructed the user's computer to contact Pharmatrak's web server and retrieve from it an invisible graphic image known as a "web bug."<sup>46</sup> This request allowed Pharmatrak to record the time at which the pharmaceutical client's page was viewed.<sup>47</sup> It also allowed Pharmatrak to "plac[e] or access[] a 'persistent cookie' on the user's computer."<sup>48</sup> Unknown to the pharmaceutical companies, and contrary to Pharmatrak's representations and its own understanding of NETcompare, the program could and did collect personal information such as names, addresses, telephone numbers, e-mail addresses, dates of birth, gender, insurance status, educational levels, occupations, medical conditions, medications, and reasons for visiting the particular website.<sup>49</sup> Pharmatrak's collection of this information formed the basis for the plaintiffs' claims.<sup>50</sup>

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42. *Id.* at 12.

43. *Id.* at 13.

44. *Id.* at 14. These reports covered such topics as "the most heavily used parts of a particular site; which site was receiving the most hits in particular areas such as investor or media relations; and the most important links to a site." *Id.*

45. *Id.* at 13-14 ("A pharmaceutical client installed NETcompare by adding five to ten lines of HTML code to each webpage it wished to track and configuring the pages to interface with Pharmatrak's technology.").

46. For the technological explanation of web bugs, see *supra* Part I. The *Pharmatrak II* court also referred to web bugs as "clear GIFs," reflecting the fact that web bugs are frequently transparent GIF (Graphics Interchange Format) images. See *Pharmatrak II*, 329 F.3d at 14 (equating "web bug" with "clear GIF").

47. *Id.* (noting that "[o]n a user's first visit to a webpage monitored by NETcompare, Pharmatrak's servers would plant a cookie on the user's computer," and that "Pharmatrak's servers would access the information on the existing cookie" if the user had visited the page before).

48. *Id.* Unlike regular "cookies," persistent cookies do not expire at the end of an online session, and might not expire until after ninety days. *Id.*

49. *Id.* at 15.

50. *Pharmatrak I*, 220 F. Supp. 2d 4, 6 (D. Mass. 2002).

The district court granted Pharmatrak's motion for summary judgment on the plaintiffs' Wiretap Act claim<sup>51</sup> on the grounds that the pharmaceutical companies had consented to Pharmatrak's monitoring of communications between themselves and visitors to their websites.<sup>52</sup> Drawing an analogy to an earlier effort to use the Wiretap Act against a company that used similar methods to build advertising profiles of individual users,<sup>53</sup> the district court held that the consent exception provided a defense for Pharmatrak because "the Pharmaceutical Defendants were parties to communications with Plaintiffs and consented to the monitoring service provided by Defendant Pharmatrak."<sup>54</sup> As a result, Pharmatrak was not liable to the Internet users for intercepting their personal information.<sup>55</sup>

On appeal, the First Circuit held that the district court erred in its broad interpretation of the consent exception.<sup>56</sup> The First Circuit found that neither the pharmaceutical companies nor the plaintiffs had given their consent to Pharmatrak's acquisition of personal information.<sup>57</sup> Noting that a "party may consent to the interception of only part of a communication or to the interception of only a subset of its communication," the court found that the pharmaceutical companies did not consent to the interception of personal information; in fact, they received assurances from Pharmatrak that NETcompare did not have the capability to access that type of information.<sup>58</sup>

The First Circuit also held that the Internet users did not give their consent to Pharmatrak to access their communications with the various pharmaceutical companies.<sup>59</sup> Neither Pharmatrak nor the pharmaceutical companies gave notice on their websites that communications would be monitored for marketing or any other purpose.<sup>60</sup> Because "[d]eficient no-

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51. *Id.*

52. 18 U.S.C. § 2511(2)(d) (2000) (creating an exception to interception violation where "a party to the communication . . . has given prior consent to such interception"); *Pharmatrak I*, 220 F. Supp. 2d at 12. The district court also dismissed the claims in the plaintiffs' complaint alleging violations of the Stored Communications Act and the Computer Fraud and Abuse Act. *Pharmatrak I*, 220 F. Supp. 2d at 12-15.

53. See *In re Doubleclick Inc. Privacy Litig.*, 154 F. Supp. 2d 497 (S.D.N.Y. 2001) (holding that DoubleClick's use of cookies to track consumers was not a violation of the ECPA because the websites affiliated with DoubleClick consented to the interception of Internet users' communications).

54. *Pharmatrak I*, 220 F. Supp. 2d at 12.

55. *Id.*

56. *Pharmatrak II*, 329 F.3d at 19-21.

57. *Id.* at 20-21.

58. *Id.* at 19-21.

59. *Id.* at 21.

60. *Id.*

tice will almost always defeat a claim of implied consent," the court found that the consent defense failed in this case.<sup>61</sup>

The First Circuit also addressed the interception element of a Wiretap Act violation. Although the district court had not addressed this issue, the First Circuit held that Pharmatrak "intercepted" the communications carrying Internet users' personal information.<sup>62</sup> The court declined to provide its own definition of "interception," however, because Pharmatrak's actions satisfied even the narrowest definition of the term.<sup>63</sup>

Lastly, the First Circuit set out the definition of requisite intent for the proceedings on remand, stating that the party's conduct and the result needed to arise from a conscious objective.<sup>64</sup> The court noted that Congress did not intend for an inadvertent interception to give rise to criminal or civil liability.<sup>65</sup>

On remand, the district court found that Pharmatrak lacked this level of intent, and dismissed the case on summary judgment.<sup>66</sup> The district court found that the "small number of profiles" collected (232 profiles out of millions of users) pointed to an incidental and unintended interception. The court also held that programming errors by pharmaceutical companies caused the collection of personal data. Finally, Pharmatrak insisted that it did not know about the existence of personal data on its servers until after the plaintiffs filed the lawsuit, and therefore they could not have intended the result.<sup>67</sup>

#### **B. *Theofel v. Farey-Jones*: Authorization to Access Stored Communications<sup>68</sup>**

In *Theofel v. Farey-Jones*, the Ninth Circuit discussed two key features of the SCA: whether e-mail stored on an ISP's servers falls within the Act's definition of stored communications, and whether authorization to access such e-mail pursuant to an invalid subpoena is effective. Plaintiffs had appealed the district court's ruling that defendants did not violate any federal statute. The Ninth Circuit reversed the dismissal of the claims under the SCA and affirmed the dismissal of the claims under the Wiretap Act.

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61. *Id.*

62. *Id.* at 21-22.

63. *Id.*

64. *Id.* at 22-23.

65. *Id.* at 23.

66. *In re Pharmatrak, Inc. Privacy Litig.*, 292 F. Supp. 2d 263 (D. Mass. 2003).

67. *Id.* at 268.

68. 341 F.3d 978 (9th Cir. 2003).

The intersection of the Wiretap Act and the SCA is not defined by statute and has been problematic for the judiciary.<sup>69</sup> Technological advancements have caused these two sections of the ECPA to gradually overlap, and Congress has not given clear borders for application.<sup>70</sup> For example, courts have disagreed about the extent of protection e-mails receive under the ECPA.<sup>71</sup> The Fifth Circuit in *Steve Jackson Games v. United States Secret Service*<sup>72</sup> held that unread e-mails stored on a bulletin board did not receive protection under the Wiretap Act because the definition of "electronic communication" did not include a storage component.<sup>73</sup> Although one would assume that these same stored e-mails would then receive protection under the SCA, some courts have held that the definition of "storage" limits the protection of e-mails to intermediate storage before delivery.<sup>74</sup> In contrast to this interpretation, the Ninth Circuit in *Theofel* held that the protection also extends to an e-mail's "post-transmission storage."<sup>75</sup>

The Ninth Circuit has also addressed the SCA authorization requirement prior to *Theofel*<sup>76</sup> in an earlier case, *Konop v. Hawaiian Airlines*.<sup>77</sup> In *Konop*, two unauthorized users of the plaintiff's secured website gave a

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69. See, e.g., *United States v. Steiger*, 318 F.3d 1039, 1047 (11th Cir. 2003) ("[T]he intersection of these two statutes is a complex, often convoluted, area of the law."); *Konop v. Hawaiian Airlines, Inc.*, 302 F.3d 868, 874 (9th Cir. 2002) ("Courts have struggled to analyze problems involving modern technology within the confines of this statutory framework, often with unsatisfying results."); *United States v. Smith*, 155 F.3d 1051, 1055 (9th Cir. 1998); *Steve Jackson Games, Inc. v. U.S. Secret Serv.*, 36 F.3d 457, 462 (5th Cir. 1994).

70. See *Pharmatrak II*, 329 F.3d at 21-22.

71. Compare *In re Doubleclick, Inc. Privacy Litig.*, 154 F. Supp. 2d 497, 511-12 (S.D.N.Y. 2001) (limiting the SCA's protection to unread e-mail stored on an ISB server), and *Fraser v. Nationwide Mut. Ins. Co.*, 135 F. Supp. 2d 623, 636 (E.D. Pa. 2001) (same), with *Theofel*, 341 F.3d at 984-85 (holding that even e-mail that has been read might be stored remotely "for purposes of backup protection," and thus qualify for protection under the SCA) (quoting 18 U.S.C. § 2510(17)(B) (2000)).

72. 36 F.3d 457 (1994).

73. *Id.* at 461.

74. See, e.g., *Doubleclick*, 154 F. Supp. 2d at 511-12; *Fraser*, 135 F. Supp. 2d at 636 (holding that "backup protection" does not include any form of "post-transmission storage").

75. *Theofel*, 341 F.3d at 984-85 (rejecting the holding in *Fraser*, 135 F. Supp. 2d at 633-34, as contrary to the plain language of the Act). The Ninth Circuit affirmed its interpretation of the SCA in *Theofel* in a recent amended opinion and denied a rehearing of the case. *Theofel v. Farey-Jones*, No. 02-15742, No. 03-15301, 2004 U.S. App. LEXIS 2555 (9th Cir. Feb. 17, 2004).

76. 341 F.3d at 978.

77. 302 F.3d 868 (9th Cir. 2002).

third party access to the website.<sup>78</sup> The court held that the consent exception did not apply because only a “user” of the service, who is authorized to use that service, can authorize a third party to access communications.<sup>79</sup> In *Theofel*, the Ninth Circuit further elaborated on the meaning and application of the authorization requirement.<sup>80</sup>

### 1. *Theofel*

During discovery in litigation over a commercial matter, defendant lawyer ordered the plaintiff’s Internet service provider, NetGate, to produce “all copies of e-mails sent or received by anyone” at plaintiff’s place of employment.<sup>81</sup> The subpoena had no limitations as to time or scope.<sup>82</sup> Defendants read a sample of 339 messages posted to a NetGate website without notifying opposing counsel, and without consideration for messages that were personal or privileged.<sup>83</sup>

### 2. *Authorization Based Upon Mistake Is Invalid*

The Ninth Circuit reversed the lower court’s dismissal of the SCA claim based on the defendants’ lack of authorization to access the e-mails.<sup>84</sup> Because Congress did not give a definition for the term “authorize” in the SCA, the Ninth Circuit instead compared the SCA authorization requirement to the tort of trespass, in that it protects an individual’s interest in privacy and property.<sup>85</sup> Just as trespass protects a person’s privacy and proprietary interest in a physical structure, so the Act protects someone’s interest in electronic storage.<sup>86</sup> In either case, a defendant is not liable if his access to the stored information was authorized.

However, § 2701(c)(1) does not protect a defendant who gains authorization “by exploiting a known mistake that relates to the essential nature of his access.”<sup>87</sup> The Ninth Circuit held that an assertion of permis-

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78. *Id.* at 872-73.

79. *Id.* However, the court noted that § 2510 does not define “user,” leaving that definition to the courts. *Id.*

80. *See supra* Part III.B.2.

81. *Theofel*, 341 F.3d at 981.

82. *Id.*

83. *Id.*

84. *Id.* at 985. However, the *Theofel* court found that the district court properly dismissed the Wiretap Act claim because the Ninth Circuit had previously held that “Congress did not intend for ‘intercept’ to apply to ‘electronic communications’ when those communications are in ‘electronic storage.’” *Id.* at 986.

85. *Id.* at 982 (“Like the tort of trespass, the Stored Communications Act protects individuals’ privacy and proprietary interests.”).

86. *Id.* at 982-83.

87. *Id.* at 983.

sion to access a stored communication is only valid if it would “defeat a trespass claim in analogous circumstances.”<sup>88</sup> Though NetGate gave permission for the defendant’s attorney to access the e-mails upon receipt of the subpoena, its “egregiously” overbroad demands invalidated the subpoena under the Federal Rules of Civil Procedure.<sup>89</sup> NetGate, however, did not recognize this effect.<sup>90</sup> In addition to finding the subpoena invalid on the basis of the common law background of “consent induced by mistake,”<sup>91</sup> the *Theofel* court cited the expense of challenging a subpoena and the potential of abuse of knowing use of invalid subpoenas as broader reasons to invalidate NetGate’s alleged consent.<sup>92</sup>

### 3. *E-mail Is Communication in “Electronic Storage”*

The Ninth Circuit also declined to affirm the dismissal on the alternative ground that the e-mails had not been in “electronic storage” and therefore fell outside the SCA.<sup>93</sup> Under the SCA, “electronic storage” is defined as “(A) any temporary, intermediate storage of a wire or electronic communication incidental to the electronic transmission” and “(B) any storage of such communication by an electronic communication service for purposes of backup protection.”<sup>94</sup> The court, liberally interpreting the storage requirement of the SCA, held that the e-mail messages saved for backup are also considered “stored” for the purposes of the SCA, and therefore receive protection under that statute upon a finding of unauthorized access.<sup>95</sup> Some courts have held that the first part of the definition could include e-mail messages pending delivery stored on an ISP’s server, but that part (B) would not apply if the backup protection did not assist the ISP in its service and if it did not have a supplemental purpose to the electronic transmission covered in part (A).<sup>96</sup> The Ninth Circuit disagreed with this finding and held that part (B) applied to *any* messages stored for backup protection.<sup>97</sup>

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88. *Id.*

89. *Id.* at 981; *see id.* at 984.

90. *Id.*

91. *Id.* (citing RESTATEMENT (SECOND) OF TORTS § 174 (1965)).

92. *Id.* at 984.

93. *Id.* at 984-85.

94. 18 U.S.C. § 2510(17) (2000).

95. *Theofel*, 341 F.3d at 985.

96. *Id.* (citing *In re Doubleclick, Inc. Privacy Litig.*, 154 F. Supp. 2d 497 (S.D.N.Y. 2001)).

97. *Id.*

#### IV. CONCLUSION

The legislative history, case law, and the plain language of both the Wiretap Act and the SCA clash against each other and against common sense in light of current technology. The intersection of the Wiretap Act and the SCA has become a large grey area, leaving judges to grope in the dark when trying to apply the law. While courts proclaim the statute to be convoluted and “infamously unclear,”<sup>98</sup> and while commentators clamor in academic journals and call for new law, Congress has remained fairly dormant on this issue. As long as the ECPA remains outdated and unevenly applied,<sup>99</sup> and Congress does not provide new protections for electronic communications, online privacy protection will remain in the dark ages.

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98. See *supra* note 69; see also USISPA, *Guide*, *supra* note 2, at 948 (“The court’s interpretation of these provision has been disjointed due in large part to the complexity of the statutes.”).

99. See *Konop v. Hawaiian Airlines, Inc.*, 302 F.3d 868, 874 (9th Cir. 2000) (“We observe that until Congress brings the laws in line with modern technology, protection of the Internet and websites . . . will remain a confusing and uncertain area of the law.”).



## BATZEL V. SMITH & BARRETT V. ROSENTHAL: DEFAMATION LIABILITY FOR THIRD-PARTY CONTENT ON THE INTERNET

*By Jae Hong Lee*

[I]t has grown faster than a teenager, and now it is time to grow up. . . . The power of instantaneous sight and sound is without precedent in mankind's history. This is an awesome power. It has limitless capabilities for good—and for evil. And it carries with it awesome responsibilities, responsibilities which you and I cannot escape.<sup>1</sup>

When Newton N. Minow delivered those words before the National Association of Broadcasters in 1961, the world had yet to see the Internet's birth. He was, of course, speaking of another unruly young medium that was just then entering its adolescence: television. But his words could easily be applied to the Internet today. Although every new medium presents new challenges for society and the law, closer inspection uncovers a rather unflattering truth: a medium that appears completely fresh and unique in its infancy soon reveals, during adolescence, some of the same pimples and warts that have plagued other young media in the past.

One such wart is the inevitable appearance of undesirable content. Minow described living in a "television age" but lamented that television had become a "vast wasteland."<sup>2</sup> He questioned whether television's "powerful voice" would be used "to enrich the people or debase them."<sup>3</sup> Today, we live in the "Internet age" and some have wondered whether the Internet, too, is becoming a vast wasteland.<sup>4</sup> Indeed, Congress passed the Communications Decency Act (CDA)<sup>5</sup> in 1996 to help combat what it

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1. Newton N. Minow, Speech Before the National Association of Broadcasters (May 9, 1961), available at <http://www.americanrhetoric.com/speeches/newtonminow.htm>.

2. *Id.*

3. *Id.*

4. See Zoë Baird, *Promoting Innovation to Prevent the Internet from Becoming a Wasteland*, 55 FED. COMM. L.J. 441, 442 (2003) (noting that "the Internet is confronting several important challenges that, if left unattended, could take us down a path leading toward a new form of Minow's wasteland").

5. Pub. L. No. 104-104, 110 Stat. 133 (1996) (codified as amended at 47 U.S.C. § 230 (2000)).

viewed as the proliferation of “obscene, lewd, lascivious, filthy, excessively violent, harassing, or otherwise objectionable” material on the Internet.<sup>6</sup>

While old problems invariably show up in new media, this does not mean that political leaders will choose to employ old solutions. In passing the CDA, Congress rejected the traditional model of limited content regulation by government agencies such as the Federal Communications Commission.<sup>7</sup> Instead, Congress sought to encourage providers and users of Internet services to practice self-regulation with respect to offensive material.<sup>8</sup>

The CDA was designed to encourage self-regulation by permitting Internet service providers (ISPs) to exercise their editorial powers in regulating offensive material without incurring strict liability for defamation as publishers of third-party content.<sup>9</sup> This was achieved through § 230(c)(1), which granted ISPs and users immunity from treatment as “the publisher or speaker of any information provided by another information content provider.”<sup>10</sup>

Courts have interpreted this immunity provision so broadly as to provide virtually complete immunity for ISPs from defamation liability for third-party content,<sup>11</sup> a result that the original co-sponsors of the bill probably did not intend.<sup>12</sup> As seen in two recent cases, *Batzel v. Smith*<sup>13</sup> and *Barrett v. Rosenthal*,<sup>14</sup> this broad immunity “can sometimes lead to troubling results.”<sup>15</sup> By exceeding the intent of Congress and granting near-absolute immunity from defamation liability, the courts have departed from traditional defamation tort law and have provided protections for the Internet that no other medium has enjoyed in the past.

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6. 47 U.S.C. § 230(c)(2)(A).

7. As noted by one of the CDA’s original co-sponsors, the bill was intended to “establish as the policy of the United States that we do not wish to have content regulation by the Federal Government of what is on the Internet, that we do not wish to have a Federal Computer Commission with an army of bureaucrats regulating the Internet.” 141 CONG. REC. H8470 (daily ed. Aug. 4, 1995) (statement of Rep. Cox).

8. See 47 U.S.C. § 230(b)(4).

9. *Stratton Oakmont, Inc. v. Prodigy Servs. Co.*, No. 31063/94, 1995 WL 323710 (N.Y. Sup. Ct. May 24, 1995) (holding the ISP, Prodigy, strictly liable for the actions of the board leader of one of Prodigy’s computer bulletin boards).

10. 47 U.S.C. § 230(c)(1).

11. See, e.g., *Zeran v. Am. Online, Inc.*, 129 F.3d 327 (4th Cir. 1997).

12. See *Barrett v. Rosenthal*, 5 Cal. Rptr. 3d 416, 435 (Cal. Ct. App. 2003).

13. 333 F.3d 1018 (9th Cir. 2003).

14. 5 Cal. Rptr. 3d 416.

15. *Batzel*, 333 F.3d at 1031, n.19.

This Note presents several propositions regarding the scope of CDA immunity: (1) courts have generally misinterpreted the scope of immunity from defamation liability provided by § 230(c)(1); (2) the overly broad immunity has been conferred by the courts, in part, to foster the continued growth of the Internet; (3) the Internet is a robust medium that is beyond its infancy and does not require such broad protection from defamation liability; and (4) the Internet, while unique in many respects, is not so exceptional as to require a complete departure from traditional defamation law. As background for this review and assessment of defamation liability for Internet content, Part I of this Note briefly summarizes defamation law before and after the CDA. Part II discusses two recent cases that have interpreted the scope of defamation liability immunity in markedly different ways. Finally, Part III discusses the current approach to defamation liability on the Internet in the context of more traditional approaches applied to other media. The Note concludes by advocating the return to a more traditional approach to defamation liability for the Internet.

## **I. BACKGROUND**

### **A. Common Law Defamation Tort**

The common law tort of defamation protects individuals against published statements that are false and harmful to their reputation.<sup>16</sup> Traditional defamation law categorized information disseminators into three groups to which very different legal standards were applied to determine defamation liability related to third-party content: (1) publishers (e.g., newspapers) exercise great control over final content and were therefore subject to strict liability; (2) distributors (e.g., booksellers) merely distribute content and were therefore subject to liability only upon a showing of knowledge or negligence; and (3) common carriers (e.g., telephone companies) only transmit information with no control over content and were therefore not liable at all.<sup>17</sup>

### **B. Court Cases Before the Communications Decency Act**

Certain features of the Internet have fueled the growth of defamatory speech in cyberspace. Among these features are the relative anonymity of authors and the ease of publishing unscreened and unedited writing and

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16. RESTATEMENT (SECOND) OF TORTS §§ 558-59, 577 (1977); Michelle J. Kane, Note, *Blumenthal v. Drudge*, 14 BERKELEY TECH. L.J. 483, 485 (1999).

17. Paul Ehrlich, Note, *Communications Decency Act § 230*, 17 BERKELEY TECH. L.J. 401, 403 (2002).

research to a potentially world-wide audience.<sup>18</sup> In dealing with the problem of defamation on the Internet, the courts attempted to apply traditional defamation law to the new medium, an exercise which brought mixed results.<sup>19</sup>

Part of the early struggle for courts was determining whether ISPs were “publishers” that exercised significant control over content—and therefore were subject to strict liability for content provided by third parties—or “distributors” who were liable only if they knowingly or negligently distributed defamatory content.<sup>20</sup> In *Cubby, Inc. v. CompuServe Inc.*, a district court held that CompuServe, an ISP, was not liable for defamatory content provided by a third party in Rumorville USA, an Internet forum to which CompuServe had provided access for its subscribers.<sup>21</sup> The court determined that CompuServe was a *distributor* that had “no more editorial control over such a publication than does a public library, book store, or newsstand.”<sup>22</sup> The court further determined that the plaintiffs had failed to show that CompuServe knew or had reason to know of the defamatory statements in Rumorville, and therefore could not be held liable *as a distributor* for defamation.<sup>23</sup>

The New York Supreme Court reached a strikingly different result in *Stratton Oakmont, Inc. v. Prodigy Servs. Co.*<sup>24</sup> The *Stratton Oakmont* court held that Prodigy, an ISP with more than two million subscribers, was strictly liable as a *publisher* for libelous statements on one of its message boards.<sup>25</sup> The court in *Stratton Oakmont* distinguished Prodigy from *Cubby*’s CompuServe by noting that Prodigy had “held itself out to the public and its members as controlling the content of its computer bulletin boards” and had “implemented this control through its automatic software screening program [and] Guidelines.”<sup>26</sup> Prodigy’s “conscious choice, to gain the benefits of editorial control, [had] opened it up to a greater liability than CompuServe and other computer networks that make no such choice.”<sup>27</sup> However, the *Stratton Oakmont* court declared that it was “in full agreement with *Cubby*” and that interactive computer bulletin boards

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18. *See id.* at 401.

19. *See Kane, supra* note 16, at 487.

20. *See Ehrlich, supra* note 17, at 403.

21. 776 F. Supp. 135, 137-38 (S.D.N.Y. 1991).

22. *Id.* at 140.

23. *Id.* at 141.

24. No. 31063/94, 1995 WL 323710 (N.Y. Sup. Ct. May 24, 1995).

25. *Id.* at \*3-4.

26. *Id.* at \*4.

27. *Id.* at \*5.

are generally analogous to “bookstores, libraries and network affiliates.”<sup>28</sup> In other words, absent an overt policy of assuming editorial control over third-party content, the *Stratton Oakmont* court believed that ISPs should generally be held to the defamation liability standards applied to *distributors* in the older, more established media of print and television.<sup>29</sup>

### C. The Communications Decency Act of 1996

#### 1. Immunity Provided by the CDA: Primary Legislative Objectives

The decision in *Stratton Oakmont* seemed to punish a well-intentioned effort to provide a “family-oriented” computer service. In response, Congress passed the Communications Decency Act of 1996 to overturn the result in *Stratton Oakmont* and to remove any disincentives for ISPs to police their services for offensive content.<sup>30</sup> Congress achieved the first goal by passing § 230(c)(1) which reads in relevant part: “No provider or user of an interactive computer service shall be treated as the publisher or speaker of any information provided by another information content provider.”<sup>31</sup> Disincentives against self-policing are addressed in § 230(c)(2):

No provider or user of an interactive computer service shall be held liable on account of—(A) any action voluntarily taken in good faith to restrict access to or availability of material that the provider or user considers to be obscene, lewd, lascivious, filthy, excessively violent, harassing, or otherwise objectionable, whether or not such material is constitutionally protected; or (B) any action taken to enable or make available to information content providers or others the technical means to restrict access to material described in paragraph (1).<sup>32</sup>

It is important to note that the text of § 230(c)(1) does not specifically mention protection for distributors, only for “publisher[s] or speaker[s]” of content.<sup>33</sup> The House Conference Report explicitly states that “[o]ne of the specific purposes of [§ 230] is to overrule *Stratton-Oakmont v. Prodigy* and any other similar decisions which have treated such providers and users as publishers or speakers [of] objectionable material.”<sup>34</sup> The *Stratton*

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28. *Id.*

29. *See id.*

30. H.R. CONF. REP. NO. 104-458, at 194 (1996).

31. 47 U.S.C. § 230(c)(1) (2000).

32. *Id.* § 230(c)(2).

33. *Id.* § 230(c)(1).

34. H.R. CONF. REP. NO. 104-458, at 194.

*Oakmont* court clearly distinguished distributors from publishers and did not impose distributor liability on Prodigy.<sup>35</sup> Therefore, there was no need for Congress to grant immunity from distributor liability in order to overrule *Stratton Oakmont*, and it seems reasonable to assume that if Congress had wanted to grant immunity from distributor liability, it would have done so explicitly.<sup>36</sup>

## 2. *Other Legislative Objectives: Fostering the Growth of the Internet*

Congress also had broader policy objectives in mind when it passed the CDA, namely to “promote the continued development of the Internet and other interactive computer services and other interactive media [and] to preserve the vibrant and competitive free market that presently exists for the Internet and other interactive computer services, unfettered by Federal or State regulation.”<sup>37</sup> Congress passed § 230(c)(1) not only to encourage ISPs to self-regulate obscene and offensive content, but also to prevent lawsuits—especially those for defamation—from shutting down websites and other Internet services.<sup>38</sup> Besides “keeping offensive material away from our kids,”<sup>39</sup> Congress sought to nurture the growth of the Internet, a medium that was commonly perceived to be in its infancy.<sup>40</sup>

### D. **Defamation Liability on the Internet After the Communications Decency Act**

Congress’s effort to encourage ISPs to self-regulate offensive material provided through their services eventually produced, through the courts, a broad immunity for ISPs that extended well beyond the intended scope of the CDA. Interestingly, the most influential court decision interpreting § 230, *Zeran v. America Online, Inc.*,<sup>41</sup> did not address the dissemination of generally offensive material on the Internet, but rather a dispute over

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35. *Stratton Oakmont, Inc. v. Prodigy Servs. Co.*, No. 31063/94, 1995 WL 323710, at \*3 (N.Y. Sup. Ct. May 24, 1995).

36. See David R. Sheridan, *Zeran v. AOL and the Effect of Section 230 of the Communications Decency Act Upon Liability for Defamation on the Internet*, 61 ALB. L. REV. 147, 168-69 (1997).

37. 47 U.S.C. § 230(b)(1)-(2).

38. *Barrett v. Rosenthal*, 333 F.3d 1018, 1028 (9th Cir. 2003).

39. 141 CONG. REC. H8470 (daily ed. Aug. 4, 1995) (statement of Rep. Cox).

40. See, e.g., Michael Hadley, Note, *The Gertz Doctrine and Internet Defamation*, 84 VA. L. REV. 477, 507 (1998) (stating that “while the Internet is in its infancy, fundamentally altering the balance in favor of shielding false defamatory statements against private persons is both premature and dangerous”).

41. 129 F.3d 327 (4th Cir. 1997).

the defamation liability of an ISP for third-party content.<sup>42</sup> The *Zeran* court granted ISPs and their users virtually complete immunity from defamation liability for third-party content, a decision intended to safeguard the continued development of “the new and burgeoning Internet medium.”<sup>43</sup> The *Zeran* court’s broad interpretation of § 230 immunity produced some troubling results.

*I. Zeran v. America Online, Inc.*

Just six days after the Oklahoma City bombing of April 19, 1995, an anonymous individual posted a message on an America Online (AOL) bulletin board describing the sale of shirts featuring offensive and tasteless slogans related to the tragedy.<sup>44</sup> The message instructed those interested in purchasing the shirts to call Kenneth Zeran’s home phone number.<sup>45</sup> As a result of this malicious prank, Zeran began receiving a large number of hostile calls, including numerous death threats.<sup>46</sup> Zeran contacted AOL and informed a representative of the company of his predicament. AOL promised to remove the posting but refused to post a retraction as a matter of policy.<sup>47</sup> The postings continued and eventually reached an Oklahoma City radio station, which encouraged its listeners to call Zeran’s phone number.<sup>48</sup> By this time, Zeran was completely inundated with death threats.<sup>49</sup> After repeated calls to AOL, Zeran was told that the company would soon close the accounts under which the defamatory messages had been posted.<sup>50</sup> The flood of violent phone calls subsided only after a local newspaper exposed the defamatory prank and after the local radio station made an on-air apology.<sup>51</sup> The ugly episode vividly demonstrated the muscular and robust power of the Internet as a medium for rapidly spreading harmful lies.

Zeran eventually filed a suit against AOL, arguing in the district court that once he had notified AOL of the unidentified third-party’s defamatory hoax, AOL had a duty to remove the defamatory message promptly, post retractions, and screen for similar defamatory postings.<sup>52</sup> AOL responded

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42. *Id.* at 328.

43. *Id.* at 330.

44. *Id.* at 329.

45. *Id.*

46. *Id.*

47. *Id.*

48. *Id.*

49. *Id.*

50. *Id.*

51. *Id.*

52. *Id.* at 330.

by citing § 230 immunity as an affirmative defense and moved for judgment on the pleadings, which the district court granted.<sup>53</sup> Zeran appealed to the Fourth Circuit, arguing that § 230 immunity eliminated only publisher liability, leaving notice-based distributor liability intact.<sup>54</sup> The Fourth Circuit disagreed, declaring that distributor liability was “merely a subset, or a species, of publisher liability, and is therefore also foreclosed by § 230.”<sup>55</sup> The *Zeran* court further stated that interpreting § 230 as denying immunity for distributor liability “would defeat the two primary purposes of the statute,” namely, maintaining the robustness of Internet communication by minimizing government interference and encouraging ISP self-regulation of offensive content.<sup>56</sup>

The *Zeran* court concluded that “Congress’ desire to promote unfettered speech on the Internet must supersede conflicting common law causes of action.”<sup>57</sup> In doing so, the Fourth Circuit deduced that Congress had chosen to protect the “new and burgeoning Internet medium” from the “specter of tort liability” over providing legal redress for victims of serious defamation.<sup>58</sup> Many disagreed with this assessment.<sup>59</sup> In holding that distributor liability is a subset of publisher liability, the *Zeran* court effectively granted providers and users of interactive computer services virtually complete immunity from defamation liability for third-party content.<sup>60</sup> As discussed above, it is far from clear that Congress intended such a dramatic break from the past with the passage of § 230(c)(1).<sup>61</sup>

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53. *Id.* at 329-30.

54. *Id.* at 330-31.

55. *Id.* at 332.

56. *Id.* at 330-31, 334.

57. *Id.* at 334.

58. *See id.* at 330-31.

59. *See Barrett v. Rosenthal*, 5 Cal. Rptr. 3d 416, 429 (Cal. Ct. App. 2003); Sheridan, *supra* note 36, at 178 (footnotes omitted). One such commentator noted that freedom from distributor liability for AOL [may] be necessary in order to protect people who want to run newsgroups or listservs [and] to preserve the ‘never-ending worldwide conversation’ on ‘the most participatory form of mass speech yet developed, the Internet . . .’ This is a choice that Congress may want to make, but there is little evidence that, in enacting the CDA, Congress made that choice.

Sheridan, *supra* note 36, at 178 (footnotes omitted).

60. *See Zeran*, 129 F.3d at 332; *see Sheridan*, *supra* note 36, at 165-166.

61. Sheridan, *supra* note 36, at 168. For an excellent and fairly comprehensive discussion on this issue, *see Barrett*, 5 Cal. Rptr. 3d at 425-35.

## 2. *The Post-Zeran World: Some Troubling Results*

Several courts reached troubling results by following *Zeran*.<sup>62</sup> For example, in *Blumenthal v. Drudge*, a district court held that AOL could not be held liable for the false and defamatory statements written by a third party, Internet news columnist Matt Drudge, despite the fact that AOL: (1) had made monthly payments to Drudge for his electronic publication under a licensing agreement; (2) could have chosen, under the licensing agreement, to remove content that it reasonably determined violated its standard terms of service; (3) knew that Drudge specialized in rumor and gossip; and (4) made editions of Drudge's publication available to its subscribers after first receiving them from Drudge by e-mail.<sup>63</sup> Following *Zeran*, the *Blumenthal* court concluded that "Congress made no distinction between publishers and distributors in providing immunity from [defamation] liability."<sup>64</sup> The *Blumenthal* court apparently was troubled by its own holding, declaring that if "it were writing on a clean slate, this Court would agree with plaintiffs."<sup>65</sup> The court noted that while AOL promoted Drudge as a new source of "unverified instant gossip," AOL took no responsibility for any damage his gossip may have caused.<sup>66</sup>

## II. DEFAMATION LIABILITY IN TWO RECENT CASES

Recent cases illustrate two markedly different approaches to the immunity enjoyed by ISPs and users under § 230. In *Batzel v. Smith*,<sup>67</sup> the Ninth Circuit continued the pattern established in other courts by setting a low bar and broadening § 230 immunity in defamation cases involving third-party content, despite the court's clear misgivings in doing so.<sup>68</sup> In contrast, the California Court of Appeals in *Barrett v. Rosenthal* became perhaps the first court in the nation to explicitly reject the *Zeran* court's broad interpretation of § 230.<sup>69</sup>

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62. See, e.g., *Doe v. Am. Online, Inc.*, 783 So. 2d 1010 (Fla. 2001) (holding that 47 U.S.C. § 230 preempts state law as to causes of action based in negligence against an ISP accused of distributing obscene materials related to child pornography).

63. 992 F. Supp. 44, 47-48, 53 (D.D.C. 1998).

64. *Id.* at 52.

65. *Id.* at 51.

66. *Id.*

67. 333 F.3d 1018 (9th Cir. 2003).

68. See *id.* at 1020, 1030, 1031 n.19.

69. *Barrett v. Rosenthal*, 5 Cal. Rptr. 3d 416, 429 (Cal. Ct. App. 2003).

### A. *Batzel v. Smith*

In *Batzel v. Smith*, the Ninth Circuit examined the question of whether a moderator of a listserv and operator of a website who posts an allegedly defamatory e-mail authored by a third party can be held liable for doing so.<sup>70</sup> In addressing this question, the Ninth Circuit tackled the more specific issue of when a third party may be deemed to have *provided* information for possible distribution within the meaning of § 230(c)(1). In holding that a service provider or user is shielded from liability when that provider or user *reasonably perceived* that the third party provided the information for the purpose of publication or distribution,<sup>71</sup> the *Batzel* court established yet another standard promoting irresponsibility on the Internet.

#### 1. *Facts and Procedural History*

During the summer of 1999, handyman Robert Smith was performing some contract work at the North Carolina home of Ellen Batzel, an attorney.<sup>72</sup> For various reasons, Smith became concerned that Batzel was in possession of artwork looted from European Jews during World War II.<sup>73</sup> After a search for websites concerning stolen art work, Smith came upon the Museum Security Network (“the Network”), which was solely operated by Ton Cremers, then-Director of Security at Amsterdam’s Rijksmuseum.<sup>74</sup> Smith then sent an e-mail message to Cremers, stating that Batzel possessed art that Smith believed had been looted during World War II.<sup>75</sup>

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70. 333 F.3d at 1020.

71. *Id.* at 1034.

72. *Id.* at 1020.

73. *Id.* at 1020-1021.

74. *Id.* at 1021.

75. The e-mail message read in relevant part:

From: Bob Smith [e-mail address omitted]

To: securma@museum-security.org [the Network]

Subject: Stolen Art

Hi there,

I am a building contractor in Asheville, North Carolina, USA. A month ago, I did a remodeling job for a woman, Ellen L. Batzel who bragged to me about being the grand daughter [sic] of “one of Adolph Hitler’s right-hand men.” At the time, I was concentrating on performing my tasks, but upon reflection, I believe she said she was the descendant of Heinrich Himmler.

Ellen Batzel has hundreds of older European paintings on her walls, all with heavy carved wooden frames. She told me she inherited them.

I believe these paintings were looted during WWII and are the rightful legacy of the Jewish people. Her address is [omitted]. I also believe that the descendants of criminals should not be persecuted for the crimes of the [sic] fathers, nor should they benefit. I do not know who to contact

Cremers eventually distributed Smith's e-mail message, with some minor wording changes, through the Network listserv and published the listserv with Smith's message on the Network website.<sup>76</sup> After viewing the posting, Smith explained in an e-mail to a subscriber that he had no idea that his e-mail would be posted to the listserv or placed on the Network website.<sup>77</sup>

Several months later, Batzel discovered the e-mail message and complained to Cremers about it.<sup>78</sup> Cremers then contacted Smith, who insisted on the truth of his statements.<sup>79</sup> However, Smith told Cremers that if he had known that his e-mail message would be posted, he would never have sent it in the first place.<sup>80</sup> To support his contention that he intended to have kept the message from publication, Smith pointed out that he sent the e-mail message to an address that was different from the one used by listserv subscribers to send messages for inclusion in the listserv.<sup>81</sup>

Batzel disputed Smith's account and believed that Smith defamed her because she had refused to pass on an amateur screenplay written by him to her contacts in Hollywood.<sup>82</sup> Claiming injuries to her social and professional reputation, she filed suit against Smith and Cremers in federal court in Los Angeles.<sup>83</sup> The district court denied Cremers's motions to dismiss the case<sup>84</sup> and declined to extend the immunity conferred under § 230(c), holding that Cremers's Network was not an ISP.<sup>85</sup> Cremers appealed to the Ninth Circuit Court of Appeals.<sup>86</sup>

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about this, so I start with your organization. Please contact me via email [ . . . ] if you would like to discuss this matter.  
Bob.

*Id.*

76. *Id.* at 1022.

77. *Id.*

78. *Id.*

79. *Id.*

80. *Id.*

81. *Id.*

82. *Id.*

83. *Id.* Batzel also filed suit against the Netherlands Museum Association, and Mosler, Inc., a financial sponsor of the Network. *Id.*

84. Cremers filed a motion to strike under the California anti-SLAPP statute (CAL. CIV. PROC. CODE § 425.16 (West 1973)), and a motion to dismiss for lack of personal jurisdiction. *Batzel*, 333 F.3d at 1023. The district court denied both motions. *Id.*

85. *Id.* at 1026. Batzel had also alleged that Mosler was vicariously liable for her injuries because Cremers had been acting as Mosler's agent; the district court issued a summary judgment in favor of Mosler and Batzel appealed that decision. *Id.* at 1023.

86. *Id.*

## 2. *The Ninth Circuit's Analysis*

After disposing of the procedural issues that Cremers had raised,<sup>87</sup> the Ninth Circuit focused on the heart of the case: whether Cremers qualified for the immunity provided under § 230(c)(1). The court first determined that Cremers's Network website and listserv qualified as a "provider or user of an interactive computer service" under § 230(c)(1).<sup>88</sup> The Ninth Circuit then noted that § 230 limits immunity to information "provided by another information content provider."<sup>89</sup> The court determined that because "Cremers did no more than select and make minor alterations to Smith's e-mail, Cremers cannot be considered the content provider of Smith's e-mail for purposes of § 230."<sup>90</sup> The key question, therefore, was

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87. The Ninth Circuit first addressed Cremers's motion to dismiss for lack of personal jurisdiction, determining that the district court's denial of that motion was not an appealable order and therefore dismissed Cremers's appeal on that issue. *Id.* The Ninth Circuit next addressed Cremers's motion to strike under California's anti-SLAPP statute. California law permits the pre-trial dismissal of SLAPPs—Strategic Lawsuits Against Public Participation. CAL. CIV. PROC. CODE § 425.16. These are lawsuits that are aimed at discouraging freedom of expression through costly, time-consuming litigation. *See Batzel*, 333 F.3d at 1023-24. The Ninth Circuit first determined that it had jurisdiction over Cremers's immediate interlocutory appeal of the district court's denial of his motion. *Id.* at 1024-25. It then noted that successfully defeating the anti-SLAPP motion required a showing that Batzel would prevail on the merits of her complaint. *Id.* at 1026. But the Ninth Circuit refused to conclusively deny the motion because it was inclined to agree that Batzel had made such a showing only "*absent* 47 U.S.C. § 230." *Id.* (emphasis added).

88. *Batzel*, 333 F.3d at 1030-31. The CDA broadly defines an interactive computer service as "*any* information service, system, or access software provider that provides or enables computer access by multiple users to a computer server, including specifically a service or system that provides access to the Internet and such systems operated or services offered by libraries or education institutions." 47 U.S.C. § 230(f)(2) (2000) (emphasis added). The district court narrowly construed § 230(f)(2) to cover only services that provide access to the Internet as a whole, and therefore concluded that Cremers did not qualify for section 230(c)(1) immunity. *See Batzel v. Smith*, No. CV 00-9590 SVW(AJWX), 2001 WL 1893843, at \*7-8 (C.D. Cal. June 5, 2001). The Ninth Circuit reversed this holding, citing numerous examples in which the statute had referred to the "Internet and *other* interactive computer services." *Batzel*, 333 F.3d at 1030 (emphasis added); *see, e.g.*, 47 U.S.C. § 230(a)(1). Furthermore, the Ninth Circuit stated that there was "no need here to decide whether a listserv or website itself fits the broad statutory definitions of 'interactive computer service,' because the language of § 230(c)(1) confers immunity not just on 'providers' of such services, but also on 'users' of such services." *Batzel*, 333 F.3d at 1030 (citing 47 U.S.C. § 230(c)(1)). The Ninth Circuit determined that "both the Network website and the listserv are potentially immune under § 230." *Id.* at 1031.

89. *Batzel*, 333 F.3d at 1031 (quoting CAL. CIV. PROC. CODE § 230(c)(1)) (emphasis added).

90. *Id.*

whether Smith had actually *provided* his e-mail within the meaning of § 230.

This issue was not a simple matter because Smith insisted that he never “imagined [his] message would be posted on an international message board.”<sup>91</sup> Cremers claimed that § 230(c)(1) immunity should be available simply because Smith was the author of the e-mail and nothing more. But the Ninth Circuit rejected this interpretation, noting that users and providers of interactive computer services could then post with impunity material that they knew was never meant to be published on the Internet.<sup>92</sup> However, the Ninth Circuit also declined to place the primary focus on the information provider’s intentions—fearing that free speech would be chilled (and Congress’s purpose thwarted) if service providers or users could not tell whether a posting was contemplated.<sup>93</sup>

Instead, the Ninth Circuit placed the focus squarely on the service provider’s or user’s “reasonable perception of those intentions or knowledge.”<sup>94</sup> The court held that

a service provider or user is immune from liability under § 230(c)(1) when a third person or entity . . . furnished [information] to the provider or user under circumstances in which a reasonable person in the position of the service provider or user would conclude that the information was provided for publication on the Internet or other ‘interactive computer service.’<sup>95</sup>

In a vigorous dissent, Judge Gould objected to shifting the inquiry away from the defendant’s *conduct*. Judge Gould claimed that, by providing immunity for parties that disseminate writings whose authors intend to have published, the court had developed a rule that not only “encourages the casual spread of harmful lies”<sup>96</sup> but also “licenses professional rumormongers and gossip-hounds to spread false and hurtful information with impunity.”<sup>97</sup> He further stated that the “problems caused by the majority’s rule all would vanish if we focused our inquiry not on the *author’s intent*, but on the *defendant’s acts*.”<sup>98</sup>

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91. *Id.* at 1032.

92. *See id.* at 1033.

93. *Id.* at 1034.

94. *Id.*

95. *Id.* The Ninth Circuit vacated the district court’s order denying Cremers’s anti-SLAPP motion and remanded to the district court for further proceedings to develop the facts under the new standard. *Id.* at 1035.

96. *Id.* at 1038 (Gould, J., dissenting).

97. *Id.* (Gould, J., dissenting).

98. *Id.* (Gould, J., dissenting).

**B. *Barrett v. Rosenthal***

In *Barrett v. Rosenthal*, a case with some factual similarities to *Batzel*,<sup>99</sup> the California Court of Appeals examined the central question of “the extent to which [§ 230] abrogated the common law of defamation.”<sup>100</sup> In so doing, the *Barrett* court explicitly rejected *Zeran*’s construction of § 230, believing that “*Zeran*’s analysis of section 230 is flawed, in that the court ascribed to Congress an intent to create a far broader immunity than that body actually had in mind or is necessary to achieve its purposes.”<sup>101</sup> The Court of Appeals concluded that § 230 of the CDA “cannot be deemed to abrogate the common law principle that one who republishes defamatory matter originated by a third person is subject to liability *if he or she knows or has reason to know of its defamatory character*.”<sup>102</sup>

The court noted that the trial court had relied on *Zeran*, acknowledging that the “effect of *Zeran* is to confer on providers and users of interactive computer services complete immunity from liability for transmitting the defamation of a third party.”<sup>103</sup> However, the court emphatically declined to follow *Zeran* on two critical points. First, the *Barrett* court disagreed that the word “publisher” in § 230(c)(1) included not only primary pub-

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99. Stephen J. Barrett and Terry Polevoy were physicians who sought to discredit alternative or nonstandard healthcare practices and products. *Barrett v. Rosenthal*, 5 Cal. Rptr. 3d 416, 418-19 (Cal. Ct. App. 2003). Ilena Rosenthal was a participant in two Usenet newsgroups that focused on alternative medicine. *Id.* at 419. On or about August 14, 2000, Rosenthal began distributing through the Usenet newsgroups an e-mail message that she had received from Timothy Bolen, another defendant in the case. *Id.* at 420. The message accused Polevoy of “stalking women” and urged “health activists . . . from around the world to file complaints to government officials, media organizations, and regulatory agencies.” *Id.* Bolen’s message claimed that Polevoy was part of a “criminal conspiracy” and urged a criminal investigation of Polevoy’s “subversive” activities. *Id.* Shortly after Rosenthal distributed Bolen’s message, Polevoy and Barrett informed her that it was false and defamatory and asked that it be withdrawn, threatening a lawsuit if it was not. *Id.* Rosenthal refused to withdraw the message and instead posted thirty-two additional messages on various Internet newsgroups describing the threat of a lawsuit accompanied by a copy of Bolen’s allegedly defamatory message and referring to Polevoy and Barrett as “quacks.” *Id.* Rosenthal later posted a number of additional messages that disparaged Polevoy and Barrett. *Id.* at 421. The trial court found Rosenthal immune from defamation liability for the reposting of Bolen’s statements under § 230 of the CDA. *Id.* Polevoy and Barrett appealed the decision to the California Court of Appeal, arguing, in part, that § 230 of the CDA bars treatment of providers and users of interactive computer services as primary publishers, subject to strict liability, but does not bar treating them as distributors, subject to notice-based liability. *Id.* at 426.

100. *Id.* at 425.

101. *Id.* at 429.

102. *Id.* at 426-27.

103. *Id.* at 428.

lishers, but distributors as well. Second, the *Barrett* court challenged the *Zeran* court's conclusion that leaving distributor liability intact would not accomplish the policies that § 230 was designed to effectuate.<sup>104</sup>

On the textual issue of whether distributors fall within § 230(c)(1), the *Barrett* court noted that in "order to abrogate a common-law principle, the statute must 'speak directly' to the question addressed by the common law."<sup>105</sup> It challenged the *Zeran* court's assertion that "Congress has indeed spoken directly to the issue by employing the legally significant term 'publisher,' which has traditionally encompassed distributors and original publishers alike."<sup>106</sup> The *Barrett* court deemed it "entirely reasonable to assume Congress was aware of [the] significant and very well-established [common law] distinction" between primary publishers and distributors.<sup>107</sup> Citing *Stratton Oakmont* as an example, the *Barrett* court also noted that courts commonly used the word "publisher" to refer only to primary publishers and not distributors.<sup>108</sup> The court also reasoned that if, "as *Zeran* says, Congress's use of the word 'publisher' covers distributors as well as [primary] publishers, and therefore reflects an intent to create absolute immunity, it would not have been necessary for Congress to specifically protect providers and users who monitor content; [§ 230(c)(2)] would be mere surplusage."<sup>109</sup> Finally, the court stated that the legislature's express desire to overturn *Stratton Oakmont*, while remaining silent on *Cubby*, was "consistent with exclusion of distributor liability from the statutory immunity."<sup>110</sup>

On the second critical issue—whether imposing distributor liability would defeat § 230's purpose—the *Barrett* court began by challenging the *Zeran* court's assertion that § 230 was designed to promote unfettered speech on the Internet. Specifically, the *Barrett* court questioned "whether a statute that encourages the restriction of certain types of [offensive] online material [can] fairly be said to reflect a desire 'to promote unfettered speech.'"<sup>111</sup> The *Barrett* court also was not convinced that "[distributor] liability would actually have an unduly chilling effect on cyber-speech";<sup>112</sup> it cited authorities that praised the benefits of defamation law

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104. *Id.* at 430.

105. *Id.* (citing *United States v. Texas*, 507 U.S. 529, 534 (1993)) (emphasis added by *Barrett* court).

106. *Id.* (citing *Zeran v. Am. Online, Inc.*, 129 F.3d 327, 334 (4th Cir. 1997)).

107. *Id.* at 431.

108. *Id.* at 432.

109. *Id.* at 433.

110. *Id.* at 435.

111. *Id.* at 436-37.

112. *Id.* at 437.

on public discourse.<sup>113</sup> Furthermore, the *Barrett* court concluded that if “ISPs are granted absolute immunity for disseminating third-party defamatory material, then ISPs will not bother to screen their content [for offensive material] because they will never be subject to liability.”<sup>114</sup>

### III. DISCUSSION

*Batzel* and *Barrett* present two dramatically different approaches to addressing the problem of defamation on the Internet. *Batzel* seems to follow the more recent trend of courts granting ever-broader immunity to ISPs and their users against defamation liability for the transmission of third-party content, driving common law defamation tort further into the legal background. The *Barrett* court, in contrast, seems intent on leading a retreat from this brave new world, commanding a return of distributor liability under § 230 and completely rejecting the direction towards absolute immunity pioneered by the *Zeran* court.<sup>115</sup> By so doing, the *Barrett* court was taking action in response to the “overarching theme of *Zeran*’s critics [that] the [*Zeran*] court’s analysis is unbalanced”<sup>116</sup> and had created a significant imbalance between promoting the growth of the Internet and protecting individuals against defamation.<sup>117</sup>

The difference between the two approaches becomes readily apparent upon comparing the level of responsibility demanded by each court from individuals distributing third-party messages. The *Batzel* majority would grant an ISP or user immunity from defamation liability merely because that provider or user reasonably perceived that the third-party information was provided for publication on the Internet.<sup>118</sup> In stark contrast, the *Bar-*

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113. *Id.*

114. *Id.* at 436.

115. *Id.* at 442.

116. *Id.* at 439.

117. *See, e.g., Kane, supra* note 16, at 483.

118. *Batzel v. Smith*, 333 F.3d 1018, 1034 (9th Cir. 2003). One unfortunate consequence of setting the bar so low would be the increased legal vulnerability of third-party content providers. Although *Batzel*’s *Smith* is hardly a sympathetic figure, he did insist that he never “imagined [his] message would be posted on an international message board or [he] never would have sent it in the first place.” *Id.* at 1032. His contention is bolstered by the fact that *Smith* submitted his message to *Cremers* through an e-mail address that was different from the one that subscribers used to submit messages for possible inclusion in the Network’s listserv. *Id.* at 1022. As a direct consequence of *Cremers*’s decision to distribute *Smith*’s e-mail on the Network’s listserv, *Smith* is a defendant in *Batzel*’s defamation suit. Since Congress clearly intended to maintain the Internet and other interactive computer services as a “forum for a true diversity of political discourse, unique opportunities for cultural development, and myriad avenues

*rett* court demanded a certain level of adult responsibility from intermediaries, proclaiming that one could infer “malice and reckless disregard for the truth” when a party failed “to conduct a reasonable investigation regarding the truth of [an] accusation of criminal conduct and [relied] on obviously biased sources.”<sup>119</sup>

This discussion will examine whether there is a good rationale for granting providers and users of Internet services greater immunity from defamation liability than their print or broadcast counterparts.<sup>120</sup> To place this analysis in historical context, this Part will first review some of the past struggles to adapt common law defamation tort to new and emerging media. It will then revisit the *Batzel* case, applying common law distributor liability to the facts of the case. Finally, this Part presents the argument that the Internet has grown into a powerful medium for both commerce and speech, a behemoth that is not likely to be crippled by the return of distributor liability.

#### A. That Which is New is Old

[I]t has been pointed out in a number of decisions that the large number of messages which a [company] is required to transmit, the speed expected in the transmission of the messages, the number and character of the minor employees needed in the business, and the difficulty of the legal questions involved make it impractical for the company to withhold or deliver messages

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for intellectual activity,” 47 U.S.C. § 230(a)(3) (2000), it would seem prudent to protect ordinary individuals like Smith who—for better or worse—provide much of the content on the Internet. Ironically, even Cremers seems to understand this, for he stated that he has “the responsibility to protect third parties against fault [sic] intent and protect their privacy . . . [I] should be the guardian of those sending messages and protect them against harming themselves.” Appellant’s Opening Brief at \*19, *Batzel v. Smith*, 333 F.3d 1018 (9th Cir. 2002) (No. 01-56556), 2002 WL 32126255. But the Ninth Circuit’s new standard hardly provides any protection at all for third-party content providers such as Smith.

119. See *Barrett*, 5 Cal. Rptr. 3d at 425. The *Batzel* court’s decision would have been more reasonable if it had required a showing by Cremers that he took reasonable measures to confirm that Smith provided his e-mail message for distribution. After all, Smith concluded his e-mail message to Cremers by encouraging Cremers to contact him if he wanted to discuss the matter further. *Batzel*, 333 F.3d at 1021. By relieving Internet service providers and users of the responsibility to conduct even the most minimal confirmatory measures, the Ninth Circuit majority probably did craft a rule that “encourages the casual spread of harmful lies.” *Id.* at 1038.

120. Interestingly, Judge Berzon, writing for the majority in *Batzel*, begins her opinion by stating there “is no reason inherent in the technological features of cyberspace why First Amendment and defamation law should apply differently in cyberspace than in the brick and mortar world.” *Id.* at 1020.

until it can make an investigation as to their truth or privileged character. Hence, it is only when the company has knowledge or reason to know that the messages are not privileged [i.e., true or legitimate] that it becomes liable for libelous matter contained therein.<sup>121</sup>

The quotation above could have been excerpted from a case involving an Internet service provider or user, but in fact it is from a case involving telegrams—hardly a new technology, even in 1950.<sup>122</sup> Nevertheless, telegraph technology was once relatively new, and the courts struggled for years to develop a standard of defamation liability for telegraph operators.<sup>123</sup> The issue was finally resolved in 1950, with the adoption of a distributor-type standard of liability for telegraph operators.<sup>124</sup> This is just one example in which traditional common law defamation liability standards were adapted for new technologies.

Other “new” technologies that caused courts to struggle with defamation liability standards were radio and television.<sup>125</sup> One court seemed to give up rather quickly on the notion that traditional categories of defamation could be applied to the relatively new media of radio and television, and chose instead to introduce a novel defamation category which it called a “defamacast.”<sup>126</sup> However, this new defamacast tort was not adopted by any other court.<sup>127</sup> Instead, traditional approaches to defamation eventually were reformulated and adapted for the new radio and television technolo-

121. *W. Union Tel. Co. v. Lesesne*, 182 F.2d 135, 137 (4th Cir. 1950).

122. *See id.*

123. Finley P. Maxson, *A Pothole on the Information Superhighway: BBS Operator Liability for Defamatory Statements*, 75 WASH. U. L.Q. 673, 676 (1997).

124. *Western Union*, 182 F.2d at 136-37 (holding that the telegraph “company was liable for transmitting the defamatory message if it knew or should have known that the sender of the telegram was not acting in the exercise of a legitimate or privileged interest but in bad faith for the purpose of defaming another”).

125. Maxson, *supra* note 123, at 677.

126. *Am. Broad.-Paramount Theatres, Inc. v. Simpson*, 126 S.E.2d 873, 882 (Ga. Ct. App. 1962). One perceived problem was applying the traditional libel-slander dichotomy to radio and television broadcasts:

Commercial television began during the latter part of the decade beginning in 1940 and commercial radio less than forty years ago. Thus both media present new factual situations with respect to defamation, and we have pointed out above some of the difficulties that the courts have had in reconciling this type of defamation with the tradition libel-slander dichotomy. In truth, these new media pose new problems which cannot realistically be solved by resort thereto.

*Id.* at 878.

127. Maxson, *supra* note 123, at 676 n.14.

gies, as had been done with telegrams earlier.<sup>128</sup> For example, in one case involving alleged defamation in a television broadcast, the court followed the traditional liability standard that one who distributes (transmits) defamatory material published by a third person is subject to liability only if he knew or had reason to know of the material's defamatory character.<sup>129</sup>

In the examples above, courts were initially distracted by the new technology. However, they eventually turned their focus away from the medium of transmission and towards the speech itself as well as traditional defamation doctrine. But in the case of the Internet, Congress altered this process with the passage of the CDA, and the *Zeran* court subsequently derailed the process completely by interpreting the CDA so broadly.

### B. The Internet: Not Too Exceptional for Traditional Doctrines

It has been suggested that the virtually complete immunity conveyed to providers and users of interactive computer services in § 230(c)(1) resulted in part after heavy lobbying by the online industry.<sup>130</sup> This would not be the first time that a communications industry has lobbied for broad protection against defamation liability for third-party content. Indeed, more than five decades ago, the National Association of Broadcasters encouraged broad immunity for radio and television broadcasters through proposed model legislation that would have imposed defamation liability only if a broadcaster had failed to exercise "due care" to prevent the distribution of defamatory material.<sup>131</sup>

The provisions in § 230 originated in the House of Representatives as the Cox-Wyden Amendment,<sup>132</sup> and its supporters clearly believed that the Internet and other interactive computer services were somehow unique in the legislative challenges that they posed. As Representative Wyden noted

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128. *Id.* at 676-77.

129. *Auvil v. CBS "60 Minutes"*, 800 F. Supp. 928, 931-32 (E.D. Wash. 1992).

130. *See* Maxson, *supra* note 123, at 690.

131. The proposed model legislation read in relevant part:

The owner, licensee or operator of a visual or sound broadcasting station or network of stations, and the agents or employees of any such owner, licensee or operator, shall not be liable for any damages for any defamatory statement published or uttered in or as a part of a visual or sound radio broadcast, by one other than such owner, licensee or operator, or agent or employee thereof, unless it shall be alleged and proved by the complaining party, that such owner, licensee, operator or such agent or employee, has failed to exercise due care to prevent the publication or utterance of such statement in such broadcast.

Donald H. Remmers, *Recent Legislative Trends in Defamation by Radio*, 64 HARV. L. REV. 727, 741 n. 71 (1951).

132. 141 CONG. REC. H8468-8472 (1995).

during House discussions on the Cox-Wyden Amendment, “the new media is simply different. We have the opportunity to build a 21st century policy for the Internet employing the technologies and the creativity designed by the private sector.”<sup>133</sup> However, as this discussion has shown, some of the characteristics of this latest “new medium,” such as the transmission of vast quantities of information, have been seen before. Some of the proposed legal solutions also echo those proposed in the past for other then-new media; radio broadcasters proposed broad immunity from defamation liability for third-party content, an idea that resembles § 230 immunity. The Internet, while unique in many respects, is probably not so unique as to require the formulation of a truly novel approach to defamation liability.

### C. Applying an Old Approach to a New Medium

#### 1. *Debating the Return of Distributor Liability Under § 230(c)(1)*

A number of commentators have advocated the retention of distributor liability for ISPs and users.<sup>134</sup> After all, traditional defamation doctrine has been successfully adapted for the “new” media of the past.<sup>135</sup> The *Stratton Oakmont* court implicitly bound the Internet to traditional defamation doctrine in stating that interactive computer services “should generally be regarded in the same context as bookstores, libraries and network affiliates”—that is, traditional “brick and mortar” distributors.<sup>136</sup>

#### 2. *The Batzel Court Implicitly Followed Zeran’s Approach to § 230(c)(1) Immunity*

It is worthwhile now to revisit the *Batzel* case to see how the result might have been different had the court applied more traditional common law tort doctrine. The *Batzel* court implicitly accepted *Zeran’s* approach to § 230(c)(1) immunity. Furthermore, Cremers would likely have been liable for defamation under a more traditional common law approach.

The *Batzel* court claimed that it had made no decision on whether § 230(c)(1) encompasses both publishers and distributors.<sup>137</sup> It noted that Ellen Batzel’s complaint had referred to Cremers as the publisher of Smith’s e-mail and that Batzel had not argued that Cremers should have been treated as a distributor, so the court claimed to have had no need to

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133. *Id.* at H8470.

134. *See, e.g.,* Ehrlich, *supra* note 17, at 409-10; Kane, *supra* note 16, at 494-95.

135. *See* Maxson, *supra* note 123, at 676-77.

136. *Stratton Oakmont, Inc. v. Prodigy Servs. Co.*, No. 31063/94, 1995 WL 323710, at \*5 (N.Y. Sup. Ct. May 24, 1995).

137. *Batzel v. Smith*, 333 F.3d 1018, 1027 n.10 (9th Cir. 2003).

address the issue.<sup>138</sup> In any case, the *Batzel* court seemed wary of challenging the *Zeran* court's reasoning, noting that "so far, every court to reach the issue [of § 230(c)(1) immunity] has decided that Congress intended to immunize both distributors and publishers."<sup>139</sup> This statement suggests that the holding in *Batzel* would not have changed even if the court had classified Cremers as a distributor.

Despite its denial of having addressed the issue, the Ninth Circuit implicitly followed the *Zeran* court's holding that distributor liability was a subset of publisher liability, and therefore also barred by § 230.<sup>140</sup> Publishers generally take an active role in the development of published content, but the Ninth Circuit determined that Cremers's "minor alterations of Smith's e-mail prior to its posting or his choice to publish the e-mail [did not] rise to the level of 'development.'"<sup>141</sup> However, the *Batzel* court also refused to view Cremers as a mere conduit of Smith's message, rejecting Cremers's contention that "§ 230(c)(1) immunity should be available [to Cremers] simply because Smith was the author of the e-mail, without more."<sup>142</sup> If Cremers's role in the matter is somewhere between that of a publisher and a mere conduit of Smith's third-party content, then his role must have been similar to that of a distributor. Therefore, if the district court on remand held that it could reasonably be perceived that Smith provided his message for use on the Internet or an interactive computer service, then Cremers presumably would enjoy § 230(c)(1) immunity *in his role as a distributor*.<sup>143</sup>

### 3. *Batzel v. Smith Analyzed Under a Traditional Distributor Liability Approach*

In order to impose liability on a distributor of information for distributing allegedly defamatory content, the plaintiff must show that the distributor knew or had reason to know of the defamatory content.<sup>144</sup> This requirement is firmly rooted in First Amendment protections for freedom of speech and freedom of the press.<sup>145</sup> This standard of liability also reflects a pragmatic concern that is wholly relevant to providers and users of interactive computer services: it is unreasonable to expect distributors, whether they be traditional booksellers or ISPs, to inspect the contents of all the

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138. *Id.*

139. *Id.*

140. *Zeran v. Am. Online, Inc.*, 129 F.3d 327, 329 (4th Cir. 1997).

141. *Batzel*, 333 F.3d at 1031.

142. *Id.* at 1033.

143. *Id.* at 1033-1034; *see also Zeran*, 129 F.3d at 329.

144. *Cubby, Inc. v. CompuServe, Inc.*, 776 F. Supp. 135, 139 (S.D.N.Y. 1991).

145. *Smith v. California*, 361 U.S. 147, 152-53 (1959); *Cubby*, 776 F. Supp. at 139.

information that they distribute. As the Supreme Court wrote in *Smith v. California*, “[i]f the contents of bookshops and periodical stands were restricted to material of which their proprietors had made an inspection, they might be depleted indeed.”<sup>146</sup> Because of these First Amendment concerns, Batzel would have to show that Cremers knew or had reason to know of the defamatory content of Smith’s e-mail message in order for Cremers to be held liable as a distributor of Smith’s message.

To begin an analysis of *Batzel v. Smith* under a traditional distributor liability analysis, it is worthwhile to distinguish Cremers’s role as a distributor of the Network’s listserv from CompuServe’s role as a distributor of Rumorville USA in the *Cubby* case. The *Cubby* court determined that once CompuServe had decided to carry Rumorville USA, it had “little or no editorial control over [Rumorville’s] contents.”<sup>147</sup> In contrast, Cremers had *absolute* editorial control over Smith’s e-mail message, even though Cremers largely elected not to exercise his editorial privileges.<sup>148</sup> Furthermore, the *Cubby* court determined that the plaintiffs had failed to show that CompuServe even knew or had reason to know of Rumorville’s contents.<sup>149</sup> There is no question that Cremers knew of the contents of Smith’s message.<sup>150</sup> Clearly, Cremers played a much more active role in the distribution of Smith’s e-mail message than CompuServe did in its distribution of Rumorville USA.

A key question in assessing Cremers’s liability as a distributor of Smith’s e-mail message was whether he knew or had reason to know that Smith’s message contained defamatory content. A close examination of Smith’s e-mail message shows that Cremers, an art security expert, should have known that some of the information in Smith’s message was probably false. First, Smith identified himself as a “building contractor,” which is not a profession that suggests expertise in art history.<sup>151</sup> Second, Smith admitted that he had been distracted, “concentrating on performing [his remodeling] tasks,” when he allegedly heard Batzel claim that she was the descendant of Heinrich Himmler.<sup>152</sup> Finally, Smith reported seeing “hundreds of older European paintings on [Batzel’s] walls,” which, if true, strongly suggests that Batzel was the owner of a sizable museum rather

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146. 361 U.S. at 153.

147. *Cubby*, 776 F. Supp. at 140.

148. *See Batzel*, 333 F.3d at 1031.

149. *Cubby*, 776 F. Supp. at 141.

150. *Batzel*, 333 F.3d at 1021.

151. *Id.*

152. *Id.*

than a private home in the mountains of North Carolina.<sup>153</sup> Some of the Network's subscribers apparently had their doubts too, since a number of them criticized Cremers for forwarding Smith's message.<sup>154</sup> From these facts, it seems reasonable to believe that Cremers should have known that Smith's message possibly contained defamatory information. Under a traditional (pre-CDA, pre-*Zeran*) distributor liability analysis, Cremers might be held liable for the allegedly defamatory content of Smith's message.

#### D. The Internet in Adolescence

One of the clearly stated goals of § 230 is "to promote the continued development of the Internet."<sup>155</sup> The *Zeran* court seemed determined to protect ISPs from the specter of tort liability, fearing that ISPs "would face potential liability each time they receive notice of a potentially defamatory statement."<sup>156</sup> Others have questioned the danger, noting that "[i]t is not at all clear that being exposed to distributor liability would be a disaster for online services."<sup>157</sup> Certainly, some of the impetus for "protecting" the Internet must arise from the perception of the Internet as a medium in its infancy.<sup>158</sup> Congress has nurtured and subsidized the growth of the young medium by, for example, instituting a moratorium on taxing Internet services.<sup>159</sup>

But the Internet is no longer in its infancy, having grown into a vigorous and muscular adolescent. This is certainly the case when it comes to commerce. Indeed, U.S. consumers spent an estimated \$8.5 billion online in November 2003 alone, a 55% increase over the previous year.<sup>160</sup> It is questionable whether the Internet continues to need such subsidies as the Internet access tax ban or, as relevant here, broad protection from defamation liability.

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153. *Id.* at 1020-21 (emphasis added); Smith eventually admitted that "he saw many paintings, but probably not literally 'hundreds.'" Appellant's Opening Brief, *supra* note 118, at \*19.

154. Appellant's Opening Brief, *supra* note 118, at \*17.

155. 47 U.S.C. § 230(b)(1) (2000).

156. *Zeran v. Am. Online, Inc.*, 129 F.3d 327, 333 (4th Cir. 1997).

157. Sheridan, *supra* note 36, at 173.

158. *See, e.g.,* Hadley, *supra* note 40, at 507.

159. Associated Press, *Temporary Ban on Internet Tax Nears End*, CNN.COM (Oct. 31, 2003), available at <http://www.cnn.com/2003/TECH/internet/10/31/internet.taxes.ap/index.html>.

160. Garrett Glaser, *Online Retail Sales Clicking*, MSNBC NEWS (Dec. 10, 2003), available at <http://msnbc.msn.com/id/3678537>.

Nevertheless, other commentators argue against a return to distributor liability because of the potentially “heavy burden on free speech.”<sup>161</sup> This was certainly one of the main concerns of the *Zeran* court.<sup>162</sup> However, the *Barrett* court was clearly skeptical, stating that it thought it “debatable whether notice liability would actually have an unduly chilling effect on cyberspeech” and describing the *Zeran* court’s concerns as “speculative.”<sup>163</sup> The *Barrett* court supported this position by noting how even traditional defamation cases are difficult to prove.<sup>164</sup> For example, a plaintiff must show that an allegedly defamatory statement is “not an opinion or satire or mere hyperbole [and] even then knowledge and the requisite degree of fault must be shown.”<sup>165</sup> The difficulty of prevailing as a plaintiff in defamation cases is likely to prevent a flood of such suits, and the *Zeran* court probably “overstated the danger such claims present to Internet intermediaries.”<sup>166</sup>

It is important to emphasize that distributor liability would not require ISPs to review individual messages before they are posted on the Internet. Instead, ISPs would only be required to take reasonable measures after receiving notice that a particular message is defamatory.<sup>167</sup> This liability regime would be analogous to the notice-based system established under the Digital Millennium Copyright Act, which requires an ISP to take certain measures only when it receives adequate notice of potential copyright infringement.<sup>168</sup> This limited duty is not likely to be a heavy burden on free speech. After all, with an estimated 500 billion documents on the Internet already (and counting),<sup>169</sup> speech on the Internet appears to be in no immediate danger. Indeed, as Ellen Batzel and Kenneth Zeran can attest, the Internet can be an undisciplined, adolescent brute with respect to its power in disseminating speech. Even free speech advocates should be a little wary of the hulking lad roaming the neighborhood.

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161. Ehrlich, *supra* note 17, at 416-17.

162. *Zeran v. Am. Online, Inc.*, 129 F.3d 327, 331 (4th Cir. 1997).

163. *Barrett v. Rosenthal*, 5 Cal. Rptr. 3d 416, 437 (Cal. Ct. App. 2003). But the *Barrett* court emphasized that it took “no position on whether distributor liability would unduly chill online speech” because it claimed to have insufficient evidence before it to make such a determination. *Id.* at 439-40.

164. *Id.* at 437-38.

165. *Id.* at 437.

166. *Id.*

167. *Id.* at 438.

168. See Stephanie Blumstein, Note, *The New Immunity in Cyberspace: The Expanded Reach of the Communications Decency Act to the Libelous “Re-Poster”*, 9 B.U. J. SCI. & TECH. L. 407, 425-26 (2003).

169. Lev Grossman, *Search and Destroy*, TIME, Dec. 22, 2003, at 46.

### E. Revisiting the Communications Decency Act

The district court that initially heard the *Zeran* case concluded that “the Internet is a rapidly developing technology [and that] Congress is likely to have reasons and opportunities to revisit the balance struck in [the CDA].”<sup>170</sup> If it does, Congress should consider amending § 230 to explicitly impose notice-based distributor liability for third-party content. But Congress would not have to act at all if the courts adhered to the narrower construction of § 230 advocated by the *Barrett* court.

## IV. CONCLUSION

*Batzel v. Smith* is the latest in a series of court decisions that have broadly interpreted the immunity from defamation liability granted under § 230. The broad construction of § 230 by the courts is not entirely consistent with the intent of Congress and has produced a number of troubling results. The Internet has matured into a strong and vigorous adolescent, and a return to more traditional standards of defamation liability, including distributor liability, is unlikely to hinder its continuing growth. Congress should consider revising the Communications Decency Act in order to restore some of the balance between fostering the growth of the Internet, encouraging self-regulation of undesirable content, and protecting individuals from the harm of defamation. Congressional action may not be necessary if the courts adhere to the narrower construction of § 230 developed in *Barrett v. Rosenthal*—a construction of § 230 that is probably more consistent with the original intent of Congress.

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170. Sheridan, *supra* note 36, at 166-67.

**BERKELEY TECHNOLOGY LAW JOURNAL**

# TICKETMASTER CORP. V. TICKETS.COM, INC.: PRESERVING MINIMUM REQUIREMENTS OF CONTRACT ON THE INTERNET

*By Tarra Zynda*

Courts have applied various legal frameworks to the Internet and the behavior of its users, such as real property, telecommunications, and intellectual property. This patchwork of legal doctrines has made it difficult for decisionmakers to weigh the competing standards that these frameworks require. With the goal of encouraging the Internet to grow through financial and intellectual investment, a natural solution may be to avoid legal intervention and let the market decide. This is happening now as the law increasingly allows the private ordering of online entitlements. But as online contracts have expanded to cover different types of exchanges and parties, they have mutated beyond traditional models of contract formation. As contract law shapes the Internet, courts must step in to keep website providers from placing restraints on unknowing users.

This Note examines Ticketmaster's attempts to restrict the behavior of its competitor, Tickets.com, through litigation based upon a private property conception of its website, access to which was regulated by contract. In particular, this Note questions the validity of Ticketmaster's browsewrap license. Part I briefly outlines the background of the case and details the district court's summary judgment decisions on Ticketmaster's trespass to chattels, copyright, and contract claims. Part II discusses how traditional contract law has been applied to Internet contracts. Part III proposes a validity analysis for browsewrap licenses that is based on the traditional contract model. It suggests that online contracts must involve a meaningful exchange, which entails clear offer and acceptance. It also applies this theory of online agreements to Ticketmaster's license and explores the impact of this validity determination.

## **I. CASE SUMMARY**

### **A. Facts and Procedural History**

The plaintiffs, Ticketmaster Corporation and Ticket Online-CitySearch, Inc. ("TM"), competed with the defendant, Tickets.com

("TX"), in selling tickets online for concerts, sports, and other events.<sup>1</sup> TM, the largest player in this industry,<sup>2</sup> acted as the exclusive ticket vendor for more than 25,000 events annually in the United States.<sup>3</sup> TX also sold tickets for many events, but its business model focused on supplying information for as many events as possible whether or not it sold tickets for the events.<sup>4</sup>

Anyone surfing the Internet could access the TM and TX websites. Both websites contained home pages with links to interior webpages, called "event pages," that gave basic information about events.<sup>5</sup> Each event page had a separate Internet address, or Uniform Resource Locator (URL), which could be accessed directly by the public.<sup>6</sup> The TM event pages provided information and sold tickets exclusively for the events it covered.<sup>7</sup> The TX event pages also listed information and sold tickets for events. Regarding events it did not sell tickets for, the TX event pages provided information and listed alternative ticket brokers and often "deep linked"<sup>8</sup> to the interior webpages of competing ticket providers like TM.<sup>9</sup>

In addition to deep linking, TX used software programs called "spiders"<sup>10</sup> to collect information from the event pages of competing ticket

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1. Ticketmaster Corp. v. Tickets.com, Inc., No. CV997654HLHVBKX, 2003 WL 21406289, at \*1 (C.D. Cal. Mar. 7, 2003) [hereinafter *Ticketmaster II*].

2. TM provides ticket sales, distribution, management, and accounting services for hundreds of sporting franchises, arenas, stadiums, theatres, and other venues in the United States, Canada, and other international locations. Appellee Tickets.com, Inc.'s Brief at \*6, Ticketmaster Corp. v. Tickets.com, Inc., 2 Fed. Appx. 741 (9th Cir. Jan. 22, 2001) (No. 00-56574), at 2000 WL 33986981.

3. Ticketmaster Corp. v. Tickets.com, Inc., No. 99CV7654, 2000 WL 1887522, at \*1 (C.D. Cal. Aug. 10, 2000) [hereinafter *Ticketmaster I*].

4. See *Ticketmaster II*, 2003 WL 21406289, at \*1.

5. *Id.*

6. *Id.*

7. See Ticketmaster Purchase Policies, at <http://www.ticketmaster.com/h/purchase.html> (last visited Mar. 2, 2004).

8. A "hyperlink" allows Internet users to move from one webpage to another by clicking the mouse on it, without having to type the webpage's URL in their web browser's window. See *Reno v. ACLU*, 521 U.S. 844, 852 (1997). "Deep links" are hyperlinks that connect to webpages deep within a website, skipping the website's homepage and other pages within the site. Appellant's Opening Brief, *supra* note 2, at \*7 n.6.

9. *Ticketmaster II*, 2003 WL 21406289, at \*1.

10. Data search and collection programs, also known as "spiders" or "web bots," are programs designed to rapidly search numerous webpages or sites, collecting, retrieving, and indexing information from these pages. Their uses include creation of searchable databases, web catalogues and comparison shopping services. See *eBay, Inc. v. Bidder's Edge, Inc.*, 100 F. Supp. 2d 1058, 1060-61 (N.D. Cal. 2000); *Intel Corp. v. Hamidi*, 30 Cal. 4th 1342, 1354 n.4 (2003); see also Niva Elkin-Koren, *Let the Crawlers Crawl: On*

providers like TM.<sup>11</sup> This practice of “spidering” is common on the web—some search engines, for example, use spiders to collect and catalog data from public websites.<sup>12</sup> TX’s spiders temporarily loaded event pages into the random access memory (RAM) of TX’s computers.<sup>13</sup> TX then extracted information (e.g., event time, location, ticket prices, and TM URL) and discarded the rest (e.g., TM logo and ads).<sup>14</sup> TX displayed the extracted event facts on its event pages.<sup>15</sup>

In 2000, TM filed suit to enjoin TX from spidering and linking to its event pages.<sup>16</sup> The district court denied TM’s motion for preliminary injunction,<sup>17</sup> and the Ninth Circuit affirmed.<sup>18</sup> Subsequently, TM narrowed its suit to three claims: (1) trespass to chattels, (2) copyright infringement, and (3) breach of contract.<sup>19</sup> TX moved for summary judgment on these claims. The district court granted summary judgment dismissing the trespass to chattel and the copyright claims but found triable issues of fact on the contract theory.<sup>20</sup>

## B. Court’s Analysis and Conclusions

### 1. *Trespass to Chattels*

TM claimed that TX committed trespass to chattels both by deep linking to TM’s interior webpages and by sending spiders to extract informa-

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*Virtual Gatekeepers and the Right to Exclude Indexing*, 26 U. DAYTON L. REV. 179, 187 (2001); Maureen A. O’Rourke, *Property Rights and Competition on the Internet: In Search of an Appropriate Analogy*, 16 BERKELEY TECH. L.J. 561, 570-71 (2001) [hereinafter O’Rourke, *Property Rights*]; Laura Quilter, Note, *The Continuing Expansion of Cyberspace Trespass to Chattels*, 17 BERKELEY TECH. L.J. 421, 423-24 (2002).

11. *Ticketmaster II*, 2003 WL 21406289, at \*2. TX used spiders on TM’s site from 1998 to July 2001. *Id.*

12. See sources cited *supra* note 10. TX asserted that spiders cannot collect information from a website that limits access, such as sites that require registration for access. Appellee Tickets.com, Inc.’s Brief, *supra* note 2, at \*10. For an example of a website with restricted access, which a spider could not get into, see The New York Times Website, at <http://www.nytimes.com>.

13. TX stored the copy in RAM for periods of 10-15 seconds. *Ticketmaster II*, 2003 WL 21406289, at \*2.

14. *Id.*

15. *Id.*

16. *Ticketmaster I*, No. 99CV7654, 2000 WL 1887522, at \*1 (C.D. Cal. Aug. 10, 2000).

17. *Id.*

18. *Ticketmaster Corp. v. Tickets.com Inc.*, 2001 WL 51509, at \*1 (9th Cir. Jan. 22, 2001) (unpublished).

19. *Ticketmaster II*, 2003 WL 21406289, at \*1.

20. *Id.*

tion from TM's site. The court rejected these arguments because TM failed to show actual damage to its property.<sup>21</sup> A trespass to chattels claim requires two elements: (1) unauthorized use of or interference with another's personal property and (2) a resulting injury.<sup>22</sup> The court "respectfully disagree[d]" with courts that found that "mere use of a spider to enter a publically [sic] available web site to gather information, without more, is sufficient to fulfill the harm requirement for trespass to chattels."<sup>23</sup> It refused to acknowledge that TM's expenditures on self-help efforts to prevent TX from accessing its site caused harm to TM.<sup>24</sup> The court also rejected TM's argument that it had an absolute right to exclude others from using or intermeddling with its personal property, its webpages, regardless of how minimal the impairment.<sup>25</sup>

On the first trespass element of unauthorized interference, courts have held that sending electronic signals through a computer network is a "physical" contact or interference.<sup>26</sup> Regarding the damages element, courts have begun to require plaintiffs to show that the interference causes actual damage or impairment to the computer system.<sup>27</sup> In the past, however, courts defined damage expansively, finding it where the interference used some of the capacity of the plaintiffs' computer systems<sup>28</sup> or where

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21. *Id.* at 3.

22. *See* Thrifty-Tel, Inc. v. Bezenek, 46 Cal. App. 4th 1559, 1566 (1996).

23. *Ticketmaster II*, 2003 WL 21406289, at \*3.

24. *Id.*

25. *See id.*; Appellant's Opening Brief, *supra* note 2, at \*13 ("[TM] has an absolute right to exclude others from using or intermeddling with its personal property, including [TM's] computers, regardless of the amount of impairment.").

26. *See* Hotmail Corp. v. Van\$ Money Pie, Inc., 47 U.S.P.Q.2d (BNA) 1020, 1025 (N.D. Cal. 1998) (entering injunction for a trespass where defendant transmitted unauthorized electronic signals to plaintiff's computers); *CompuServe Inc. v. Cyber Promotions, Inc.*, 962 F. Supp. 1015 (S.D. Ohio 1997) (finding trespass where defendants made unauthorized commercial use of plaintiff's computers); *Thrifty-Tel*, 46 Cal. App. 4th at 1566 n.6 (finding intentional interference where defendants tampered with intangible computer access codes).

27. *See CompuServe*, 962 F. Supp. at 1023 (stating "that the tort of trespass to chattels requires some actual damage as a prima facie element, whereas damage is assumed where there is a trespass to real property"); *Intel Corp. v. Hamidi*, 30 Cal. 4th 1342, 1352 (2003) ("The dispositive issue in this case, therefore, is whether the undisputed facts demonstrate [defendant's] actions caused or threatened to cause damage to [plaintiff's] computer system, or injury to its rights in that personal property . . ."); *Thrifty-Tel*, 46 Cal. App. 4th at 1564 (reversing the trial court's finding of trespass because plaintiff "presented no evidence of any actual losses").

28. *See* Oyster Software, Inc. v. Forms Processing, Inc., No. C-00-0724 JCS, 2001 WL 1736382, at \*12-13 (N.D. Cal. Dec. 6, 2001) (stating that a plaintiff need only prove that defendant's conduct amounted to "use" of plaintiff's computer to show an intentional

plaintiffs spent resources to shield their computer networks from unwanted transmissions.<sup>29</sup>

The *Ticketmaster* court, however, held that trespass to a computer by spidering required some tangible interference with the use or operation of the computer.<sup>30</sup> Although the court acknowledged that a plaintiff may be harmed by cumulative spidering, it maintained that the plaintiff must prove a minimum threshold of actual damage to its computer systems.<sup>31</sup> The court's decision may have been based in part on its reluctance to expand the trespass doctrine to the Internet where it could "threaten[] basic Internet function" and because there were "flaws inherent" in applying doctrines based in property law to the Internet.<sup>32</sup>

## 2. Copyright

TM argued TX had infringed its copyrights by (1) copying TM event page URLs, (2) temporarily copying event pages with spiders, and (3) displaying TM event pages framed by TX event pages. The court granted TX's motion for summary judgment eliminating all the copyright claims.<sup>33</sup>

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interference causing injury for purposes of trespass to chattels, even if use was "negligible"); *eBay, Inc. v. Bidder's Edge, Inc.*, 100 F. Supp. 2d 1058, 1071 (N.D. Cal. 2000) (holding that defendant "caused injury" by "depriv[ing] [plaintiff] of the ability to use that portion of its personal property for its own purposes"); *Hotmail*, 47 U.S.P.Q.2d (BNA) at 1022; *CompuServe*, 962 F. Supp. at 1022; *Zaslow v. Kroenert*, 29 Cal. 2d 541, 551 (1946) (holding that plaintiff must show injury to get damages, but must prove only repeated trespass for an injunction); see also Bruce P. Keller, *Condemned to Repeat the Past: The Reemergence of Misappropriation and Other Common Law Theories of Protection for Intellectual Property*, 11 HARV. J.L. & TECH. 401 (1998).

29. See *Am. Online, Inc. v. IMS*, 24 F. Supp. 2d 548, 550 (E.D. Va. 1998) (including in damages money spent separating e-mails); *Hotmail*, 47 U.S.P.Q.2d (BNA) at 1025 (same).

30. *Ticketmaster II*, 2003 WL 21406289, at \*3 (citing the RESTATEMENT (SECOND) OF TORTS § 219 (1965) (maintaining that trespass to chattels requires a showing that "the chattel is impaired as to its condition, quality, or value")).

31. *Id.*

32. *Id.* ("[W]hat is being attempted is to apply a medieval common law concept in an entirely new situation which should be disposed of by modern law designed to protect intellectual property interests.") (citing Edward Lee, *Rules and Standards for Cyberspace*, 77 NOTRE DAME L. REV. 1275, 1283-84 (2002); Clifton Merrell, Note, *Trespass to Chattels in the Age of the Internet*, 80 WASH. U. L.Q. 675 (2002); Quilter, *supra* note 10; Mary Anne Bendotoff & Elizabeth R. Gosse, *Stay Off My Cyberproperty!: Trespass to Chattels on the Internet*, 6 INTELL. PROP. L. BULL. 12 (2001)).

33. *Ticketmaster II*, 2003 WL 21406289, at \*5.

## a) URLs

TM first argued that TX illegally copied the URLs of its event pages. TM claimed that URLs are copyrightable creative expression<sup>34</sup> because they consist of a unique chain of characters that TM selected for their conceptual elegance, descriptive content, and perceived understandability by users.<sup>35</sup> The court disagreed, finding that URLs are facts because they describe the location of a webpage, like a street address.<sup>36</sup> As “the electronic address of the information,”<sup>37</sup> a URL consists solely of functional, factual and not original elements.<sup>38</sup> Looking to the Supreme Court’s opinion in *Feist Publications v. Rural Telephone Service*,<sup>39</sup> the court reasoned that the Copyright Act does not afford protection for facts, raw data, or functional design elements.<sup>40</sup> In *Feist*, the Court reaffirmed that originality is required in all copyrighted works, removing databases and other labor intensive but unoriginal materials from copyright protection.<sup>41</sup> Purely factual compilations demonstrating no creative selection, coordination, or arrangement are not protected.<sup>42</sup> Although the necessary degree of original-

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34. The considerations TM used in developing URLs (e.g., descriptive content and understandability) meet the definition of nonprotectable “functional elements” of computer systems proffered by the Ninth Circuit, given that the court’s focus on whether the expression is chosen based on “efficiency,” “compatibility requirements,” or “industry demands.” *Sony Computer Co. v. Connectix Corp.*, 203 F.3d 596, 602-03 (9th Cir. 2000) (quoting *Sega Ent., Ltd. v. Accolade, Inc.*, 977 F.2d 1510, 1524 (9th Cir. 1992), which defined “functional elements” as “logical, structural, and visual display elements that are dictated by the function to be performed, by considerations of efficiency, or by external factors such as compatibility requirements and industry demands”).

35. Appellant’s Opening Brief, *supra* note 2, at \*5.

36. *Ticketmaster II*, 2003 WL 21406289, at \*5.

37. THE BLUEBOOK: A UNIFORM SYSTEM OF Citation R. 18.2.1(c), at 134 (Columbia Law Review Ass’n et al. eds., 17th ed. 2000).

38. *Ticketmaster II*, 2003 WL 21406289, at \*5.

39. 499 U.S. 340 (1991).

40. *Ticketmaster II*, 2003 WL 21406289, at \*5.

41. In *Feist*, a telephone directory publisher, Rural, sued its competitor, Feist, for copyright infringement of the names and addresses from its directory. *Feist*, 499 U.S. at 344. The Supreme Court rejected the infringement claim, because Rural had no copyright interest in its directory. *Id.* at 362-63. The Court emphasized that “some creative spark” of originality is a constitutional requirement of copyright. *Id.* at 343. The Court reasoned that Rural’s selection, coordination, and alphabetical arrangement of its listings were obvious and logical, and accordingly, did not satisfy this minimum constitutional standard for copyright protection. *Id.* at 362-63.

42. The “sweat of the brow” doctrine conferred copyright protection to compilers of facts or ideas because they had made the effort to gather such information. Jordan M. Blanke, *Vincent Van Gogh, “Sweat of the Brow,” and Database Protection*, 39 AM. BUS. L.J. 645, 651-52 (2002) (describing how the Copyright Act of 1976 separated copyright in the selection and arrangement of materials from copyright in the underlying context,

ity required by the Copyright Act is low,<sup>43</sup> URLs are not copyrightable because they are functional facts.<sup>44</sup> The court concluded that without copyright protection, there cannot be infringement of the URLs.<sup>45</sup>

b) Temporary Copies

TM next claimed that when TX made temporary copies of TM's event pages it infringed TM's copyright in those pages. The court, however, held that TX's practice was a fair use.<sup>46</sup> The court determined that TX had no other way to obtain factual data from the webpages besides making temporary copies.<sup>47</sup> Furthermore, although TX copied TM's event pages, the copies were not used competitively and were erased after use. The court analogized to *Sony Computer Entertainment* and *Sega*, in which the Ninth Circuit held that copying is fair use when necessary to gain access to the functional elements of copyrighted software.<sup>48</sup> In those cases, the defendants reverse engineered temporary copies of plaintiff's copyrighted software to access unprotected elements of the source code. The *Ticketmaster* court held that that TX had similarly copied TM's event pages in order to access unprotected information.<sup>49</sup>

In addition to the necessity argument, the court also examined the fair use factors to conclude that TX's temporary copies were fair use.<sup>50</sup> When determining whether a defendant's practice is a fair use, the Copyright Act

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and thus overruled courts that found "directories and other such compilations . . . copy-rightable per se").

43. *See, e.g.*, *Belford, Clark & Co. v. Scribner*, 144 U.S. 488 (1892) (holding original aspects of recipe book protectable); *Am. Dental Ass'n v. Delta Dental Plans Ass'n*, 126 F.3d 977 (7th Cir. 1997) (holding that a listing of 5-digit codes to identify dental procedures contained copyrightable expression); *Southco, Inc. v. Kanebridge Corp.*, 53 U.S.P.Q.2d 1490 (E.D. Pa. 2000) (holding that 9-digit product identification numbers were sufficiently original to gain copyright protection).

44. *Ticketmaster II*, 2003 WL 21406289, at \*5.

45. *Id.* ("There appears to be no cases holding the [sic] URLs to be subject to copyright. On principle, they should not be.")

46. 17 U.S.C. § 107 (2000) (codifying the fair use defense to copyright infringement), which protects certain educational and scientific uses of copyrighted works); *see also Sega Enters., Ltd. v. Accolade, Inc.*, 977 F.2d 1510, 1526-27 (9th Cir. 1992) (copying entire copyrighted computer program to gain access to unprotected functional elements was fair use).

47. Appellee Tickets.com, Inc.'s Brief, *supra* note 2, at \*12.

48. *Ticketmaster II*, 2003 WL 21406289, at \*5 (citing *Sony Computer Co. v. Connectix Corp.*, 203 F.3d 596, 600 (9th Cir. 2000) (holding that copying for reverse engineering to obtain nonprotectable information is permitted by the fair use doctrine in certain circumstances)); *Sega*, 977 F.2d at 1526-27.

49. *Ticketmaster II*, 2003 WL 21406289, at \*4.

50. *Id.* at \*5.

directs courts to consider four factors: (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 of the use upon the potential market for or value of the copyrighted work.<sup>51</sup> The court held that the first factor weighed against a finding of fair use because the purpose of TX's use was commercial and "only slightly transformative."<sup>52</sup> The second factor, however, weighed in favor of fair use because TM's event pages were commercial webpages that sold tickets and posted advertisements. Therefore, the nature of TM's work was more commercial information than pure creative expression. The third factor was "of little" weight on the question of the fairness of temporary copying, because TX's final webpage "did not contain any infringing material."<sup>53</sup> Finally, the fourth factor also weighed in favor of fair use because there was no market for the original work, TM's event page.<sup>54</sup> Thus, TX's use had negligible effect on the market for the original work.

In conclusion, the court both examined precedent allowing copyists to extract noncopyrightable elements and weighed the four fair use factors to hold that TX's temporary copying of TM's event pages was fair use.<sup>55</sup>

### c) Framing

In TM's final copyright claim, it argued that by deep linking to TM's event pages and framing these pages, TX infringed TM's public display and reproduction rights.<sup>56</sup> The court rejected this argument because TX did not intend to frame TM's event pages. Rather, framing occurred because of a user's individual browser settings. Thus, the framing happened inconsistently and not through the fault of TX. Further, TX clearly indicated to users that the deep link took the user to a different website.<sup>57</sup> The *Ticketmaster* court distinguished the Ninth Circuit's holding in *Kelly v. Arriba Soft*, which stated that linking to and framing copyrighted photographs could violate the plaintiff's public display right.<sup>58</sup> In *Kelly*, the de-

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51. 17 U.S.C. § 107; see *Connectix*, 203 F.3d at 602 & n.5.

52. *Ticketmaster II*, 2003 WL 21406289, at \*5.

53. *Id.*

54. *Id.*

55. See *id.*

56. *Ticketmaster II*, 2003 WL 21406289, at \*6 (citing 17 U.S.C. § 106(1), (5)).

57. The deep link said, "Buy this ticket from another online ticketing company. Click here to buy tickets. These tickets are sold by another ticketing company. Although we can't sell them to you, the link above will take you directly to the other company's web site where you can purchase them." *Id.*

58. *Id.* (citing *Kelly v. Arriba Soft*, 280 F.3d 934 (9th Cir. 2002)). This distinction may have been prescient, as the Ninth Circuit later withdrew its original opinion in *Kelly*,

endant had purposely framed the plaintiff's photographs on its website along with the defendant's own images and advertisements.<sup>59</sup> In contrast, the *Ticketmaster* court found that TX linked to TM's event pages but neither imported them onto its own website nor tried to pass off TM's event pages as its own.<sup>60</sup>

### 3. Contract

TM claimed that TX breached a contract—reachable by a hyperlink on the TM home page—which imposed use restrictions on all users of its webpages.<sup>61</sup> The license stated that anyone visiting pages beyond the home page agreed not to deep link interior webpages, use automated programs like spiders on the site, or use information obtained from the site for commercial purposes.<sup>62</sup> TX had seen this license several times on the website and had communicated about it with TM representatives.<sup>63</sup> The court concluded:

[T]here is sufficient evidence to defeat summary judgment on the contract theory if knowledge of the asserted conditions of use was had by TX,<sup>64</sup> who nevertheless continued to send its spider into the TM interior web pages, and if it is legally concluded that doing so can lead to a binding contract.<sup>65</sup>

TM's contract claim is the only claim which survived summary judgment.<sup>66</sup>

## II. LEGAL BACKGROUND OF CONTRACTS ON THE INTERNET

This Part outlines the legal treatment of shrinkwrap, clickwrap, and browsewrap licenses. Website providers commonly use two types of contracts to impose standard terms and conditions for the online sale of goods and services. The first type, a "clickwrap" license, provides notice of

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and reversed the district court's finding of infringement of the display right, albeit on the ground that the district court had improperly considered this issue on *Kelly's* summary judgment. *Kelly v. Arriba Soft Corp.*, 336 F.3d 811, 822 (9th Cir. 2003).

59. *Ticketmaster II*, 2003 WL 21406289, at \*6.

60. *Id.*

61. *Id.*

62. Appellant's Opening Brief, *supra* note 2, at \*6-7.

63. *Id.*

64. TM claimed that representatives of TX viewed the TM license at least seven times before litigation was filed. *Id.* at \*7.

65. *Ticketmaster II*, 2003 WL 21406289, at \*2.

66. *Id.* at \*1.

terms and conditions in a pop up textbox, which requires users to assent to the agreement by clicking on an icon.<sup>67</sup> Without clicking on the agreement, users cannot obtain the good or service provided by the website. With the second type of contract, a "browsewrap" license, the website provides notice of terms and conditions by placing a hyperlink on the home page that reads, for example, "Terms of Use." Users do not bind themselves to browsewrap licenses through express assent like clicking an icon. But instead users bind themselves by some other conduct prescribed in the license, such as visiting interior pages on the site.<sup>68</sup> In any case, users are not required to view the license.<sup>69</sup>

Courts, when determining the validity of clickwrap and browsewrap licenses, have analogized them to "shrinkwrap" licenses. "Shrinkwrap" licenses were originally developed to protect software products where intellectual property protection fell short.<sup>70</sup> These licenses were included on a piece of paper placed inside the transparent plastic, or shrinkwrap, enclosing the product.<sup>71</sup> Customers bound themselves to the license terms by opening and using the software product.<sup>72</sup> Shrinkwrap licenses now include, for example, textboxes appearing when software is loaded, that prevent a consumer from proceeding without indicating acceptance of the license terms.<sup>73</sup> This form of shrinkwrap license functions much like a clickwrap license. But shrinkwrap licenses apply to store-bought software while clickwrap licenses apply to Internet transactions.

#### A. Validity of Shrinkwrap and Clickwrap Licenses

Courts have generally upheld the validity of shrinkwrap and, by analogy, clickwrap licenses. The law treats clickwrap and shrinkwrap licenses as types of mass market licenses, which are form contracts that accompany

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67. *Specht v. Netscape Communications Corp.*, 306 F.3d 17, 22 & n.4 (2d Cir. 2002).

68. *Id.* at 23 (describing Netscape's browsewrap license); *Pollstar v. Gigmania Ltd.*, 170 F. Supp. 2d 974, 981 (E.D. Cal. 2000) (defining browsewrap license by comparing them to clickwrap licenses).

69. Maureen O'Rourke, *Common Law and Statutory Restrictions on Access: Contract, Trespass, and the Computer Fraud and Abuse Act*, 2002 U. ILL. J.L. TECH. & POL'Y 295 [hereinafter O'Rourke, *Common Law*].

70. See Mark A. Lemley, *Intellectual Property and Shrinkwrap Licenses*, 68 S. CAL. L. REV. 1239, 1241 (1995) [hereinafter Lemley, *Shrinkwrap Licenses*].

71. *Id.*

72. *Id.*

73. See, e.g., Robert W. Gomulkiewicz & Mary L. Williamson, *A Brief Defense of Mass Market Software License Agreements*, 22 RUTGERS COMPUTER & TECH. L.J. 335, 339-40 (1996) (discussing the change in the form of shrinkwrap licenses).

information products and define how the products can be used.<sup>74</sup> Article 2 of the Uniform Commercial Code (U.C.C.) governs mass market licenses, and it provides for enforcement of shrinkwrap licenses by stating that contract formation can occur in any manner that shows agreement.<sup>75</sup> Indeed, according to the U.C.C., state statutes, and common law, the touchstone of a valid contract is mutual manifestation of assent, whether it occurs by writing, spoken word, or conduct.<sup>76</sup> A party can assent to an agreement through conduct by using the services or other consideration offered by the other party,<sup>77</sup> but only if the first party knew or should have known the terms and conditions.<sup>78</sup>

The leading case on shrinkwrap license validity is *ProCD v. Zeidenberg*.<sup>79</sup> In *ProCD*, the Seventh Circuit reasoned that a software manufac-

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74. See Stephen T. Keohane, *Mass Market Licensing*, in PATENT & HIGH TECHNOLOGY LICENSING 437, 443 (PLI Intellectual Prop. Course, Handbook Series No. G-625, 2001), available at WL 652 PLI/Pat 437; see also Dan Streeter, Comment, *Into Contract's Undiscovered Country: A Defense of Browse-wrap Licenses*, 39 SAN DIEGO L. REV. 1363, 1367 (2002).

75. Courts have interpreted U.C.C. § 2-204(1) to mean that licensors can dictate how assent to the contract must be given. See *ProCD, Inc. v. Zeidenberg*, 86 F.3d 1447, 1452 (7th Cir. 1996). U.C.C. § 2-207 does place some limits on mass market licenses. It eliminates the "battle of the forms" by setting a default rule that binds parties only to terms that were agreed upon when the contract was initially formed, and requires express assent to additional terms. See *Step-Saver Data Sys., Inc. v. Wyse Tech.*, 939 F.2d 91, 99 (3d Cir. 1991).

76. See, e.g., CAL. COM. CODE § 2204(1) (2002) ("A contract for sale of goods may be made in any manner sufficient to show agreement, including conduct by both parties which recognizes the existence of such a contract."); *Specht v. Netscape Communications Corp.*, 306 F.3d 17, 28-29 (2d Cir. 2002) (citing *Windsor Mills, Inc. v. Collins & Aikman Corp.*, 25 Cal. App. 3d 987, 991 (1972) "[C]onsent to, or acceptance of, the arbitration provision [is] necessary to create an agreement to arbitrate."); *Binder v. Aetna Life Ins. Co.*, 75 Cal. App. 4th 832, 848 (1999). Cf. RESTATEMENT (SECOND) OF CONTRACTS § 19(2) (1981) ("The conduct of a party is not effective as a manifestation of his assent unless he intends to engage in the conduct and knows or has reason to know that the other party may infer from his conduct that he assents.").

77. See CAL. CIV. CODE § 1586 (1982) ("A proposal may be revoked at any time before its acceptance is communicated to the proposer, but not afterwards.").

78. "[U.C.C. s]ection 2-606, which defines 'acceptance of goods', reinforces this understanding. A buyer accepts goods under § 2-606(1)(b) when, after an opportunity to inspect, he fails to make an effective rejection under § 2-602(1)." *ProCD*, 86 F.3d at 1452; see also CAL. CIV. CODE § 1589 ("A voluntary acceptance of the benefit of a transaction is equivalent to a consent to all the obligations arising from it, so far as the facts are known, or ought to be known, to the person accepting."); *Id.* § 3521 ("He who takes the benefit must bear the burden."); *Cedars Sinai Med. Ctr. v. Mid-West Nat'l Life Ins. Co.*, 118 F. Supp. 2d 1002, 1008 (C.D. Cal. 2000) (holding that parties did not form a contract through a phone conversation because the conversation did not show assent).

79. 86 F.3d 1447 (7th Cir. 1996).

turer could bind purchasers by (1) providing notice of a license to a consumer at the point of sale, and (2) detailing the license terms and conditions post-sale while allowing the consumer to return the product if she refused to assent.<sup>80</sup> Other cases have upheld shrinkwrap licenses along similar reasoning.<sup>81</sup> Only when licensors have failed to show that licensees knew of and gave assent to the license terms have courts invalidated shrinkwrap licenses.<sup>82</sup> Courts have upheld online clickwrap licenses by analogy to shrinkwrap licenses.<sup>83</sup> Courts generally uphold clickwrap licenses because the user has an opportunity to review the terms and affirmatively assent prior to being bound by them.<sup>84</sup>

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80. *Id.* at 1451.

81. *See, e.g.,* Hill v. Gateway 2000, Inc., 105 F.3d 1147 (7th Cir. 1997) (upholding an arbitration agreement in a standard form agreement packed inside the box of a new computer); CompuServe, Inc. v. Patterson, 89 F.3d 1257 (6th Cir. 1996) (upholding licensor's standard Shareware Registration Agreement where defendant had agreed to it prior to placing his software on licensor's system); *see also* Bowers v. Baystate Techs., Inc., 320 F.3d 1317 (Fed. Cir. 2003) (enforcing a shrinkwrap license agreement that prohibited reverse engineering); Lozano v. AT&T Wireless, 216 F. Supp. 2d 1071 (C.D. Cal. 2002) (holding that an arbitration agreement contained in the "Welcome Guide" provided with the cellular telephone was binding even though the terms and conditions were provided after the initial transaction).

82. *See, e.g.,* Step-Saver Data Sys., Inc. v. Wyse Tech., 939 F.2d 91 (3d Cir. 1991) (refusing to enforce disclaimer of warranty and limitation of liability provisions contained in a shrinkwrap agreement of a vendor where an Internet company sought contribution for problems suffered by its customers); Vault Corp. v. Quaid Software Ltd., 847 F.2d 255 (5th Cir. 1988) (upholding a district court finding that a shrinkwrap license which prohibited reverse engineering was a contract of adhesion and therefore unenforceable); Softman Prods. Co. L.L.C. v. Adobe Sys. Inc., 171 F. Supp. 2d 1075 (C.D. Cal. 2001) (holding a clickwrap license unenforceable because there was no evidence that defendant had ever read or assented to the End User License Agreement); Klocek v. Gateway, Inc., 104 F. Supp. 2d 1332 (D. Kan. 2000) (holding an arbitration agreement contained in a shrinkwrap license invalid because licensor could not prove that it informed the customer of the conditions before the sale); Licitra v. Gateway, Inc., 734 N.Y.S.2d 389 (N.Y. Ct. Cl. 2001) (declining to enforce the terms on a form included in a computer box because there was no evidence that the consumer had agreed to the terms).

83. Clicking on a webpage's clickwrap button after receiving the license terms is much like breaking the shrinkwrap seal and using the software after receiving the license terms. *See* sources cited *supra* notes 81-82.

84. *See, e.g.,* *In re* RealNetworks, Inc., Privacy Litig., No. 00-C-1366, 2000 WL 631341 (N.D. Ill. May 8, 2001) (holding that web users had agreed to an arbitration agreement in a clickwrap license); Hotmail Corp. v. Van\$ Money Pie, Inc., 47 U.S.P.Q.2d (BNA) 1020, 1025 (N.D. Cal. 1998) (upholding the validity of restrictions on the use of free e-mail accounts for sending advertisements).

Although many commentators have argued that the assent required by clickwrap and shrinkwrap licenses is inadequate for contract formation,<sup>85</sup> the U.C.C. and case law generally support the validity of these contracts. The Uniform Computer Information Transactions Act (UCITA), formerly article 2B of the U.C.C., agrees with this conclusion by specifically validating shrinkwrap and clickwrap agreements.<sup>86</sup> Broadly construed, UCITA arguably provides for contract formation surrounding all online information exchanges.<sup>87</sup>

## B. Validity of Browsewrap Licenses

In comparison to clickwrap licenses, courts have less clearly supported the enforceability of browsewrap licenses because these licenses do not require the consumer to view the license's terms or manifest assent.<sup>88</sup> But so far, courts have held browsewrap agreements enforceable if the website provides sufficient notice of the license.<sup>89</sup> This trend reinforces the UCITA's interpretation of contract formation, which concentrates on notice.<sup>90</sup> Although only a few courts have examined the validity of browsewrap licenses, they have found sufficient notice where it is (1) on the home page,<sup>91</sup> (2) visible without scrolling to the bottom of the page,<sup>92</sup> and

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85. See Raymond T. Nimmer, *International Information Transactions: An Essay on Law in an Information Society*, 26 BROOK. J. INT'L L. 5, 44-45 (2000); Zachary M. Harrison, Note, *Just Click Here: Article 2B's Failure to Guarantee Adequate Manifestation of Assent in Click-Wrap Contracts*, 8 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 907, 937-38 (1998).

86. See generally Brian D. McDonald, Note, *The Uniform Computer Information Transactions Act*, 16 BERKELEY TECH. L.J. 461 (2001) (surveying the history and implications of UCITA). UCITA does not provide safeguards to protect public interests from overreaching in areas such as reverse engineering, public domain access, and fair use. See Jon M. Garon, *Normative Copyright: A Conceptual Framework for Copyright Philosophy and Ethics*, 88 CORNELL L. REV. 1278, 1360 (2003); James S. Heller, *UCITA: Still Crazy After All These Years, and Still Not Ready for Prime Time*, 8 RICH. J.L. & TECH. 5, 55-56 (2001), at <http://www.law.richmond.edu/jolt/v8i1/article5.html>; Pamela Samuelson & Suzanne Scotchmer, *The Law and Economics of Reverse Engineering*, 111 YALE L.J. 1575, 1626-27 (2002); see also O'Rourke, *Common Law*, *supra* note 69, at 295.

87. The UCITA applies to computer information transactions, including transactions of any information processed in or received from a computer. See McDonald, *supra* note 86.

88. *Pollstar v. Gigmania, Ltd.*, 170 F. Supp. 2d 974, 981 (E.D. Cal. 2000).

89. *Id.* at 982; *Register.com, Inc. v. Verio, Inc.*, 126 F. Supp. 2d 238, 247-48 (S.D.N.Y. 2000). This analysis follows the reasoning of the U.S. Supreme Court in *Carnival Cruise* which upheld the validity of forum-selection clauses in adhesion contracts, so long as the clause was reasonable and the licensee had notice. See *Carnival Cruise Lines, Inc. v. Shute*, 499 U.S. 585 (1991).

90. See discussion *supra* notes 85-87.

91. *Pollstar*, 170 F. Supp. 2d at 982; *Register.com*, 126 F. Supp. 2d at 247.

(3) it looks like a hyperlink (i.e., if the text of the notice is underlined or in color).<sup>93</sup>

The Second Circuit, in *Specht v. Netscape Communications*, affirmed a district court decision invalidating a license that failed both to provide adequate notice to users and to require users to express assent to the license.<sup>94</sup> Here, the licensor, Netscape, had only placed notice of a license at the bottom of their home page. Netscape argued that consumers had manifested assent to the license terms by downloading free software.<sup>95</sup> The Second Circuit disagreed:

A consumer's [conduct] does not communicate assent to contractual terms if the offer did not make clear to the consumer that [the conduct] would signify assent to those terms.<sup>96</sup> California's common law is clear that "an offeree, regardless of apparent manifestation of his consent, is not bound by inconspicuous contractual provisions of which he is unaware, contained in a document whose contractual nature is not obvious."<sup>97</sup>

The *Specht* court affirmed that an offeree must be aware of a contract before they can assent by conduct, thus setting forth an adequate notice requirement.

A few recent cases demonstrate a trend toward enforcing browsewrap licenses as long as websites provide proper notice of the license. In *Pollstar v. Gigmania*, the website provider placed a notice on its home page that users would be bound by a license agreement reachable through a hyperlink if they continued onto the site.<sup>98</sup> The district court stated that many visitors to the site may not have seen the notice.<sup>99</sup> However, analogizing to *ProCD*, the court held that the license claim survived dismissal and could be valid because "people sometimes enter into a contract by using a service without first seeing the terms."<sup>100</sup> Similarly in *Register.com v. Verio*, a website provider used a browsewrap license to impose terms and condi-

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92. *Pollstar*, 170 F. Supp. 2d at 982; *Register.com*, 126 F. Supp. 2d at 247.

93. *Pollstar*, 170 F. Supp. 2d at 981.

94. *Specht v. Netscape Communications Corp.*, 306 F.3d 17, 25 (2d Cir. 2002).

95. *Id.* at 30 (arguing alleged licensees were on inquiry notice).

96. *Id.* at 29 (citing *Windsor Mills, Inc. v. Collins & Aikman Corp.*, 25 Cal. App. 3d 987, 992 (1972), which stated that "when the offeree does not know that a proposal has been made to him this objective standard does not apply").

97. *Id.* (quoting *Windsor Mills*, 25 Cal. App. 3d at 992); see also *Marin Storage & Trucking, Inc. v. Benco Contracting & Eng'g, Inc.*, 89 Cal. App. 4th 1042, 1049 (2001).

98. 170 F. Supp. 2d at 974.

99. *Id.* at 981; see also *supra* note 89 and accompanying text.

100. *Pollstar*, 170 F. Supp. 2d at 982.

tions on the use of data from its site.<sup>101</sup> The district court held that the web user assented to the agreement by conduct because he did not argue that he was unaware of the terms and because he performed the conduct that the license specified as indicating assent.<sup>102</sup> The *Ticketmaster* court followed the same logic.<sup>103</sup> The court upheld the validity of the browsewrap license on summary judgment, based solely on evidence that TX knew of the license.<sup>104</sup>

### III. DISCUSSION

This Note explains the differences between traditional shrinkwrap licenses and browsewrap licenses that may help clarify online contract jurisprudence. In doing so, it proposes a reassessment of the current status of browsewrap licenses and a return to the established contract requirements of clear offer and acceptance. Section A of this Part examines the procedural differences between formation of shrinkwrap and browsewrap licenses, focusing on the concepts of offer and acceptance in the context of Internet exchanges. It suggests that browsewrap licenses are per se invalid and that website providers should be held to greater procedural requirements so that licensees consciously assent to online licenses. Section B explores the nature of the entitlement that website providers obtain with these licenses. It suggests that greater procedural requirements for online contract formation would improve the balance between the interests of website providers and web users. Finally, Section C applies these contract formation requirements to the browsewrap license in *Ticketmaster*.

#### A. The Differences Between Shrinkwrap and Browsewrap Licenses Warrant a Separate Analysis of Browsewrap Licenses

Both shrinkwrap and browsewrap licenses purport to bind licensees by basing contract formation upon the licensees' conduct. However, unlike shrinkwrap licenses which govern software purchases, browsewrap licenses control a broad variety of exchanges, including the exchange of information between users and publicly available websites. Based on this difference, this Section suggests that notice of a browsewrap license is not sufficient to bind web users for two reasons. First, browsewrap licenses fail to sufficiently define the licensor's entitlement in its website because a

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101. *Register.com, Inc. v. Verio, Inc.*, 126 F. Supp. 2d 238, 242-43 (S.D.N.Y. 2000) ("By submitting this query, you agree to abide by these terms.").

102. *Id.* at 248.

103. *Ticketmaster II*, No. CV997654HLHVBKX, 2003 WL 21406289, at \*2 (C.D. Cal. Mar. 7, 2003).

104. *Id.*

website without barriers to entry lacks the private character that other information products possess. Second, browsewrap licenses do not require adequate assent—where a user is not required to make a purchase or to respond materially to a formal offer, that user is less likely to recognize that she is binding herself to a license. In order to form a contract online, the website provider should set forth an offer page, which clearly delineates the private part of its website and that requires the licensee to manifest assent.

1. *Online Licenses Should Require a Clear Offer by Licensors to Delineate the Private Spaces on Their Websites*

While shrinkwrap licenses contain the offer and acceptance required for contract formation, browsewrap licenses on websites arguably do not. In upholding the shrinkwrap license in *ProCD*, the court reasoned that the software provider was an offeror because “placing the package of software on the shelf is an ‘offer,’ which the customer ‘accepts’ by paying the asking price and leaving the store with the goods.”<sup>105</sup> The court also explained that it was acceptable to base contract formation on notice because the customer could reject the contract terms by returning the product.<sup>106</sup> Similarly, when other courts have held notice sufficient to form a contract, they did so in the context of information product exchanges.<sup>107</sup> Website licensors attempt to form contracts based on users’ conduct of viewing their websites, which contain no barriers to entry. However, when a site freely displays facts to the general public, a user should not be bound simply by navigating through a site<sup>108</sup>—such behavior does not indicate the user is willing to assent to a contract unless the website provider explicitly offers the contract before the user can perform assenting conduct. A user’s

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105. *ProCD, Inc. v. Zeidenberg*, 86 F.3d 1447, 1450 (7th Cir. 1996). In addition, this is the same type of exchange that legitimized the forum-selection clause in *Carnival Cruise*. See *supra* note 89 and accompanying text.

106. *Id.* at 1452.

107. See *Hill v. Gateway 2000, Inc.*, 105 F.3d 1147, 1148 (7th Cir. 1997); see also *Specht v. Netscape Communications Corp.*, 306 F.3d 17 (2d Cir. 2002) (stating that notice would have supported contract formation had it been adequate).

108. See *Cybersell Inc. v. Cybersell Inc.*, 130 F.3d 414, 417 (9th Cir. 1997); *Info. Handling Serv. Inc. v. LRP Publ’ns Inc.*, No. Civ. A 00-1859, 2000 WL 433998, at \*2 (E.D. Pa. Apr. 18, 2000) (“[I]t is questionable whether such licenses, which are not the product of any bargaining, should be permitted effectively to expand copyright protection to information that is not copyrightable in the first instance.”); see also *Schaefer v. Williams*, 15 Cal. App. 4th 1243, 1247 (1993) (“A bargain, the sole consideration of which is refraining or promising to refrain from committing a crime or tort, or from deceiving or wrongfully injuring the promisee or a third person, is illegal.”) (quoting RESTATEMENT (SECOND) OF CONTRACTS § 578 (1932)).

behavior on websites is like that of a potential customer viewing a billboard or a brochure, which is an unrestricted and noncontractual exchange of information.<sup>109</sup> As well, website users lack the ability to prevent contract formation after they have performed the binding conduct, as customers are able to with shrinkwrap licenses by returning the product. Given the public nature of websites as opposed to the private nature of information products, contract formation in the context of public websites deserves a separate analysis from that in the shrinkwrap license context.

Courts should draw a line between public information and private information. They should distinguish between websites that provide information *as* a service and those that provide information *about* a service, allowing contract formation only when information is provided *as* a service. In order to bind users, website owners who provide information *as* a service should be required to make a clear offer, which users must accept to gain further access to their sites. Further, courts should not let website providers label as “proprietary” information which they have already placed in the public domain. For an online license to be valid, courts should require website providers to erect barriers to entry, effectively making the information private.<sup>110</sup>

Where a website provider wants to form a contract with its users but does not have other barriers to entry on its site (e.g., requiring users to register), courts should require the website to provide an offer page, where the user expresses assent to the license before continuing into the site. This Note advises courts to consider five factors in determining whether the website provider has made an explicit offer. First, the website should restrict access such that a user must encounter the offer page before reaching the private space on the site. The website could achieve this either by technologically restricting access so that users can only enter through the home page or by programming the offer page to appear whenever a user attempts access from outside the site. Second, the offer should use clear terminology. It should state that it is a contractual offer and require the user to click on an icon which says, for example, “I Accept.” Third, the offer should present the terms and conditions of use, so that a user can view them without clicking through additional links, either by having

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109. Another useful analogy compares public and private spaces on the Internet to public and private city parks. A defining characteristic of private city parks is restricted access—they are usually fenced in and require a key for entry.

110. “In many ways, licenses serve not only to document legal terms governing the transaction, but actually define the very ‘product’ that is the subject of the transaction. They are thus central to the commercialization of software, information and other digital commodities.” Streeter, *supra* note 74, at 1368 (internal citations omitted).

them all on the offer page or by having them in a window through which licensees can scroll.<sup>111</sup> Fourth, the offer should be dominant on the home page, taking up a large percentage of the page (e.g., greater than fifty percent) so that users have to focus on it. Fifth, the offer page should not use default settings in favor of assent. Rather, the page should require that the user to indicate assent by clicking the mouse, or tabbing, and selecting the option of assenting.

2. *Online Licenses Should Require Express Assent by Licensees to Maintain Traditional Requirements of Contract Formation*

Online licenses should require clear assent by users to ensure that they know they are being bound. As noted above, a clear manifestation of assent, whether by writing, spoken word, or conduct, is the touchstone of a valid contract.<sup>112</sup> With most shrinkwrap licenses, users exchange money for the software product at the point of sale and then assent to the agreement by using the product. With clickwrap and some shrinkwrap licenses, users affirmatively indicate assent by clicking on an icon. Assent in these cases is unambiguous because users cannot proceed as if they were bound without first undergoing a substantive exchange. With browsewrap licenses, however, it is not clear that users have assented or are even aware of the license's existence. For this reason, presumably, courts and commentators have expressed a preference for a licensing arrangement in which users affirmatively assent.<sup>113</sup> Therefore, courts should require website providers to state their sites' terms of use in the form of an offer, which users must accept to continue onto the protected part of the site.

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111. Having terms and conditions on the offer page would arguably cure the problem of users not being able to refuse the license by returning the product because they will receive the terms and conditions, rather than notice, before assenting to them.

112. See sources cited *supra* note 76.

113. See *Ticketmaster II*, No. CV997654HLHVBKX, 2003 WL 21406289, at \*2 (C.D. Cal. Mar. 7, 2003) (stating the court's preference for a rule which required users to affirmatively assent to the license); *Pollstar v. Gigmania, Ltd.*, 170 F. Supp. 2d 974 (E.D. Cal. 2000) (same); see also Melissa Robertson Note & Comment, *Is Assent Still a Prerequisite for Contract Formation in Today's E-economy?*, 78 WASH. L. REV. 265, 267-68 (2003) ("[C]ourts should enforce online contracts only where users have adequate notice of the terms and conditions and affirmatively agree to be bound by such terms."). Even in the case of shrinkwrap licenses, some commentators state that assent by conduct is inadequate. Professor Lemley has noted that "even the fiction of agreement is stretched to the vanishing point" in such standard form contracts. Mark A. Lemley, *Beyond Preemption: The Law and Policy of Intellectual Property Licensing*, 87 CALIF. L. REV. 111, 125-26 (2000) [hereinafter Lemley, *Beyond Preemption*].

## B. Requiring a Meaningful Exchange to Form Website Licenses Would Help Ensure an Appropriate Balance Between Public and Private Interests

As the Internet grows as a vehicle for commerce and communication, information providers are increasingly in the position to set the terms and conditions of the public's access to digital content.<sup>114</sup> This Section discusses the way in which licenses affect the scope of the entitlement that information providers have in their websites. Many website providers offer valuable services that warrant contract protection. At the same time, however, they should be required to follow the traditional requirements of contract formation. Otherwise, website providers will have a vehicle by which they may place restraints on unknowing users of information that is arguably in the public domain. If users are only bound at the point of a substantive exchange, it will increase the likelihood that they understand that they are forming a contract. Because requiring a meaningful exchange may cause users to more carefully read online licenses and possibly refuse assent, website providers are likely to use these licenses more prudently and set terms more amenable to public interests.

Many website providers offer services that benefit the public, and when users value these services enough to assent to an explicit offer, the law should allow providers to bind users without encountering excessive regulations.<sup>115</sup> Providers may wish to attach a variety of constraints to user activity, which will differ in how much they restrict user activity. While an offer page that presents a barrier to entry may deter some users, it will also increase user awareness of both the contract's existence and its substance. It follows that users are likely to assent to terms that do not unreasonably restrict user activity. Examples of less restrictive terms include liability

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114. See James R. Maxeiner, *Standard-Terms Contracting in the Global Electronic Age: European Alternatives*, 28 YALE J. INT'L L. 109 (2003); J.H. Reichman & Jonathan A. Franklin, *Privately Legislated Intellectual Property Rights: Reconciling Freedom of Contract with Public Good Uses of Information*, 147 U. PA. L. REV. 875, 878 (1999).

115. For example, database providers use contracts to protect their products and services. As Judge Posner recently noted in *Assessment Technologies*, which rejected copyright protection of a database, "the creation of massive electronic databases can be extremely costly, . . . yet if the database is readily searchable and the data themselves are not copyrightable the creator may find it difficult or even impossible to recoup the expense of creating the database." *Assessment Techs. of WI, LLC v. WireData, Inc.*, 350 F.3d 640, 645-46 (7th Cir. 2003). He suggested that licenses may fill the gap that intellectual property law fails to cover. *Id.* at 646 ("The existence of contractual solutions to the problem of copying the contents of databases is one of the reasons that Professor Ginsberg and others are skeptical about the need for legislative protection of databases."); see also Garon, *supra* note 86, at 1360.

waivers to keep users from detrimentally relying on website information and disclaimers by chat room hosts that the website provider is not responsible for comments made by third party users.<sup>116</sup> Other examples include forum selection or arbitration clauses that somewhat restrict users' litigation rights but do not limit their use of website information.<sup>117</sup> Slightly more restrictive terms may limit information use to noncommercial uses or limit linking to the site. The most restrictive terms may limit beneficial information uses by preventing activities that qualify as copyright fair uses like critical commentary, reverse engineering, or parody.<sup>118</sup> Users may find the most restrictive terms unreasonable and refuse to accept them.

Protections against overly restrictive terms are available both within and without contract law. Commentators suggest that mass market contracts will erode the public domain,<sup>119</sup> even if they are formed in a way

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116. It is possible that website providers may make disclaimers such as this by providing notice, but without being required to form a contract. *See generally* Allison S. Brantley et al., *The Legal Web of Wireless Transactions*, 29 RUTGERS COMPUTER & TECH. L.J. 53, 76 (2003) (discussing typical terms and conditions governing a wireless transaction, such as "rules for purchasing the product or service, warranty disclaimers, indemnity provisions, limitations of liability clauses, and forum selection clauses").

117. *See id.*

118. Many commentators warn that courts' "regular validation" of mass market standard form contracts online "would tend to change standard form licenses of digitized information goods into functional equivalents of privately legislated intellectual property rights." Reichman & Franklin, *supra* note 114, at 878. For an explanation of how contracts have begun to operate uniformly against the "world" see O'Rourke, *Common Law*, *supra* note 69, at 295.

119. Firms possessing any degree of market power could thereby control access to, and use of, digitized information by means of adhesion contracts that alter or ignore the balance between incentives to create and free competition that the Framers recognized in the Constitution and that Congress has progressively codified in statutory intellectual property laws.

Reichman & Franklin, *supra* note 114, at 878; *see* Lemley, *Beyond Preemption*, *supra* note 113, at 130 (explaining that this is what happened in *ProCD, Inc. v. Zeidenberg*, 86 F.3d 1447 (7th Cir. 1996), in which the plaintiffs were allowed to protect by shrinkwrap license the very material that the Supreme Court had said could not be protected by copyright). However, at least in *ProCD* there was an actual sale on which to base the contract! 86 F.3d at 1450. For additional commentary discussing public interests in information and the implication of propertizing information by contract, *see* Mark A. Lemley, *The Economics of Improvement in Intellectual Property Law*, 75 TEX. L. REV. 989, 1048-72 (1997); Lemley, *Shrinkwrap Licenses*, *supra* note 70; Jacqueline Lipton, *Information Property: Rights and Responsibilities*, 56 FLA. L. REV. 135 (2004); *see also* Julie E. Cohen, *Lochner in Cyberspace: The New Economic Orthodoxy of Rights Management*, 97 MICH. L. REV. 462 (1998); Niva Elkin-Koren, *Copyright Policy and the Limits of Freedom of Contract*, 12 BERKELEY TECH. L.J. 93, 106-13 (1997); Jessica Litman, *Revising Copyright Law for the Information Age*, 75 OR. L. REV. 19, 25-30 (1996). *But see*

that makes users aware of being bound.<sup>120</sup> However, under the UCITA model of contract law, a person who makes reasonable uses of information in violation of a license can argue that “the license term interferes with federal intellectual property policy and should be preempted, is a misuse of intellectual property rights, is a fair breach of the license, or is unconscionable.”<sup>121</sup> The public may also push Congress or the state legislatures to pass laws which list certain information use restrictions as per se unreasonable or unconscionable.

Requiring a meaningful exchange will enable the market to more accurately protect public interests in online information. When website providers are able to automatically and unilaterally bind users, it creates a market failure because the public loses not only the ability to bargain but also the knowledge that it is entering into an agreement at all. Rather, providers should make substantive economic decisions on whether to require express assent from their users with substantive barriers to entry, effectively making their websites private property. Website providers who offer information as a service (e.g., databases) would presumably be willing to put up an offer page to protect their products. Some website providers, however, may decide not to bind users immediately,<sup>122</sup> but rather may place the offer page deeper in their sites—to govern access to a more select set of information. Regardless of website providers’ choices as to whether and where to erect offer pages, they will still receive protection for their intellectual property and computer networks under copyright and trademark law, the Computer Fraud and Abuse Act, and common law doctrines such

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Tom W. Bell, *Fair Use vs. Fared Use: The Impact of Automated Rights Management on Copyright's Fair Use Doctrine*, 76 N.C. L. REV. 557, 592 (1998); Trotter Hardy, *Property (and Copyright) in Cyberspace*, 1996 U. CHI. LEGAL F. 217, 228 (1996); Charles R. McManis, *The Privatization (or “Shrink-Wrapping”) of American Copyright Law*, 87 CALIF. L. REV. 173 (1999).

120. See Cohen, *supra* note 119, at 466 (“[I]n light of the special nature of creative and informational works and of creative and intellectual progress, there is substantial reason to believe that a limited-ownership regime is better suited to furthering th[e] goals of access and progress.”).

121. See Pamela Samuelson, *Mapping the Public Domain: Threats and Opportunities*, LAW & CONTEMP. PROBS. 147, 163-64 (2003). The UCITA limits the enforcement of mass market licenses in three ways: (1) by requiring assent to the terms, (2) by excluding terms that are unconscionable or against public policy, and (3) by excluding terms that conflict with other agreed upon terms. See Streeter, *supra* note 74, at 1376.

122. One reason for setting the offer page deeper in the site would be to allow access to spiders from search engines. See Elkin-Koren, *supra* note 10, at 185 (“Search engines [] turn out to be one of the most significant players in the information economy.”).

as trespass to chattels.<sup>123</sup> In situations where information providers cannot form valid contracts and other laws do not cover them, they should either dedicate the material to the public domain or they should lobby Congress for legislation which does cover them.<sup>124</sup>

Given the open and fluid nature of the Internet,<sup>125</sup> the idea of requiring website providers to erect barriers to entry seems perverse. At first glance, browsewrap licenses present the best solution because they allow website providers protection while maintaining the web's fluidity. This Note contends, however, that browsewrap licenses actually decrease the web's openness by restricting web users' behavior. Because these licenses defy the traditional model of contracts, they present a danger to the public domain. By requiring a meaningful exchange for online contract formation, the law will ensure that the market functions properly. As a result, the law will prioritize maintaining some public spaces on the Internet, where users are free from contract—particularly contract that automatically binds them.

### C. The Court Should Hold Ticketmaster's Browsewrap License Invalid and Unenforceable for Lack of Licensee Assent

In *Ticketmaster*, TM argued that TX agreed to be bound by TM's browsewrap license by using TM's site after receiving notice of TM's terms of use. However, TM failed to prove that it met the minimum requirements of contract formation by making a clear offer to TM in the first place. Further, TM failed to prove that TX assented to the license. Indeed, even in an economy that accepts mass market standard form contracts,<sup>126</sup> browsewrap licenses stretch the concept of mutual agreement too far by not requiring licensees to assent. Overall, a holding that TM's browsewrap license is valid and enforceable would have broad implications, given that it potentially binds millions of Internet users who visit the TM website annually. Thus, the court should maintain the traditional requirements of

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123. See, e.g., *Intel v. Hamidi*, 30 Cal. 4th 1342 (2003) (discussing trespass to chattels on a computer network); Christopher R. Hilberg, *Trademarks and Hyperlinks: A Policy Analysis, Part II*, 19 No. 7 COMPUTER & INTERNET LAW 12 (describing a legal rule that interprets trademark and trade identity law to protect against any web activity that causes potential loss of Internet advertising revenues).

124. Although none have succeeded, there have been legislative efforts to provide legal protection for databases. Jane Ginsberg, *Copyright, Common Law, and Sui Generis Protection of Databases in the United States and Abroad*, 66 U. CIN. L. REV. 151 (1997) (describing that Europe has already provided protection to database creators).

125. See Tim Berners-Lee, *Axioms of Web Architecture, Links and Laws—Myths*, at <http://www.w3.org/DesignIssues/LinkMyths.html> (last visited Feb. 17, 2003).

126. See *supra* notes 75-78 and accompanying text.

contract law by invalidating TM's license due to a lack of clear offer and acceptance.

TM's browserwrap license should not be enforceable because it did not make a clear offer nor did it require TX to manifest assent. TM was not in the position of "offeror." Its website was publicly accessible without technological barriers to entry, and provided information that users could find elsewhere for free. TM was not in the business of providing event-related information; it sold tickets. The event information was a public advertisement, not a good in itself. When TM makes factual event information available to the general public, it has dedicated that information to the public domain unless it has erected a barrier to viewing. Conversely, when TM sells an event ticket, it readily attaches licenses to those exchanges by requiring users to provide personal and payment information, which clearly signals the buyer's assent. Only when information providers and users engage in a meaningful exchange by making a clear offer and acceptance, should it warrant contract formation.

The district court found that TX had notice of the license, which supported contract formation.<sup>127</sup> However, TX claims that it rejected the contract terms implicitly, and later explicitly, even though it continued onto the site.<sup>128</sup> Licensors cannot impose a contract unilaterally on a party that rejects the contract terms.<sup>129</sup> More importantly, this Note argues that mere notice of a license is insufficient to support contract formation. Courts should refuse to validate licenses that fail to fulfill minimum procedural requirements to bind licensees. Website providers such as TM should need to erect a barrier to entry to contractually bind their users.

Website providers can be expected to make economic decisions regarding whether they privatize their sites or keep them open to the public. In *Ticketmaster*, the website provider, as the largest ticket sales outfit in the world dominated the U.S. ticket market by negotiating exclusive distribution agreements with numerous venues.<sup>130</sup> By having its site open to the public, it benefited by advertising and selling tickets to casual users. As well, if it were to control access to its site, TM would not necessarily

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127. *Ticketmaster II*, No. CV997654HLHVBKX, 2003 WL 21406289, at \*2 (C.D. Cal. Mar. 7, 2003).

128. Appellee Tickets.com, Inc.'s Brief, *supra* note 2, at \*36.

129. *Sorg v. Fred Weisz & Assocs.*, 14 Cal. App. 3d 78, 81 (1970) (reversing plaintiff's contract claim where plaintiff had made a unilateral statement that defendant's use of plaintiff's property would form a contract and defendant had continued use, because plaintiffs had only "attempted to construct a bilateral agreement by the fictional grant of a license" and this tactic "has been consistently rejected by the courts").

130. See source cited *supra* note 2.

gain significant benefits—TM was unable to prove that it suffered any damages to its business or its computer network due to the alleged breach of contract.<sup>131</sup> Thus, given the choice, TM may have decided to forego contract protection against all visitors. It may have determined that the costs in lost user traffic of erecting a barrier to entry in the form of an offer page outweighed the benefits of contract protection. Indeed, it may have decided to wait until users purchased tickets to bind them.

#### IV. CONCLUSION

TM's browsewrap license is a classic example of a mass market standard form contract on the Internet, which strays too far from the form of traditional contracts to be enforceable. It neither provides a legitimate offer, nor does it require clear acceptance. In determining the validity of an online contract, courts should distinguish between commercial, publicly available websites and those that have restricted access. Courts should only allow website providers to form contracts with their web users when they restrict access to their sites. Only when information providers and users engage in a meaningful exchange by rendering a clear offer and acceptance, should it warrant contract formation.

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131. *Ticketmaster II*, 2003 WL 21406289, at \*3. In fact TX's deep linking may have benefited TM by encouraging TX users to purchase tickets from TM. As for TX's spidering, both parties disputed how much of TM's computer capacity the TX spiders took up. However, TM presented no evidence that the spidering harmed its computer system or hindered its ability to serve customers. Finally, the district court noted that although TX made a commercial use of the information it obtained on TM's site, TM did not show that this caused any loss of traffic or advertising sales. In fact, during the time of the alleged breach, TM's space for advertising was saturated and it had to turn away potential clients. Appellant's Opening Brief, *supra* note 2, at \*10.

## A SURVEY OF PERSONAL JURISDICTION BASED ON INTERNET ACTIVITY: A RETURN TO TRADITION

By *TiTi Nguyen*

By its very nature, the Internet is without boundaries.<sup>1</sup> Any person connected to the Internet can access it and is limited in her activity only by the current state of technology. Additionally, the Internet rapidly changes to adapt to new technological innovations. In contrast, personal jurisdiction doctrine prevents courts from exercising their power beyond the geographical boundaries of their authority. This limitation derives from the interests in protecting defendants against undue litigation burdens and in preventing state courts from infringing upon the sovereignty of other states.<sup>2</sup>

The rise of litigation relating to Internet activity raises concerns about applying personal jurisdiction rules developed in geographical space to a means of exchanging information that has no boundaries. The first courts facing such litigation responded by applying existing personal jurisdiction rules. Later, some courts adapted the traditional personal jurisdiction rules to take into account the Internet's unique characteristics. Coming full circle, many courts have returned to applying the traditional personal jurisdiction rules to the Internet. This return to tradition has been subtle, as these courts assert that they are applying a test tailored to the Internet when in reality they are applying long-established tests.

This Note surveys the state of personal jurisdiction jurisprudence with respect to Internet-related activities. Part I traces the historical development of personal jurisdiction doctrine. Part II reviews how courts have applied personal jurisdiction rules to the Internet. Part III analyzes the appli-

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1. The Internet consists of individual computers networked to each other. Barry M. Leiner et al., *A Brief History of the Internet*, at <http://www.isoc.org/internet/history/brief.shtml> (last modified Dec. 10, 2003). The Internet allows many forms of communications such as electronic mail ("e-mail") and real-time communication ("chatting"). The most recognizable form of the Internet is the World Wide Web, which allows users to access websites through unique domain names and read the information contained there. *Id.* For a further description of the Internet and its functions, see *Reno v. Am. Civil Liberties Union*, 521 U.S. 844, 849-53 (1997); Andrew E. Costa, Comment, *Minimum Contacts in Cyberspace: A Taxonomy of the Case Law*, 35 HOUS. L. REV. 453, 463-65 (1998).

2. See *World-Wide Volkswagen Corp. v. Woodson*, 444 U.S. 286, 292 (1980); *Pennoyer v. Neff*, 95 U.S. 714, 722-23, 733 (1877).

cation of personal jurisdiction rules to the Internet and concludes that although there are advantages to the new personal jurisdictional tests that some courts have developed for these cases, the traditional personal jurisdiction tests remain the best approach, even when applied to the Internet. The traditional tests retain several advantages: one, the Internet is not so unique and different that it requires a tailored test; two, the traditional tests are well-developed and familiar to judges; three, the traditional tests are technology-neutral and can be applied even when the technology changes; and four, the traditional tests best preserve the underlying policy reasons for limiting courts in their exercise of personal jurisdiction.

## I. TRADITIONAL PERSONAL JURISDICTION DOCTRINE

Parties to a lawsuit are not bound by a court's orders unless the court is able to exercise personal jurisdiction over the parties.<sup>3</sup> Personal jurisdiction doctrine has evolved from simply requiring a defendant's actual physical presence in the forum at the time of service of process<sup>4</sup> to a more nuanced determination of sufficient "minimum contacts" with the forum state when the defendant is not physically present in the state.<sup>5</sup> The Internet challenges how far the definition of minimum contacts can be stretched to include various levels of Internet activity, since a defendant's actual physical presence may be far from the forum exercising jurisdiction.

### A. Requiring Physical Presence versus "Minimum Contacts"

Personal jurisdiction doctrine has evolved from emphasizing physical presence to also allowing constructive presence. Consequently, the Court in *Pennoyer v. Neff* held that assertion of personal jurisdiction required the defendant's physical presence within the physical territory of the forum state.<sup>6</sup> However, in *International Shoe Co. v. Washington*, the Supreme

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3. See *Pennoyer*, 95 U.S. at 722 ("[T]he laws of one State have no operation outside of its territory, except so far as is allowed by comity; and that no tribunal established by it can extend its process beyond that territory so as to subject either persons or property to its decisions."); see also *Hanson v. Denckla*, 357 U.S. 235, 250 (1958) ("[A] State is forbidden to enter a judgment attempting to bind a person over whom it has no jurisdiction . . .").

4. See, e.g., *Pennoyer*, 95 U.S. at 734.

5. See, e.g., *World-Wide Volkswagen*, 444 U.S. at 292; *Int'l Shoe Co. v. Washington*, 326 U.S. 310, 316 (1945).

6. *Pennoyer*, 95 U.S. at 720; see Richard S. Zembek, Comment, *Jurisdiction and the Internet: Fundamental Fairness in the Networked World of Cyberspace*, 6 ALB. L.J. SCI. & TECH. 339, 341-42 (1996) ("Under conventional territorial laws, jurisdiction is

Court revised the personal jurisdiction requirements to include a “minimum contacts” alternative.<sup>7</sup> The Court held that if a defendant was not physically present within a forum court’s jurisdiction, due process required only that the defendant “have certain minimum contacts with [the forum] such that the maintenance of the suit does not offend ‘traditional notions of fair play and substantial justice.’”<sup>8</sup>

Post-*International Shoe* cases have boiled down the “minimum contacts” sufficient to exercise specific personal jurisdiction to a three-element test.<sup>9</sup> First, “there [must] be some act by which the defendant purposefully avails itself of the privilege of conducting activities within the

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predicated upon the physical and geographical location of both a particular court and the litigants before it.”).

Moreover, the state court could also exercise personal jurisdiction over the defendant’s property if it was located within the state. In such cases, the state could exercise personal jurisdiction only against the property the non-resident defendant owned in that state. See *Pennoyer*, 95 U.S. at 723. The Court stated that:

It is in virtue of the State’s jurisdiction over the property of the non-resident situated within its limits that its tribunals can inquire into that non-resident’s obligations to its own citizens, and the inquiry can then be carried only to the extent necessary to control the disposition of the property.

*Id.*

7. 326 U.S. at 317. The amount of minimum contacts necessary to assert personal jurisdiction has been categorized into two types: general and specific. General jurisdiction is assertion of jurisdiction over a defendant when the defendant’s contacts are unrelated to the lawsuit or unrelated to the forum state. Dan L. Burk, *Jurisdiction in a World Without Borders*, 1 VA. J.L. & TECH. 3, ¶ 27 (1997) [hereinafter Burk, *Jurisdiction*], at <http://www.student.virginia.edu/~vjolt/vol1/BURK.htm>. A court can assert general personal jurisdiction when a defendant’s contacts are so “continuous and systematic” that the defendant should expect to defend any type of claim in the forum. *Int’l Shoe*, 326 U.S. at 317; see Burk, *Jurisdiction*, *supra*, ¶ 27. Specific jurisdiction is assertion of jurisdiction over a defendant when the defendant’s contacts directly give rise to the suit. Burk, *Jurisdiction*, *supra*, ¶ 27. Under specific jurisdiction, it is not necessary for the defendant’s contacts to be continuous and systematic. Rather, the court must consider the quality and nature of the defendant’s contacts when determining if jurisdiction is proper. *Int’l Shoe*, 326 U.S. at 319; see Brian E. Draughdrill, *Poking Along in the Fast Lane on the Information Super Highway: Territorial-Based Jurisprudence in a Technological World*, 52 MERCER L. REV. 1217, 1222 (2001) (stating that specific jurisdiction is “claim specific”).

8. *Int’l Shoe*, 326 U.S. at 319 (quoting *Milliken v. Meyer*, 311 U.S. 457, 463 (1940)).

9. See *ALS Scan, Inc. v. Digital Serv. Consultants, Inc.*, 293 F.3d 707, 712 (4th Cir. 2002); *Cybersell, Inc. v. Cybersell, Inc.*, 130 F.3d 414, 416 (9th Cir. 1997); *Compu-Serve, Inc. v. Patterson*, 89 F.3d 1257, 1263 (6th Cir. 1996); *Millennium Enters., Inc. v. Millennium Music, LP*, 33 F. Supp. 2d 907, 910 (D. Or. 1999); *Zippo Mfg. Co. v. Zippo Dot Com*, 952 F. Supp. 1119, 1122-23 (W.D. Pa. 1997); see also Zembeck, *supra* note 6, at 352-53 (summarizing the three-part test).

forum State . . . .”<sup>10</sup> The Court has interpreted purposeful availment to include not only the defendant’s deliberate conduct but also the effects of the defendant’s conduct.<sup>11</sup> Thus, courts not only look to the defendant’s conduct but also the defendant’s intent to have some effect on the forum state as a result of her conduct.<sup>12</sup> Second, the claim must arise out of or result from forum-related activities.<sup>13</sup> This requirement ensures that the suit is sufficiently related to the contacts between the defendant and the forum.<sup>14</sup> Finally, the exercise of personal jurisdiction must be “reasonable” in consideration of a number of factors, including the burden on the defendant to litigate in the forum, the forum state’s interest in adjudicating the dispute, the plaintiff’s interest in obtaining convenient and effective relief, efficient resolution of controversies, and the shared interest of the several states in furthering fundamental substantive social policies.<sup>15</sup>

The Supreme Court has not defined the exact amount of minimum contacts necessary to satisfy the first prong of the test. Rather, it has stated that this determination “cannot simply be mechanical or quantitative” and depends on the “quality and nature of the activity in relation to the fair and orderly administration of the laws which it was the purpose of the due

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10. *Hanson v. Denckla*, 357 U.S. 235, 253 (1958).

11. *Calder v. Jones*, 465 U.S. 783 (1984). This is also known as the “*Calder* effects test.”

12. *See id.* at 789. Furthermore, foreseeability that the defendant’s acts would cause injury in the forum state is insufficient to demonstrate that the defendant purposefully availed itself of the privilege of conducting activities within the forum state. *World-Wide Volkswagen Corp. v. Woodson*, 444 U.S. 286, 295 (1980). “Rather, it is that the defendant’s conduct and connection with the forum State are such that he should reasonably anticipate being haled into court there.” *Id.* at 297. The Supreme Court has divided on the issue of foreseeability. In *Asahi Metal Industry Co. v. Superior Court*, Justice O’Connor’s plurality opinion stated that “mere awareness” by the defendant that its product would reach the forum state in the stream of commerce was insufficient to demonstrate purposeful availment. 480 U.S. 102, 111, 112 (1987) (O’Connor, J., plurality). Thus, purposeful availment could be proved by demonstrating that the defendant intended to serve the market in the forum State, such as advertising in the forum state or designing the product for the market in the forum state. *Id.* In contrast, Justice Brennan’s plurality opinion in *Asahi* held that a defendant purposefully availed itself of the forum if the defendant was aware that its product entered the forum state and the defendant benefited economically from the sale of that product in the forum state. *Id.* at 117 (Brennan, J., plurality).

13. *See Burger King Corp. v. Rudzewicz*, 471 U.S. 462, 472 (1985).

14. *See Shaffer v. Heitner*, 433 U.S. 186, 204 (1977) (emphasizing the relationship among the defendant, the forum, and the litigation). Because the Supreme Court has not addressed the arising-out-of issue in-depth, some lower courts apply a but-for test to determine relatedness while other courts apply a proximate cause approach. Note, *No Bad Puns: A Different Approach to the Problem of Personal Jurisdiction and the Internet*, 116 HARV. L. REV. 1821, 1838-1841 (2003).

15. *See Burger King*, 471 U.S. at 477; *World-Wide Volkswagen*, 444 U.S. at 292.

process clause to insure.”<sup>16</sup> But the Court has clearly stated that there is a minimum threshold that must be met before a court can obtain personal jurisdiction. If this threshold is not met, jurisdiction cannot be obtained even if the third-prong’s requirement of reasonableness weighed in favor of asserting personal jurisdiction.<sup>17</sup>

Applying the three-element minimum contacts test to a defendant’s Internet activities poses special problems. Courts must determine what Internet activities, such as posting information or advertisements on a website or conducting commercial transactions, qualify as minimum contacts. Courts must also decide the level of Internet activity that meets the minimum threshold.

### B. Long-Arm Statutes

To assert personal jurisdiction, a court must not only conform to Constitutional Due Process requirements but also, as a preliminary matter, to the long-arm statute of the state in which the court sits.<sup>18</sup> The Due Process requirement is a constitutional boundary placed on the court’s ability to assert personal jurisdiction, but legislatures are not required to empower courts with the ability to exercise all the jurisdictional power contemplated by the Constitution.<sup>19</sup> As a result, a court may exercise jurisdiction over a defendant only when a state or federal statute authorizes it to do so.<sup>20</sup>

### C. Rationale for Personal Jurisdiction Doctrine

The Supreme Court has two reasons for requiring physical presence or minimum contacts in order to exercise personal jurisdiction. First, the limitation protects defendants’ due process rights under the Fourteenth Amendment of the U.S. Constitution.<sup>21</sup> This due process protection arises

16. *Int’l Shoe Co. v. Washington*, 326 U.S. 310, 319 (1945).

17. *Hanson v. Denckla*, 357 U.S. 235, 252 (1958). Factors that would weigh in favor of the reasonableness of asserting personal jurisdiction include the defendant’s burden of defending in the foreign forum being minimal while the state’s interest in litigating the case being strong.

18. STEPHEN C. YEAZELL, *CIVIL PROCEDURE* 191 (5th ed. 2000).

19. *Id.* California, for example, grants its courts the full scope of personal jurisdiction permissible by the U.S. Constitution. CAL. CIV. PROC. CODE § 410.10 (West 1973). Some states have long-arm statutes limiting personal jurisdiction to specified occurrences. *See, e.g.*, N.Y. C.P.L.R. 302 (McKinney 1990) (permitting personal jurisdiction over defendants who, inter alia, transacts any business within the state; commits a tortious act within the state; commits a tortious act outside the state that causes injury to person or property within the state; or owns, uses or possesses any real property situated within the state); *see* YEAZELL, *supra* note 18, at 192.

20. YEAZELL, *supra* note 18, at 191.

21. *Pennoyer v. Neff*, 95 U.S. 714, 733 (1877).

out of the idea that it is unfair to require defendants to defend themselves in remote jurisdictions.<sup>22</sup> Second, the limitation prevents a state from encroaching upon the sovereignty of other states.<sup>23</sup> A state has the power to control persons and property within its territory, as well as persons who have established minimum contacts with the state, but the Court has affirmed that “[t]he several States are of equal dignity and authority, and the independence of one implies the exclusion of power from all others.”<sup>24</sup> Thus, the state’s physical boundary demarcates where the state does and does not have the power to exercise control over defendants.<sup>25</sup>

These two justifications have important implications for asserting personal jurisdiction based on Internet activities. First, the Internet is an efficient and rapid means of communication, and coupled with similar progress in transportation, defending a suit in a remote jurisdiction may be less of a burden today than in the past.<sup>26</sup> For example, some courts allow parties to electronically file their pleadings via the Internet, rather than filing in person at the courthouse.<sup>27</sup> Some courts also allow litigants to participate via the telephone. Litigants can also maintain contact with each other and the court via e-mail. However, the Supreme Court has also warned that technological progress does not and will not “herald[] the eventual demise of all restrictions on the personal jurisdiction of state courts.”<sup>28</sup> Instead, it has declared that “[h]owever minimal the burden of defending in a foreign tribunal, a defendant may not be called upon to do so unless he has had the ‘minimal contacts’ with that State that are a prerequisite to its exercise of power over him.”<sup>29</sup> Second, because the Internet

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22. *World-Wide Volkswagen Corp. v. Woodson*, 444 U.S. 286, 292 (1980); *Pennoyer*, 95 U.S. at 733; see *Burger King Corp. v. Rudzewicz*, 471 U.S. 462, 472 n.13 (1985); *Shaffer v. Heitner*, 433 U.S. 186, 204 & n.20 (1977) (“[T]he relationship among the defendant, the forum, and the litigation . . . [has become] the central concern of the inquiry into personal jurisdiction.”); *Hanson*, 357 U.S. at 251 (“However minimal the burden of defending in a foreign tribunal, a defendant may not be called upon to do so unless he has had the ‘minimal contacts’ with that State that are a prerequisite to its exercise of power over him.”).

23. *Pennoyer*, 95 U.S. at 723.

24. *Id.* at 722.

25. *Hanson*, 357 U.S. at 250-51; *Pennoyer*, 95 U.S. at 722.

26. See *Hanson*, 357 U.S. at 250-51.

27. For a good explanation of electronic filing (“e-filing”) and a list of courts that allow e-filing, see SearchLaw Legal Search Engine, at <http://www.seachlaw.com/efiling.htm> (last visited Feb. 4, 2004).

28. *Hanson*, 357 U.S. at 250-51. Part of the reason why there would be no such demise is because the restrictions on personal jurisdiction also serve as “territorial limitations on the power of the respective States.” *Id.*

29. *Id.* at 251.

is borderless, it reaches across all state and national boundaries. A result is that many laws, some of them in conflict with one another, may apply to a defendant's Internet activities.<sup>30</sup> Therefore, courts must carefully balance a state's desire to see its laws and policies enforced and the undue interference such an application would have on another state's or country's laws and policies.

## II. TRENDS IN THE APPLICATION OF PERSONAL JURISDICTION DOCTRINE TO THE INTERNET

Lawsuits involving Internet activities have become more common with increased Internet usage.<sup>31</sup> When defendants invoked a personal jurisdiction defense against lawsuits based on their Internet activities, courts initially applied traditional personal jurisdiction tests. The results of this application varied. Then, some courts attempted to tailor a personal jurisdiction test to fit the Internet. This Internet-tailored test created a proportional relationship between the propriety of asserting personal jurisdiction and the level and character of the Internet activity. Finally, some courts further developed the Internet-tailored personal jurisdiction test by including more elements from the traditional test. While these courts acted as though they were applying an Internet-tailored test, in reality they had, perhaps unwittingly, resuscitated the traditional personal jurisdiction test.

### A. Early Cases: Applying Traditional Personal Jurisdiction Tests

Initially, courts applied traditional personal jurisdiction tests to the then-novel cases involving Internet activities.<sup>32</sup> Although courts applied the same tests, they differed on how to characterize "contacts" with the forum state with respect to the Internet activity in question. Consequently, some courts exercised personal jurisdiction because the defendant maintained a website that was accessible by everyone connected to the Internet,

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30. See, e.g., *Yahoo!, Inc. v. La Ligue Contre Le Racisme et L'Antisemitisme*, 169 F. Supp. 2d 1181 (N.D. Cal. 2001). In that case, Yahoo!, a company incorporated in Delaware and headquartered in California, was sued in France because French users were able to access Yahoo!'s website, which contained information banned in France. The French plaintiffs unsuccessfully attempted to enforce the French court's order in a United States court. The case is currently on appeal before the United States Court of Appeal for the Ninth Circuit.

31. Dan L. Burk, *Federalism in Cyberspace*, 28 CONN. L. REV. 1095, 1095 (1996).

32. See, e.g., *Bensusan Rest. Corp. v. King*, 126 F.3d 25, 27 (2d Cir. 1997) [hereinafter *Bensusan II*] (holding that "well-established doctrines of personal jurisdiction support the result reached by the district court," which could not assert personal jurisdiction over the defendant based on his website activity).

including people in the forum state,<sup>33</sup> while other courts held that maintenance of a website was not purposeful availment sufficient to assert personal jurisdiction in the forum state.<sup>34</sup>

The courts that exercised personal jurisdiction under this broad definition utilized deductive reasoning to define a defendant's website alone as a contact with the forum state. The courts found that the Internet is used to conduct wide-spread communication with everyone connected to the Internet.<sup>35</sup> They then concluded that the defendant purposefully directed her activities toward the forum state because she knew her website would reach everyone connected to the Internet, including residents in the forum state.<sup>36</sup> Consequently, the defendant's "contacts," via her website, were "of such a quality and nature, albeit a very new quality and nature for per-

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33. See, e.g., *Maritz, Inc. v. CyberGold, Inc.*, 947 F. Supp. 1328, 1330 (E.D. Mo. 1996) (asserting personal jurisdiction over a California defendant based on the defendant's website, which provided information about its new upcoming service that maintained a mailing list in order to provide Internet users with advertisements targeted towards their selected interests); *Inset Sys., Inc. v. Instruction Set, Inc.*, 937 F. Supp. 161, 162 (D. Conn. 1996) (asserting personal jurisdiction over a Massachusetts-based defendant in a website domain name dispute).

34. See, e.g., *CompuServe, Inc. v. Patterson*, 89 F.3d 1257 (6th Cir. 1996) (asserting personal jurisdiction over the defendant because he electronically transmitted his product to the forum state and entered into a contract that had a connection with the forum state); *Bensusan Rest. Corp. v. King*, 937 F. Supp. 295 (S.D.N.Y. 1996) [hereinafter *Bensusan I*] (rejecting plaintiff's argument that personal jurisdiction was proper because the defendant's website was accessible in the forum state and holding that asserting personal jurisdiction over the defendant would violate New York's long-arm statute and the Due Process Clause of the U.S. Constitution), *aff'd* 126 F.3d 25 (2d Cir. 1997) (upholding the district court's ruling based on New York's long-arm statute rather than an analysis of the due process issue).

35. See *Maritz*, 947 F. Supp. at 1330 (agreeing with plaintiff's argument that the defendant's website was a "state-wide" advertisement that invited and solicited business from residents in the forum state); *Inset*, 937 F. Supp. at 165 (stating that "the Internet . . . [is] designed to communicate with people and their businesses in every state"). Moreover, one court analogized websites to television and radio advertising and found that the purposeful availment via an Internet webpage was more persistent because "once posted on the Internet . . . the advertisement is available continuously to any Internet user." *Inset*, 937 F. Supp. at 165.

36. See *Maritz*, 947 F. Supp. at 1333 (finding that the defendant "consciously decided to transmit advertising information to all [I]nternet users, knowing that such information will be transmitted globally [through the defendant's website]"); *Inset*, 937 F. Supp. at 165 (finding that since the defendant's website could be reached by Internet users within the forum state, the defendant had purposefully directed its activities toward the forum state and thus was subject to personal jurisdiction there).

sonal jurisdiction, that they favor[ed] the exercise of personal jurisdiction over defendant.”<sup>37</sup>

Other, more circumspect courts rejected the argument that a website, by itself, was a sufficient minimum contact. The courts found that the defendants simply created a website and allowed others on the Internet to access it.<sup>38</sup> The courts found that the defendants did not actively encourage residents in the forum state to access the defendants’ website,<sup>39</sup> did not continuously or systematically conduct business in the forum state,<sup>40</sup> and did not create or maintain the website in the forum state.<sup>41</sup> As a result, one court concluded that “[c]reating a site, like placing a product into the stream of commerce, may be felt nationwide—or even world-wide—but, without more, it is not an act purposefully directed toward the forum state.”<sup>42</sup>

## B. The Sliding Scale: Tailoring the Personal Jurisdiction Test to the Internet

The court in *Zippo Manufacturing Co. v. Zippo Dot Com, Inc.* enunciated the first personal jurisdiction test tailored to the Internet.<sup>43</sup> In the most often-cited passage, the *Zippo* court stated that “the likelihood that personal jurisdiction can be constitutionally exercised is *directly proportionate* to the nature and quality of commercial activity that an entity conducts

37. *Maritz*, 947 F. Supp. at 1333. Accordingly, the courts rejected the defendants’ arguments that they did not have sufficient minimum contacts with the forum state because their office and principal place of business were not in the forum state and because they did not conduct business in the forum state on a regular basis. See *Maritz*, 947 F. Supp. at 1334; *Inset*, 937 F. Supp. at 164.

38. *Bensusan I*, 937 F. Supp. at 301.

39. *Id.*

40. *Id.*

41. *Bensusan II*, 126 F.3d 25, 29 (2d Cir. 1997).

42. *Id.*; see also *GTE New Media Servs. Inc. v. BellSouth Corp.*, 199 F.3d 1343, 1350 (D.C. Cir. 2000) (rejecting plaintiff’s argument that “mere accessibility of the defendants’ websites in the [forum] establishes the necessary ‘minimum contacts’ with [the forum]”); *CompuServe, Inc. v. Patterson*, 89 F.3d 1257, 1264-65 (6th Cir. 1996) (asserting personal jurisdiction over the defendant because the defendant 1) entered into a contract that involved the forum state; 2) injected his product, via electronic transmission, in the forum state’s stream of commerce; and 3) advertised and sold his product in the forum state).

43. 952 F. Supp. 1119 (W.D. Pa. 1997). *Zippo Manufacturing* (“Manufacturing”) is a Pennsylvania corporation which makes, among other things, “Zippo” tobacco lighters. *Id.* at 1121. *Zippo Dot Com* (“Dot Com”), a California corporation, operated an Internet website and news service using the domain names “zippo.com,” “zippo.net,” and “zipponews.com.” *Id.* Manufacturing filed suit in Pennsylvania alleging various federal and state trademark infringement claims. *Id.*

over the Internet. This sliding scale is consistent with well-developed personal jurisdiction principles."<sup>44</sup> As a result, this Internet-tailored personal jurisdiction test is known as the "*Zippo* sliding scale" and consists of three divisions.

At one end of the *Zippo* sliding scale, the defendant "clearly does business over the Internet."<sup>45</sup> The *Zippo* court cited activities such as entering into contracts with a resident of the forum state and repeatedly transmitting files over the Internet to the forum state.<sup>46</sup> One reason that assertion of personal jurisdiction is proper is because the defendant has made a "conscious choice to conduct business with the residents of a forum state."<sup>47</sup> Thus, a high level of commercial activity correlates to a high likelihood that the court in the forum state can properly exercise personal jurisdiction.

At the other end of the scale, the defendant simply posts information on a website.<sup>48</sup> Although the website may be accessible to Internet users in the forum state, "a passive [website] that does little more than make information available to those who are interested in it is not grounds for the exercise [of] personal jurisdiction."<sup>49</sup> According to the *Zippo* sliding scale, if a passive website has little commercial activity, there is a low or no likelihood that a court will assert personal jurisdiction.

Between the two ends of the sliding scale are "interactive" websites that allow users to exchange information with the website.<sup>50</sup> The assertion of jurisdiction over interactive websites is "determined by examining the level of interactivity and commercial nature of the exchange of information that occurs on the [website]."<sup>51</sup> However, the *Zippo* court did not provide further guidance for conducting this examination on interactive websites, such as how much interactivity or commercialism would suffice to

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44. *Id.* at 1124 (emphasis added).

45. *Id.*

46. *See id.* (citing *CompuServe, Inc. v. Patterson*, 89 F.3d 1257 (6th Cir. 1996), as an example).

47. *Id.* at 1126. Applying the sliding scale to the facts before it, the *Zippo* court asserted personal jurisdiction over Dot Com because Dot Com had sold passwords to its service to subscribers in Pennsylvania, had transmitted electronic messages to Pennsylvania, and had entered into several contracts with Internet access providers to furnish its services to customers in Pennsylvania. *Id.* Consequently, Dot Com's level of commercial Internet activity was sufficient to meet the minimum contacts criteria.

48. *Id.* at 1124.

49. *Id.* (citing *Bensusan I*, 937 F. Supp. 295 (S.D.N.Y. 1996)).

50. *Id.*

51. *Id.* (citing *Maritz, Inc. v. CyberGold, Inc.*, 947 F. Supp. 1328 (E.D. Mo. 1996)).

assert personal jurisdiction or how interactivity and commercialism should relate to each other.<sup>52</sup>

Most courts facing the issue of exercising personal jurisdiction based on the defendant's Internet activities have heartily embraced the *Zippo* sliding scale.<sup>53</sup>

### C. "Something More": Returning to the Traditional Personal Jurisdiction Tests

While simultaneously embracing the *Zippo* sliding scale, some courts have also modified it by requiring that plaintiffs demonstrate "'something more' to indicate that the defendant purposefully targeted (albeit electronically) directed his activity in a substantial way to the forum state."<sup>54</sup> This "something more" includes actions, either electronic or physical, that indicate the defendant purposefully availed herself of the forum state be-

52. Note, *supra* note 14, at 1834 ("As formulated and developed, *Zippo* provides little guidance for determining how to deal with [interactive] sites."). As a result, some courts found that the existence of an interactive website sufficient to establish minimum contacts while other courts found minimum contacts through additional contacts by the defendant, either related or non-related to the plaintiff's underlying claim. *Millennium Enters., Inc. v. Millennium Music, LP*, 33 F. Supp. 2d 907, 916-17 (D. Or. 1999).

53. See, e.g., *ALS Scan, Inc. v. Digital Serv. Consultants, Inc.*, 293 F.3d 707, 713, 714 (4th Cir. 2002) (announcing "[w]e adopt today the model developed in [*Zippo*]" and finding defendant's website to be "at most, passive"); *Mink v. AAAA Dev. LLC*, 190 F.3d 333, 336 (5th Cir. 1999) ("We find that the reasoning of *Zippo* is persuasive and adopt it in this Circuit."); *Rainy Day Books, Inc. v. Rainy Day Books & Café, L.L.C.*, 186 F. Supp. 2d 1158, 1164-65 (D. Kan. 2002). The district court in *Rainy Day Books* stated,

Defendant's website falls within the sliding scale category of websites that allows a defendant to "do business" and "enter into contracts with residents of foreign jurisdiction over the Internet." As Plaintiff has established that Defendant's website constitutes a commercial website, Plaintiff has demonstrated that it purposefully availed itself of the privilege of doing business in this jurisdiction.

186 F. Supp. 2d at 1164-65; see also *Toys 'R' Us, Inc. v. Step Two, S.A.*, 318 F.3d 446, 452 (3d Cir. 2003) ("The opinion in [*Zippo*] has become a seminal authority regarding personal jurisdiction based upon the operation of an Internet [website]."); *Draughdrill*, *supra* note 7, at 1222-23 ("Adopted to some extent by virtually every court that has addressed the assertion of personal jurisdiction via Internet contacts, the sliding scale test is the foundation of nearly every Internet jurisdictional analysis.").

54. *Cybersell, Inc. v. Cybersell, Inc.*, 130 F.3d 414, 418 (9th Cir. 1997); see also *Toys 'R' Us*, 318 F.3d at 454 (stating that "there must be evidence that the defendant 'purposefully availed' itself of conducting activity in the forum state"); *Panavision Int'l, L.P. v. Toeppen*, 141 F.3d 1316, 1322 (9th Cir. 1998) (requiring "'something more' to demonstrate that the defendant directed his activity toward the forum state"); *Millennium Enters.*, 33 F. Supp. 2d at 921.

yond posting a website. Other courts have simply applied the *Calder* effects test to the defendant's Internet activities.<sup>55</sup> Either by modifying the *Zippo* sliding scale or utilizing the *Calder* effects test, these courts have unwittingly returned to the traditional personal jurisdiction test.

### 1. *Modifying the Zippo Sliding Scale*

The *Zippo* sliding scale allowed the assertion of personal jurisdiction based on the direct proportionality of a website's interactivity.<sup>56</sup> These courts believed that it was not enough for the plaintiff to show that the defendant operated an accessible and/or interactive website; rather, the sliding scale required that plaintiff's demonstrate "something more" to indicate the defendant's purposeful availment of the benefits of the forum state.<sup>57</sup>

For these courts, "something more" can include both Internet and non-Internet activities. Internet activities which demonstrate purposeful availment include "directly targeting [one's website] to the [forum] state" or "knowingly interacting with residents of the forum state via [one's website]."<sup>58</sup> Non-Internet activities which demonstrate purposeful availment include entering into contracts in the forum state, making sales in the forum state, or receiving telephone calls or sending messages over the Internet to the forum state.<sup>59</sup>

Consequently, by looking for "something more," these courts focus on the substance of the defendant's Internet activity rather than the existence

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55. See *Revell v. Lidov*, 317 F.3d 467 (5th Cir. 2001) (involving an article, posted on a website accessible to members of the public over the Internet, that allegedly defamed plaintiff); *Bancroft & Masters, Inc. v. Augusta Nat'l Inc.*, 223 F.3d 1082 (9th Cir. 2000) (involving a trademark dispute over a website domain name); *Pavlovich v. Superior Court*, 29 Cal. 4th 262 (2002) (involving the posting of DeCSS, the decryption algorithm to the Content Scrambling System ("CSS"), a system used to encrypt and protect copyrighted motion pictures on digital versatile discs (DVDs), on an Internet website).

56. See *Zippo*, 952 F. Supp. at 1124 ("[T]he likelihood that personal jurisdiction can be constitutionally exercised is directly proportionate to the nature and quality of commercial activity that an entity conducts over the Internet.").

57. See *supra* note 54.

58. *Toys 'R' Us*, 318 F.3d at 454.

59. *Cybersell*, 130 F.3d at 420; see also *Toys 'R' Us*, 318 F.3d at 453 (finding that "something more" included evidence that "defendant intentionally and knowingly conducted business with residents of the forum state, and [that the defendant] had significant other contacts with the forum besides those generated by its [website]"); *Panavision*, 141 F.3d at 1322 (finding that the "something more" included evidence that the defendant's actions were for the purpose of extorting money from the plaintiff); *Millennium Enters.*, 33 F. Supp. 2d at 921 (finding "deliberate action" within the forum state to be transactions between the defendant and residents of the forum state or conduct by the defendant purposefully directed at residents of the forum state).

or level of activity of a website. Thus, the interactivity of the defendant's website is merely an indicator of the defendant's purposeful availment of the forum's benefits, as opposed to the bare reason for asserting personal jurisdiction. This focus on the substance of the activity, whether Internet or non-Internet, rather than the means through which the activity is conducted, indicates a shift from a technology-specific test—such as the *Zippo* sliding scale—to a technology-neutral one. Ironically, this technology-neutral test is essentially the traditional personal jurisdiction test. As a result, after enunciating new principles to be applied to the Internet, many courts have returned to the traditional legal principles of personal jurisdiction.<sup>60</sup>

## 2. *Applying the Calder Effects Test*

In *Calder v. Jones*, the Supreme Court held that purposeful availment by the defendant includes not only deliberate actions the defendant takes to avail herself of the benefits of the forum state but also deliberate effects arising from the defendant's conduct.<sup>61</sup> Thus, personal jurisdiction is proper under the *Calder* effects test when the defendant's actions are expressly aimed at, and the brunt of the injury is felt in, the forum state.<sup>62</sup>

Some courts that applied the *Calder* effects test to Internet activities followed a two-step procedure.<sup>63</sup> First, the courts used the *Zippo* sliding

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60. The switch back to the existing personal jurisdiction tests has been subtle because courts hold that they have adopted the *Zippo* sliding scale, but substitute or append the "something more" element to the proportional element. *See, e.g., Cybersell*, 130 F.3d at 418 (citing, with approval, *Zippo's* use of "interactive" and "passive" websites yet looking at defendant's non-Internet related activities to determine that the court could not exercise personal jurisdiction).

61. 465 U.S. 783, 789 (1984). In *Calder*, the plaintiff brought suit in a California court alleging that an article written and edited by the defendants in Florida had libeled her. *Id.* at 784. Although the article was published in a national magazine with a large circulation in California, almost all of the defendants' activities occurred in Florida. *Id.* at 784-86. However, the Court allowed the California court to assert personal jurisdiction over the defendants because "their intentional, and allegedly tortious, actions were expressly aimed at California" and the defendants "knew that the brunt of the injury would be felt by [the plaintiff in California]." *Id.* at 789-90; *see also id.* at 788-89 (detailing how defendants' acts were aimed at California and concluding that "[i]n sum, California is the focal point both of the story and of the harm suffered"). It found jurisdiction was proper based on the "effects" of the defendants' conduct. *Id.* at 789.

62. *Id.*

63. *See* Richard A. Bales & Suzanne Van Wert, *Internet Web Site Jurisdiction*, 20 J. MARSHALL J. COMPUTER & INFO. L. 21, 38 (2001) ("The trend in the courts has been to add an analysis based upon the effects test after considering the interactivity of the defendant's Web site [sic] based on the *Zippo* sliding scale.").

scale to determine the level of interactivity of the defendant's website.<sup>64</sup> Next, the courts applied the *Calder* effects test to the defendant's activity once the court determined that the defendant's website was interactive.<sup>65</sup> In contrast, another court applied both the *Zippo* sliding scale and the *Calder* effects test to the defendant's website, and found that the assertion of personal jurisdiction was improper under both tests.<sup>66</sup>

Thus, while courts used the *Zippo* sliding scale, they also simultaneously returned to tradition by using the *Calder* effects test. In the case of the first court, the additional requirement that the *Calder* effects test be used to determine the propriety of asserting personal jurisdiction is analogous to the "something more" requirement.<sup>67</sup> Consequently, the court looked to more than the interactivity of the defendant's website by also examining the defendant's purposeful avilment of the forum state via the effects of her conduct. In the case of the second court, the court used the *Zippo* sliding scale, yet also returned to the traditional tests.<sup>68</sup>

Although *Calder* was a libel case, its effects test has been applied to the intentional and business torts that occur both in the physical world and over the Internet.<sup>69</sup> In applying the *Calder* effects test to the defendant's Internet activities, courts have looked at the intended effect of the defendant's actions rather than the defendant's usage of the Internet<sup>70</sup> or the

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64. See, e.g., *Revell v. Lidov*, 317 F.3d 467, 472 (5th Cir. 2001) (utilizing the *Zippo* sliding scale to determine the interactivity of the bulletin board section of the defendant's website).

65. See, e.g., *id.* ("[The defendant's website] bulletin board is thus interactive, and we must evaluate the extent of this interactivity as well as [the plaintiff's] argument with respect to *Calder*.").

66. See *Pavlovich v. Superior Court*, 29 Cal. 4th 262, 274-76 (2002).

67. See *Revell*, 317 F.3d at 472.

68. Indeed, the bulk of the *Pavlovich* decision is devoted to whether the defendant had the knowledge required to establish his intentional targeting of the forum state. See *id.* at 275-79; see also *id.* at 286-98 (Baxter, J., dissenting).

69. For examples of the application of the effects test in non-libel cases, see *supra* note 55.

70. See, e.g., *Revell*, 317 F.3d at 473, 475 (holding that the defendant's conduct was not directed at the forum because the website article contained no references to the forum state, the forum state was not the focal point of the article or the harm suffered, and the defendant did not even know that the plaintiff was a resident of the forum state); *Pavlovich*, 29 Cal. 4th at 273 (finding that the record did not show that the defendant expressly aimed his alleged tortious conduct at or intentionally targeted the forum state). But see *Pavlovich*, 29 Cal. 4th at 288 (Baxter, J., dissenting) (arguing that personal jurisdiction was proper because "the intended injurious effects of posting DeCSS were aimed directly at [the forum state]").

specific characteristics of the defendant's website.<sup>71</sup> Because the *Calder* effects test focuses on the defendant's intended effect rather than the means used to convey the effect, the *Calder* effects test is a technology-neutral test. Thus, courts applying the *Zippo* sliding scale and the *Calder* effects test also progressed from using a technology-specific test to a technology-neutral one.

### III. ANALYSIS OF ASSERTING PERSONAL JURISDICTION BASED ON INTERNET ACTIVITIES

Courts have traveled in a full circle in deciding which personal jurisdiction test to apply to Internet activities. First, courts applied traditional personal jurisdiction tests.<sup>72</sup> Next, courts adopted the *Zippo* sliding scale, a personal jurisdiction test tailored to the Internet.<sup>73</sup> Finally, courts modified the *Zippo* sliding scale to include an element of "something more."<sup>74</sup> The "something more" requirement, whether determined via other forum-related contacts or effects of the defendant's conduct, focused on the substance of the defendant's activity rather than the means through which the activity is conducted.<sup>75</sup> Although courts behaved as though they were applying an Internet-tailored test, they had in fact gone back to using the traditional personal jurisdiction test.

The courts' return to the traditional personal jurisdiction tests presents a puzzle. On the one hand, the Internet-tailored test was crafted because of the perceived inadequacies of the traditional test when applied to this new technology. Courts immediately adopted the *Zippo* sliding scale,<sup>76</sup> and it has served as a basis for almost every personal jurisdiction case involving

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71. See Michael A. Geist, *Is There a There There? Toward Greater Certainty for Internet Jurisdiction*, 16 BERKELEY TECH. L.J. 1345, 1371-72 (2001) ("[R]ather than examining the specific characteristics of a website and its potential impact, courts focused their analysis on the actual effects that the website had in the jurisdiction.").

72. For cases where the court held that the existence of an Internet website signaled the defendant's intent to reach all Internet users and thus evidenced the defendant's purposeful availment of the benefits of the forum state, see *Maritz, Inc. v. CyberGold, Inc.*, 947 F. Supp. 1328 (E.D. Mo. 1996), and *Inset Systems, Inc. v. Instruction Set, Inc.*, 937 F. Supp. 161 (D. Conn. 1996). However, the court in *Bensusan I*, 937 F. Supp. 295 (S.D.N.Y. 1996), held the opposite.

73. See *supra* note 53 and accompanying text.

74. See *supra* Part II.C.

75. See *id.*

76. See *supra* note 53 and accompanying text.

Internet activity.<sup>77</sup> Yet, courts have modified the Internet-tailored test in such a way that it is in essence the traditional test, effectively returning to tradition despite the efforts made to craft a technology-specific test.

This Part argues that courts are correct to return to the traditional personal jurisdiction tests for Internet-related suits. While the Internet, in its infancy, may have appeared to present novel jurisdictional problems irresolvable through existing methods, in fact the Internet is not so unique and different that it requires a tailored test. Moreover, the traditional tests are technology-neutral, can be applied even when the technology evolves, and best preserve the underlying reasons for limiting courts in their exercise of personal jurisdiction. Finally, even if a new test equally addressed these concerns, the traditional tests benefit from their ubiquity; courts understand them and their application, and they trust their results.

#### A. The Traditional Tests are Well-Developed and Familiar to Courts

The very prevalence of the traditional tests favors their application to the Internet. Courts are familiar with the traditional tests because they have been using the tests for many years.<sup>78</sup> In addition, most courts have encapsulated the “minimum contacts” test into a three-element test which requires purposeful availment, relatedness, and reasonableness.<sup>79</sup> As a result, the jurisprudence regarding the traditional tests is also well-developed. The familiarity and comfort the courts have with using the traditional personal jurisdiction tests means that courts are more efficient and predictable in their application of the test. Moreover, the parties to the suit are also familiar with the traditional tests, and thus know what and how the test will be applied. The result is the minimization of transactional costs and confusion associated with litigating a new test or re-forming an old test.<sup>80</sup>

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77. Draughdrill, *supra* note 7, at 1222-23 (“Adopted to some extent by virtually every court that has addressed the assertion of personal jurisdiction via Internet contacts, the sliding scale test is the foundation of nearly every Internet jurisdictional analysis.”).

78. The minimum contacts test, which is the basis for modern personal jurisdiction, was first enunciated in 1945. *See Int’l Shoe Co. v. Washington*, 326 U.S. 310 (1935). One of the last Supreme Court cases that dealt with personal jurisdiction was in 1987. *See Asahi Metal Indus. Co. v. Superior Court*, 480 U.S. 102 (1987).

79. *See Zembeck*, *supra* note 6, at 352-53 (summarizing the three-element test for asserting personal jurisdiction based on minimum contacts).

80. *Id.* at 367. A sterling example of the problems courts can have in applying a new test is the adoption of the *Zippo* sliding scale. “As formulated and developed, *Zippo* provides little guidance for determining how to deal with [interactive] sites. . . . It does not specify how much interactivity or commercialism suffices, nor even how those two char-

One could argue, however, that the traditional tests are not familiar and well-developed enough to warrant their application to the Internet.<sup>81</sup> A prime example is the conflicting results in early cases involving Internet activity. Some courts broadly asserted personal jurisdiction whenever and wherever the defendant's Internet contacts reached, whether commercial or by posting a website,<sup>82</sup> while other courts refused to exercise personal jurisdiction based on similar facts.<sup>83</sup>

But the differing results in early Internet cases did not occur because of a misunderstanding or misapplication of the traditional tests. Rather, the results arose from a mischaracterization of the Internet. Courts analogized the Internet to other forms of communication, such as radio and television, and found that the purposeful availment via an Internet webpage was more persistent because "once posted on the Internet . . . the advertisement is available continuously to any Internet user."<sup>84</sup> Courts did not take into account the fact that Internet users had to actively seek the websites and thus the defendant did not always direct his website towards the forum state. Once courts better understood the characteristics and the capabilities of the Internet,<sup>85</sup> they had little trouble applying the tests.

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acteristics ought to interact." Note, *supra* note 14, at 1834 (footnotes omitted). As a result, courts have reached different conclusions when applying the *Zippo* sliding scale to interactive websites. The court in *Millennium Enterprises, Inc. v. Millennium Music, LP*, detailed that:

[S]ome courts find that an interactive [website] alone is sufficient to establish minimum contacts. Others find minimum contacts through additional non-Internet activity in the forum, regardless of whether the activity is related to the underlying claim. Finally, some courts require additional conduct in the forum that is related to the plaintiff's cause of action.

33 F. Supp. 2d 907, 916-17 (D. Or. 1999). Thus, the test is not predictable and courts are unfamiliar with its application.

81. Katherine C. Sheehan, *Predicting the Future: Personal Jurisdiction for the Twenty-First Century*, 66 U. CIN. L. REV. 385, 393 (1998) ("Unfortunately, the [Supreme Court Justices'] utter lack of agreement about . . . the reasons why any particular exercise of jurisdiction is or is not permitted, makes the doctrine exceedingly difficult to apply to new and unforeseen situations, such as transactions occurring in whole or in part in cyberspace."); *id.* at 385-86 ("[Personal jurisdiction doctrine] is inconsistent in that various formulae and factors prescribed to determine jurisdiction do not serve the doctrine's articulated purposes.").

82. *See* *Maritz, Inc. v. CyberGold, Inc.*, 947 F. Supp. 1328 (E.D. Mo. 1996); *Inset Sys., Inc. v. Instruction Set, Inc.*, 937 F. Supp. 161 (D. Conn. 1996).

83. *See* *Bensusan I*, 937 F. Supp. 295 (S.D.N.Y. 1996).

84. *Inset*, 937 F. Supp. at 165.

85. For example, compare *Millennium*, 33 F. Supp. 2d at 914 ("Unlike newspaper, mailing, radio, television and other media containing advertisements and solicitations,

Moreover, even after courts enunciated and adopted an Internet-tailored personal jurisdiction test, courts gravitated back to the traditional test. The *Zippo* sliding scale based the assertion of personal jurisdiction on the direct proportionality of a website's interactivity.<sup>86</sup> However, the addition of the "something more" requirements minimizes the importance of the website's interactivity and emphasizes the importance of purposeful availment.<sup>87</sup> These "new" additions to *Zippo* should look familiar; they are characteristics of the traditional test. Thus, even after creating and adopting a new, Internet-specific personal jurisdiction test, courts, either unwittingly or purposefully, returned to what is familiar and well-developed: the traditional personal jurisdiction test.

### **B. The Traditional Tests are Technology-Neutral and Can be Applied Even When Technology Changes**

An advantage of a technology-specific test is that it is crafted to fit the technology in question. As a result, courts do not have to struggle to twist the characterization of the technology, or create ill-fitting analogies, in order to apply the traditional tests.<sup>88</sup> However, the disadvantages of a technology-specific test, especially when crafted to the ever changing Internet, outweigh its advantages. Because the traditional tests are technology-

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most Internet advertisements and solicitations are not directed at a [sic] specific geographic areas or markets; to the contrary, advertising on the Internet targets no one in particular and everyone in particular in any given geographic location."), which was decided in 1999, with *Maritz*, 947 F. Supp. at 1333 ("Clearly, [the defendant] has obtained the website for the purpose of, and in anticipation that, internet users, searching the internet for websites, will access [its] website . . . . [The defendant's] intend is to reach all internet users, regardless of geographic location."), which was decided in 1996.

86. See *Zippo Mfg. Co. v. Zippo Dot Com, Inc.*, 952 F. Supp. 1119, 1124 (W.D. Pa. 1997).

87. See *Toys 'R' Us, Inc. v. Step Two, S.A.*, 318 F.3d 446, 452 (3d Cir. 2003); *Panavision Int'l, L.P. v. Toeppen*, 141 F.3d 1316 (9th Cir. 1998) (requiring "something more" to demonstrate that the defendant directed his activity toward the forum state"); *Cybersell, Inc. v. Cybersell, Inc.*, 130 F.3d 414 (9th Cir. 1997) (invoking the "passive" and "interactive" website language of the sliding scale but looking for "something more"); *Millennium Enters., Inc. v. Millennium Music, LP*, 33 F. Supp. 2d 907, 921 (D. Or. 1999).

88. See Kendrick D. Nguyen, Note, *Redefining the Threshold for Personal Jurisdiction: Contact and the Presumption of Fairness*, 83 B.U. L. REV. 253, 272 (2003) ("Rather than vainly forcing the *International Shoe* approach to cope with new issues caused by social and technological advancement, or hopelessly mending society to conform to the outdated rule, we need a new method of jurisdictional analysis to address modern issues.").

neutral, they can be applied to new changes in technology.<sup>89</sup> Consequently, courts and parties are able to rely on familiar and well-developed tests when encountering new situations.

Technology-specific tests risk becoming outdated when the technology changes.<sup>90</sup> The *Zippo* sliding scale is a prime example of the advantages of a technology-neutral test, such as the traditional personal jurisdiction tests, and the disadvantages of a technology-specific test. At the time the sliding scale was created, most websites could be classified either as passive or commercial. However, the majority of websites today fall within the “interactive” part of the scale.<sup>91</sup> One example is the use of pop-up ads on passive websites that only make information available. Another example is the use of cookies to facilitate the user’s transaction, whether reading the information on the website or conducting business with the website.<sup>92</sup> Because the “interactive” part of the test gives little guidance, courts and litigants still have little certainty about what Internet activities qualify as minimum contacts;<sup>93</sup> this defeats the purpose of having a technology-specific test such as the sliding scale. Moreover, the sliding scale does not work in all instances. Under the sliding scale, courts are inclined to dismiss for lack of personal jurisdiction if a defendant’s website does “little

89. See *id.* at 1359; Zembeck, *supra* note 6, at 342 (“Existing jurisdictional jurisprudence, however, contains conceptually similar paradigms that should properly apply when novel jurisdictional scenarios arise from a non-resident defendant’s isolated electronic contacts with a particular forum.”).

90. See Geist, *supra* note 71, at 1359. Geist observes that:

Since technological change is constant, standards created with specific technologies in mind are likely to become outdated as the technology changes. In the context of Internet jurisdiction, using indicia that reflect the current state of the Internet and Internet technologies is a risky proposition since those indicia risk irrelevancy when the technology changes.

*Id.*

91. See *id.* at 1379.

92. See, e.g., *id.* (“[S]ites that feature content best characterized as passive, may actually be using cookies or other data collection technologies behind the scenes unbeknownst to the individual user. Given the value of personal data, its collection is properly characterized as active, regardless of whether it occurs transparently or surreptitiously.”).

93. See *id.* (“With many sites falling into this middle one, their legal advisors are frequently unable to provide a firm opinion on how any given court might judge the interactivity of the website.”); Bales & Van Wert, *supra* note 63, at 32 (“The sliding scale of *Zippo*, although widely used, still falls short of supplying the courts with a means of assessing the true nature of Web site [sic] activity.”); Note, *supra* note 14, at 1834 (“As formulated and developed, *Zippo* provides little guidance for determining how to deal with [interactive] sites.”).

more than make information available.”<sup>94</sup> This may be the case even if the defendant posted the information with the knowledge and the purpose to harm the plaintiff in the forum state, such as in defamation cases.

In addition, every time the technology-centric test had to be “updated” to reflect technological change, litigants and courts would again be uncertain as to when personal jurisdiction may apply.<sup>95</sup> The problem would be compounded especially since most of today’s technology changes rapidly.<sup>96</sup> Moreover, the problem of determining when to update the test is the exact problem faced by courts and parties with regard to updating personal jurisdiction tests to fit the Internet: determining whether courts are utilizing the traditional tests, the *Zippo* sliding scale, or the *Zippo* sliding scale with the “something more” requirements.

### C. The Traditional Tests Best Preserve the Interests Behind Limiting the Exercise of Personal Jurisdiction

The Supreme Court has stated that if a certain minimum threshold of contact is not met, a court cannot obtain personal jurisdiction even though the defendant’s burden of defending in the foreign forum is minimal.<sup>97</sup> The traditional personal jurisdiction tests have been crafted to protect the defendant against the burden of defending a suit in a foreign jurisdiction and to prevent states from encroaching upon other states’ sovereignty.<sup>98</sup>

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94. See *Zippo Mfg. Co. v. Zippo Dot Com, Inc.*, 952 F. Supp. 1119, 1124 (W.D. Pa. 1997).

95. Geist writes,

[I]t is important to note that the standards for what constitutes an active or passive website are constantly shifting. When the [*Zippo*] test was developed in 1997, an active website might have featured little more than an email link and some basic correspondence functionality. Today, sites with that level of interactivity would be viewed as passive . . . . In fact, it can be credibly argued that owners of websites must constantly re-evaluate their position on the passive versus active spectrum as web technology changes.

Geist, *supra* note 71, at 1379-80.

96. *Id.* at 1380. Geist notes,

In light of the ever-changing technological environment . . . , the effectiveness of the *Zippo* doctrine is severely undermined no matter how it develops. If the test evolves with the changing technological environment, it fails to provide much needed legal certainty. On the other hand, if the test remains static to provided increased legal certainty, it risks becoming irrelevant . . . .

*Id.*

97. *Hanson v. Denckla*, 357 U.S. 235, 252 (1958).

98. See the discussion in Part I.C *supra*.

These important values should not be dismissed simply because the defendant chooses to use the Internet as his means of communication.

Finding personal jurisdiction wherever the defendant's Internet contacts reach, whether the contact is commercial or simply the posting of a website, endangers these interests in two ways. First, it is not always true that someone who posts a website intends to communicate to all users in all jurisdictions.<sup>99</sup> Second, this approach reaches dangerously towards the foreseeability approach the Supreme Court has rejected.<sup>100</sup> The automobile, for instance, is designed with the intent to take driver anywhere and everywhere the automobile can be driven, and thus the producer could "foresee" its products reaching any forum. Yet, the Supreme Court expressly rejected the idea that the sale of an automobile signaled the seller's intent to establish contacts with any jurisdiction.<sup>101</sup> Similarly, the ubiquity of the Internet should not render the website owner subject to suit in every jurisdiction the website reaches.

There is also an argument that being subject to suit in every jurisdiction the Internet reaches should be a cost of conducting Internet activities. However, asserting personal jurisdiction on that broad basis guts the purposes of personal jurisdiction—protecting defendant's individual rights and preventing states from overextending their boundaries—because every jurisdiction is reachable via the Internet.<sup>102</sup>

#### D. The Internet Does Not Require a Tailored Test

Finally, for the purposes of determining minimum contacts, activities conducted via the Internet are no different than activities conducted in real space.<sup>103</sup> That is, Internet activities "involve real people in one territorial jurisdiction either (i) transacting with real people in other territorial jurisdictions or (ii) engaging in activity in one jurisdiction that causes real-

99. See *Millennium Enters., Inc. v. Millennium Music, LP*, 33 F. Supp. 2d 907, 914 (D. Or. 1999) (stating that Internet advertising and soliciting is not necessarily directed at a specific geographic area).

100. See *Asahi Metal Indus. Co. v. Superior Court*, 480 U.S. 102, 112 (1987) (O'Connor, J., plurality); *World-Wide Volkswagen Corp. v. Woodson*, 444 U.S. 286, 295 (1980). *But see Asahi*, 480 U.S. at 117 (Brennan, J., plurality).

101. See *World-Wide Volkswagen*, 444 U.S. at 295.

102. See *Hanson*, 357 U.S. at 250-51 (warning that technological progress did not and would not "herald[] the eventual demise of all restrictions on the personal jurisdiction of state courts" because the restrictions not only relieved a defendant's burden from litigating in a foreign forum but they also posed "territorial limitations on the power of the respective States").

103. Jack L. Goldsmith, *Against Cyberanarchy*, 65 U. CHI. L. REV. 1199, 1239 (1998).

world effects in another territorial jurisdiction.”<sup>104</sup> Since cyberspace does not exist separate and apart from the physical world,<sup>105</sup> traditional personal jurisdiction tests are not so outmoded that they cannot be applied to the Internet.

The traditional personal jurisdiction tests have been criticized for being inadequate because the existing rules rely on physical territorial borders, whereas the Internet has no boundaries,<sup>106</sup> and because the existing rules do not change quickly, whereas the Internet changes rapidly.<sup>107</sup> This inadequacy is evidenced by the creation of a technology-specific test in response to the dissatisfying results obtained in applications of the existing tests to early Internet cases.<sup>108</sup> Thus, because existing personal jurisdiction tests do not understand the Internet and cannot keep up with it, the Internet “needs and can create its own law and legal institutions” separate from laws and legal institutions of laws based on geographic boundaries.<sup>109</sup>

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104. *Id.* at 1239-40.

105. Zembek, *supra* note 6, at 367. For an argument to the contrary, see David R. Johnson & David Post, *Law and Borders—The Rise of Law in Cyberspace*, 48 STAN. L. REV. 1367, 1378 (1996). Johnson and Post argue that

[t]he law has in essence presumed that the activities conducted by these regulated persons cannot be performed without being tied to a physical body or building subject to regulation by the territorial sovereign authority, and that the effects of those activities are most distinctly felt in geographically circumscribed areas. These distinctly local regulations cannot be preserved once these activities are conducted by globally dispersed parties through the Net.

*Id.* at 1378. *But see* Frank H. Easterbrook, *Cyberspace and the Law of the Horse*, 1996 U. CHI. LEGAL F. 207, 210 (1996) (“Most behavior in cyberspace is easy to classify under current property principles.”).

106. *See, e.g.*, Johnson & Post, *supra* note 105, at 1367 (“Global computer-based communications cut across territorial borders, creating a new realm of human activity and undermining the feasibility—and legitimacy—of laws based on geographic boundaries. . . . [A] new boundary defines a distinct Cyberspace that needs and can create its own law and institutions.”).

107. *See, e.g.*, Nguyen, *supra* note 88, at 274 (“As modern technological advancement opens up a new world of interaction, it also opens up a new level of jurisdictional complication unfathomed by the *International Shoe* court.”).

108. *Compare* *Inset Sys., Inc. v. Instruction Set, Inc.*, 937 F. Supp. 161 (D. Conn. 1996) (asserting personal jurisdiction because defendant’s website could be accessed in the forum state), *with* *Zippo Mfg. Co. v. Zippo Dot Com, Inc.*, 952 F. Supp. 1119 (W.D. Pa. 1997) (stating that a defendant’s passive website is not sufficient a contact to assert personal jurisdiction over the defendant).

109. *See* Johnson & Post, *supra* note 105, at 1367. Some scholars argue that only minor changes in personal jurisdiction doctrine are necessary in order for the tests to be adequately applied to the Internet. *See* Burk, *Jurisdiction*, *supra* note 7; Geist, *supra* note 71; Note, *supra* note 14. Another scholar goes even further by advocating that the entire

However, even though the traditional tests were crafted with geographical boundaries in mind, they nonetheless can be applied to Internet activity because the tests focus not only on physical boundaries but also on physical *actions*. Under the traditional analysis, a defendant must act in some way to purposefully avail herself of the benefits of the forum state. Thus, the test emphasizes the result of the defendant's action, rather than the means the defendant used to conduct her activity. Because a defendant's Internet activity can only occur through her actions in the physical world,<sup>110</sup> the traditional analysis can be used because it emphasizes the result of the defendant's Internet usage, rather than the defendant's use of the Internet.

In contrast, a technology-specific test tends to ignore the underlying *actions*. Internet interactivity is a characteristic of the website itself and not necessarily evidence of conduct directed at any particular forum.<sup>111</sup> As a result, a person purposefully avails herself of the forum state not through the medium she used, Internet or otherwise, but through her transaction or intended effect in the forum.<sup>112</sup>

Furthermore, since the traditional tests focus on the defendant's physical acts rather than the method used to carry out these acts, the tests need not change rapidly to keep up with technology. In contrast, a test crafted specifically for the Internet is prone to the second criticism, which argued that traditional tests cannot adapt quickly to match rapidly changing technology. A test crafted to today's Internet may not be adaptable to tomorrow's Internet. The *Zippo* sliding scale was created when many sites were clearly either passive or commercial. Today, many websites are a mix between passive, interactive, and commercial. Thus, the test collapses into an inquiry about the level of interactivity of the website, an inquiry that the *Zippo* sliding scale does not fully explain.<sup>113</sup>

Since a defendant's Internet activity is no different from activity in real space, the Internet is not so different that it requires the application of new or technology-specific rules. Thus, courts and litigators need not regard the Internet as an alien "place" that requires different rules. More-

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modern personal jurisdiction doctrine be changed. See Nguyen, *supra* note 88 (arguing that a completely new method to analyze modern issues of specific personal jurisdiction is necessary).

110. See Goldsmith, *supra* note 103, at 1239.

111. Jason Green, Comment, *Is Zippo's Sliding Scale a Slippery Slope of Uncertainty? A Case for Abolishing Web Site Interactivity as a Conclusive Fact in Assessing Minimum Contacts in Cyberspace*, 34 J. MARSHALL L. REV. 1051, 1076 (2001).

112. *Id.*

113. See *supra* note 52 and accompanying text.

over, because the traditional tests focus on defendant's physical acts rather than the defendant's Internet usage, it does not matter that the tests were crafted for geographical boundaries or that the tests cannot evolve as rapidly as the Internet.

#### IV. CONCLUSION

The Internet has significantly enhanced our ability to communicate—we can easily post information that can be accessed instantaneously by people worldwide. While this ability can be used for good purposes, unfortunately, it can also be used for bad purposes. Thus, a key legal issue currently facing courts is determining the courts' ability to exercise personal jurisdiction over a defendant based on the defendant's Internet activity.

Personal jurisdiction is a fairly well-settled doctrine: a court may exercise personal jurisdiction when the defendant is physically present within its territory or when the defendant has sufficient minimum contacts with the forum court such that the exercise of personal jurisdiction is reasonable. What is not well-settled is the application of personal jurisdiction doctrine to activities conducted via the Internet. Given the reach a person has through the Internet, whether by posting a website or conducting electronic commerce, a defendant could potentially be haled into court anywhere in the world based on the website's accessibility.<sup>114</sup>

Although it is tempting to think that a new and different technology such as the Internet might require a new and different personal jurisdiction test, the trend in the case law has shown otherwise. Courts initially crafted a new test specifically for the Internet, yet have now fallen back to using the existing personal jurisdiction test. This shift back to tradition has been subtle, since courts still act as if they are using a technology-specific test.

However, the traditional tests still retain several advantages when applied to Internet activities, such as being well-developed and familiar to judges, being technology-neutral and applicable even when technology changes, and best preserving the underlying policy reasons for limiting courts in their exercise of personal jurisdiction. Moreover the Internet is not so unique and different that it requires a tailored test. Thus, the courts' shift back to tradition is good because the traditional tests are still the best way for courts to determine when to assert personal jurisdiction based on Internet activity.

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114. For an example, see *Yahoo!, Inc. v. La Ligue Contre Le Racisme et L'Antisemitisme*, 169 F. Supp. 2d 1181 (N.D. Cal. 2001).

## ADDITIONAL DEVELOPMENTS—CYBERLAW

### *ACCESS NOW, INC. v. SOUTHWEST AIRLINES, CO.*

*227 F. Supp. 2d 1312 (S.D. Fla. 2002)*

The court held that Southwest Airlines, Co.'s ("Southwest") website, southwest.com, is not a "place of public accommodation" within the meaning of the American's with Disabilities Act (ADA) and that Access Now, Inc. ("Access Now") did not establish a nexus between Southwest's website and a physical, concrete place of public accommodation.

Access Now is a nonprofit organization that advocates access for disabled persons. Access Now, together with Robert Gumson, a blind individual, filed a complaint alleging that Southwest's website violated the ADA by excluding blind persons, who were unable to access the goods and services offered at the website's virtual ticket counters because of their disability. Southwest does not provide alternate text that works with a screen reader program and voice synthesizer software for the blind. Southwest moved to dismiss the complaint, arguing that southwest.com is not a place of public accommodation and therefore fell outside the scope of Title III of the ADA.

The court examined whether an Internet website is a "place of public accommodation" under the definition of the ADA. Looking to the plain language of the statute, the court noted that the statute specifically identified twelve categories of public places, and the applicable federal regulations defined a "place of public accommodation" as a physical, concrete place. Stating that a court must follow the legislative directive where Congress has specifically enumerated rights and set forth clear standards, the court refused to expand the definition to include a website, which is not a physical, concrete place. It found that the terms refer to physical, concrete structures and do not apply to an Internet website. Accordingly, the court rejected Access Now's argument that southwest.com is a place of "exhibition, display and a sales establishment" and therefore within the scope of Title III of the ADA. The court also stated that the website was not a means for accessing a physical accommodation, unlike the fast finger telephone selection process used in the game show in *Rendon v. Valleycrest Productions, Ltd.*, 294 F.3d 1279 (11th Cir. 2002). Since Access Now failed to demonstrate a nexus between the website and a physical, concrete place, the court granted Southwest's motion to dismiss the complaint.

***ALLEN V. COMMISSIONER OF LABOR****100 N.Y.2d 282 (2003)*

The New York Court of Appeals held that physical presence determines the state in which an interstate telecommuter would be eligible for unemployment insurance benefits.

Maxine Allen was employed with Reuters America, Inc. ("Reuters"). Initially, she both resided and worked in New York City, where Reuters was based, but she later relocated to Florida. Reuters allowed Allen to "telecommute," or link via the Internet to the New York office, though she was still required to adhere to all of the same policies as an employee who was localized in New York. During this time, Allen traveled to the New York office only once for a period two weeks. Reuters offered her a job in the New York office, but Allen declined. She filed a claim for unemployment insurance benefits in Florida, but her claim was denied on the grounds that Allen had quit her job without good cause. Allen then filed an interstate claim for New York unemployment insurance benefits and received \$365 per week. Six months later, the New York Commissioner concluded that Allen's employment was localized in Florida. Furthermore Allen was charged \$8,395 (the amount she had received as a result of her false statement that she worked at her employer's New York address). The Unemployment Insurance Appeal Board upheld the findings.

The New York Court of Appeals affirmed the Board's decision. The court reviewed the case *de novo* and held that the matter was one of pure statutory reading and analysis. The court read the definition of employment to mean that an individual's work will be localized in the place where most of his or her work was done despite any incidental, temporary or transitory work that was done outside of that state. Relying on *In re Mallia*, 299 N.Y. 232 (1949), the court explained that section 511 of the New York Labor Law sets out four tests to define employment: localization, location of base of operations, source of direction or control, and employee's residence. The court held that physical, and not virtual, presence would continue to be used as the indicator of workplace location. New York and most other states have adopted this uniform definition of employment with the goal of creating uniformity among the states and ending uncertainty in the application of state unemployment compensation rules. The court also found that a claimant's false statement of fact, even if unintentional, permitted the recovery of benefits already received due to the false statement.

***AMERICA ONLINE, INC. v. NAM TAI ELECTRONICS, INC.***

*571 S.E. 2d 128 (Va. 2002)*

The Supreme Court of Virginia ordered America Online, Inc. (“AOL”) to reveal the identity of a subscriber who posted allegedly false and defamatory information about Nam Tai Electronics (“Nam Tai”) on a Yahoo! chat board. The order honored a subpoena order stemming from Nam Tai’s pending action in California state court for violation of California’s unfair business practices law. Despite AOL’s motion to quash the subpoena, the Virginia Supreme Court ruled that enforcing the subpoena does not violate principles of comity.

Nam Tai’s complaint, filed in Los Angeles County Superior Court, accused fifty-one unknown individuals of posting “false, defamatory, and otherwise unlawful messages” on a message board devoted to discussing Nam Tai’s publicly traded stock. Nam Tai sought to discover the identity of the subscriber who used the Yahoo! login name “scovey2” to post messages disparaging the value of the company and its products. Based on information revealed by Yahoo! under a California subpoena *duces tecum*, Nam Tai matched the login “scovey2” to a specific AOL subscriber. Nam Tai next sought and obtained a commission for out-of-state discovery and demanded that AOL reveal scovey2’s identity.

In response, AOL filed a motion in the Circuit Court of Loudoun County, Virginia, to quash Nam Tai’s subpoena *duces tecum*, based on concerns regarding the “well-established First Amendment right to speak anonymously” and Nam Tai’s alleged failure to demonstrate that its California action was legally viable. The Virginia trial court refused to quash the subpoena, and AOL appealed to the Virginia Supreme Court, which applied an abuse of discretion standard to affirm the lower court’s action.

The court stated that the important question is whether the substantive law of the foreign jurisdiction is “reasonably comparable to that of Virginia.” AOL argued that the *ex parte* nature of the proceedings in California against the John Doe defendants produced a “superficial” judgment that “was not the product of a full-fledged, adversarial consideration of the First Amendment issues at the core of this matter.” Nonetheless, the Virginia Supreme Court held that the Virginia trial court had not erred in honoring the California court’s order to reveal the unknown subscriber’s identity. The court concluded that the California court’s commission for out-of-state discovery was entitled to comity because the First Amendment concerns applicable to California law are the same concerns applicable to Virginia law and are for the California courts, not the Virginia courts, to determine.

While the court’s reasoning focuses on the doctrine of comity, the denial of AOL’s motion to quash the subpoena *duces tecum* raises important policy concerns. As AOL argued, protecting anonymous speech is a well-established value. Although the court admitted that John Doe cases present awkward pleading problems, it found that the *ex parte* nature of the proceeding is not detrimental enough to thwart otherwise legitimate out-of-state discovery.

In future cases, these First Amendment concerns may play a more prominent role at the trial court level of the original action. However, *Nam Tai* illustrates that, barring abuse of discretion, comity probably requires courts to honor such subpoenas until a state changes its own commission for out-of-state discovery.

***ARONSON V. BRIGHT-TEETH NOW, LLC***  
*824 A.2d 320 (Pa. Super. Ct. 2003)*

***MISSOURI V. AMERICAN BLAST FAX, INC.***  
*323 F.3d 649 (8th Cir. 2003)*

***CALIFORNIA ANTI-SPAM LEGISLATION***

*A.B. 1769 (2002), A.B. 2944 (2002), S.B. 1560 (2002), S.B. 186 (2003)*

Several significant court decisions and legislative developments have taken place regarding the regulation of spam. They stem from the Telephone Consumer Protection Act of 1991 ("TCPA"), 47 U.S.C. § 227 (2000). The TCPA was intended primarily to restrict the use of prerecorded messages in telemarketing and to preclude marketers from sending advertisements to fax machines.

In *Aronson v. Bright-Teeth Now LLC*, the Superior Court of Pennsylvania held that the TCPA does not extend to unsolicited e-mails. Aronson sued a company that sent him unsolicited e-mails and alleged a violation of the TCPA's prohibition on junk faxes. The plaintiff asserted that his personal computer, through the use of a modem and printer, met the statutory definition of "facsimile machine." The appellate court affirmed the dismissal of the claim. It relied on standard principles of statutory construction and distinguished computer from fax machines. Whereas fax machines transcribe messages instantly, computers store messages for users to delete unopened, read the message later, or print the message. Since a personal computer could not be defined as a "fax machine" under the TCPA, the court ruled that the TCPA did not apply and that the trial court properly dismissed the complaint.

The TCPA fared better in *Missouri v. American Blast Fax*. The Eighth Circuit held that the unsolicited fax provisions do not violate the First Amendment. The State of Missouri sued two fax advertisement companies for violating the TCPA's prohibition on junk faxes. The district court dismissed the claim, finding that the junk fax provisions of the TCPA violated the First Amendment guarantee of freedom of speech. Missouri appealed, and the United States intervened.

The Eighth Circuit reversed. The court applied the *Central Hudson* test, which governs the constitutionality of regulations of commercial speech. Under the test, the court asks four questions: whether (1) the commercial speech is unlawful or misleading; (2) the government has a substantial interest in regulating the commercial speech; (3) the regulation directly advances the government interest; and (4) the regulation is narrowly tailored. *Central Hudson Gas & Elec. Corp. v. Pub. Serv. Comm'n*, 447 U.S. 557 (1980). Both parties conceded the lawfulness of the commercial speech in the first prong, which is a threshold question. The court found the TCPA's legislative history and the evidentiary hearings at trial sufficiently showed the government's substantial interest in preventing advertisers from shifting the costs of junk faxes to recipients and placing "interference" upon recipients. The court also concluded that the TCPA directly promoted the government interest, without undue extension. Finally, the court countered the assertion that the relevant provision was overbroad, distinguishing cases that had overturned regulations that sought to protect the public from the content of the speech, to implement policies

unrelated to the speech, or that were so broad as to “constitute nearly a complete ban on the communication of truthful information” about a commercial product.

Since Congress is justified in relying on as little as “simple common sense” in distinguishing between various types of speech, the TCPA’s distinction between commercial and noncommercial fax advertising was justified in the view of the court; the distinction is relevant to the TCPA’s goal of reducing costs and interference associated with unwanted faxes. Moreover, while the TCPA also distinguishes between unsolicited fax advertisements and live telemarketing calls, this is consistent with the TCPA’s goal of protecting the public from bearing the costs of unwanted advertising. Although the TCPA generally permits telemarketing calls unless a consumer has registered his or her objection, calls are prohibited when they result in costs to the recipient. Calls made to pagers or cellular phones fall under this prohibition. The court held that the TCPA’s junk fax provision satisfied the constitutional test for regulation of commercial speech and, therefore, withstood First Amendment scrutiny.

The Eighth Circuit’s holding immediately led to speculation that the principles relied upon by the court could readily be extended to support the constitutionality of federal legislation regulating e-mail spam. Congress passed such legislation, passing the Controlling the Assault of Non-Solicited Pornography and Marketing Act of 2003 (CAN-SPAM Act), Pub. L. No. 108-187, 117 Stat. 2699, and the law went into effect on January 1, 2004. This Act requires unsolicited commercial e-mail to be properly labeled and to include opt-out instructions and the sender’s physical address, and proscribes deceptive subject lines and false headers. It also authorizes the FTC to establish a national “do not e-mail” register. The Act preempts state laws requiring labels on unsolicited commercial e-mail or prohibiting such messages, but laws merely addressing falsity and deception remain in force.

California recently has passed significant legislation in order to protect consumers. Assembly Bill 2944, 2002 Legis., Reg. Sess. (Cal. 2002), repeals California’s relatively weak “opt-out” junk fax law, while making clear that the TCPA’s stronger “opt-in” junk fax provisions apply within the state. Assembly Bill 1769, 2002 Legis., Reg. Sess. (Cal. 2002), generally prohibits the transmission of unsolicited advertisements through text-messaging systems used on cellular phones and other mobile devices registered to California residents. California also changed its “do not call” law: starting in April 2003, Californians become eligible to add their phone numbers to the “do not call” list, which telemarketers must buy from the attorney general’s office and may be fined for violating. S.B. 1560, 2002 Legis., Reg. Sess. (Cal. 2002). California had passed Senate Bill 186 in early 2003, which would have made it illegal to send unsolicited commercial e-mail from California or to a California e-mail address, but the CAN-SPAM Act pre-empts it and provides weaker protection against spam.

While the TCPA’s regulation of junk faxes appears strengthened, it remains to be seen whether the CAN-SPAM Act of 2003 will be efficacious or, if challenged, will withstand First Amendment or other challenges. Although federal e-mail spam regulation was long-anticipated, many have already contended that the CAN-SPAM Act will be of little utility compared to stronger laws, such as S.B. 186, requiring consumers to “opt-in” for such e-mails. Unsolicited commercial advertising will likely to continue to be a source of judicial and legislative developments.

***KREMEN V. COHEN****337 F.3d 1024 (9th Cir. 2003)*

The Ninth Circuit held that under California law a domain name is a type of intangible property protected by the tort of conversion.

Kremen registered the domain name "sex.com" to Online Classifieds, Inc. ("OCI") with the registrar Network Solutions, Inc. ("NSI"). He did not develop the website. Eighteen months later, NSI received a letter that purported to be from OCI. The letter requested that NSI cancel Kremen's registration and allow Cohen to register the domain name. NSI accepted the letter without question and transferred "sex.com" to Cohen, who created a profitable Internet-based pornography business. When Kremen discovered the transfer, he demanded that NSI correct the false registration, but NSI said it could not do so without a court order. Kremen sued Cohen in federal court for damages and to recover the sex.com registration. The district court found the letter to be a forgery, ordered NSI to transfer sex.com back to Kremen, and awarded Kremen \$65 million in damages. Unable to enforce the \$65 million judgment against Cohen, who became a fugitive, Kremen sued NSI under contract and tort theories, including the tort of conversion. The district court granted summary judgment to NSI on all of Kremen's claims. Kremen appealed.

Citing the impropriety of a federal court ruling first on an issue of state tort law, the Ninth Circuit certified two questions to the California Supreme Court: (1) whether California conversion law requires an intangible property right to be "merged" with a document and if so, (2) whether the tort protects Internet domain names. *Kremen v. Cohen*, 325 F.3d 1035 (9th Cir. 2003). The California Supreme Court declined. *Kremen*, 2003 Cal. LEXIS 1342, No. S112591 (Cal. Feb. 25, 2003). The Ninth Circuit then ruled on the issues.

The court affirmed the dismissal of the contract claims. However, it reversed on the tort claims. The Restatement (Second) of Torts § 242 (1965) has a strict merger requirement, but the Ninth Circuit noted that the majority of cases in California do not follow the Restatement. The court stated that if such a requirement exists at all, it is minimal. The intangible property only needs some connection to a document or tangible object. The court found that Kremen's domain name was connected with the Domain Name System (DNS), a record of who owns each domain name, and that the DNS is a document. The court found it immaterial that the DNS stored ownership data in electronic form because California law already protected information stored on floppy discs, audio records, and magnetic tape. Drawing an analogy to shares of stock (protected intangible property), the court found it immaterial that the DNS is a collection of databases that are updated regularly and held that intangible property does not have to be merged with a single, static document.

The court also concluded that the district court's policy rationales were insufficient to bar the tort of conversion. The Ninth Circuit stated that further regulation would be desirable if it would prevent a company from handing away someone else's property. In addition, though the tort has a strict liability standard, the court believed that no liability would be worse. Finally, the court stated that the question may be better left to the legislature, but common law applies until the legislature determines otherwise.

***EF CULTURAL TRAVEL BV v. ZEFER CORP.****318 F.3d 58 (1st Cir. 2003)*

The First Circuit held that the “reasonable expectations” test is inappropriate for determining lack of authorization under the Computer Fraud and Abuse Act (“CFAA”). A software maker, though it was not named in the ordering language of the preliminary injunction against its client, is bound by the injunction. Moreover, the injunction does not violate the defendant’s First Amendment rights.

Former employees of EF Cultural Travel BV (“EF”) founded Explorica, Inc. and hired Zefer Corporation (“Zefer”) to write a computer program (a “scraper tool”) that would collect two years of pricing information from EF’s website. After downloading the data into a spreadsheet, Explorica then set prices about five percent lower than EF’s quotes. When Explorica sued EF in an unrelated action for back wages, EF learned of the scraping tool during discovery. EF then sued Explorica, some of Explorica’s employees, and Zefer in federal court. EF alleged violations of the Copyright Act and the CFAA. The district court denied EF’s copyright claims. However, the district court applied a provision of the CFAA that prohibits access of a protected computer with the intent to defraud and granted a preliminary injunction against all defendants, who all appealed. The First Circuit upheld the injunction against Explorica, but Zefer’s appeal was automatically stayed after it filed for bankruptcy. Zefer reactivated its appeal after the stay was lifted.

The First Circuit affirmed the district court, but narrowed the grounds for the injunction against Zefer. The court rejected EF’s arguments that Zefer breached confidentiality agreements, since Zefer and EF had not entered into such an agreement. The court also found that the information used in creating the scraper was publicly available, and it was uncertain whether Zefer knew that this information was improperly obtained by Explorica. Zefer did not contest the fraud element, so the issue before the First Circuit was whether Zefer lacked authorization to use the scraper. The First Circuit agreed with the district court that a lack of authorization may be implicit instead of explicit, but rejected the test that the lower court applied. It reasoned that it is far simpler for companies to explicitly forbid certain uses and accesses than to burden the public with lengthy, imprecise litigation about “reasonable expectations.” Therefore, the court concluded that website providers should state what “non-password protected access they purport to forbid.”

Nonetheless, the court did not vacate the preliminary injunction against Zefer. Although the district court did not name Zefer in its order, the Eighth Circuit ruled that the injunction precludes anyone with notice, including Zefer, from aiding or acting on behalf of Explorica in violating the decree. Finally, the court noted that the injunction does not forbid the general use of scrapers, but merely restrains Zefer from helping Explorica exploit confidential information. Accordingly, the court held that the injunction does not violate the First Amendment. Thus, it upheld the injunction.

## *PAVLOVICH V. SUPERIOR COURT*

*58 P.3d 2 (Cal. 2002)*

In *Pavlovich v. Superior Court*, a California-based plaintiff sued a defendant who had never been to California and had never conducted business in California, but who had posted information on an Internet website that reached Californians. The California Supreme Court determined that under the particular facts of the case, the trial court could not properly exercise personal jurisdiction over the defendant.

The DVD Copy Control Association, Inc. ("DVD CCA") is a Delaware-based non-profit trade association with its principal place of business in California. Created in December 1998 by the DVD industry, DVD CCA controls and administers licensing of Content Scrambling System ("CSS") technology, a system that encrypts and protects copyrighted motion pictures on DVDs. DVD CCA began administering the licenses in December 1999. Soon thereafter, it acquired the licensing rights to the CSS technology and became the sole licensing entity for this technology in the DVD video format. Defendant Mathew Pavlovich ("Pavlovich") is the president of Media Driver, LLC, a technology consulting company in Texas. Pavlovich is a resident of Texas, and lived in Indiana prior to moving to Texas. In addition, he does not work in California and has not solicited any business in California.

While in Indiana, Pavlovich was the founder of a project to improve video and DVD support for the GNU/Linux operating system. To achieve this goal, the project sought to defeat the CSS technology and thus enable the playback of DVDs on GNU/Linux-based computers. Pavlovich posted the source code of DeCSS, which allows users to decrypt data contained on DVDs, on the project website around October 1999. Pavlovich knew that DeCSS that it was derived from CSS algorithms and that reverse engineering the algorithms was probably illegal.

In late 1999, DVD CCA filed a complaint in California against Pavlovich and other defendants for misappropriation of trade secrets. The complaint alleged that Pavlovich, by posting the DeCSS program, had repeatedly published DVD CCA's trade secrets and copyrighted material on the Internet. Pavlovich protested that the California courts lacked jurisdiction over him. After the state trial and appellate courts ruled against him, Pavlovich appealed to the California Supreme Court.

The court stated that the test for determining specific jurisdiction over a nonresident defendant had three prongs: (1) whether "the defendant has purposefully availed himself or herself of forum benefits"; (2) whether the suit is related to or arises out of the defendant's contact with the forum; and (3) whether "the assertion of personal jurisdiction would comport with fair play and substantial justice." The court focused on the first prong, and found that posting information on a passive website on the Internet was not, in itself, "purposeful availment" sufficient to subject Pavlovich to jurisdiction in California. Instead, DVD CCA was required to show that Pavlovich "*expressly aimed* [his] tortious conduct at the forum." Mere knowledge of possible harm, by itself, was insufficient to establish purposeful availment under the effects test. To hold otherwise, the court stated, "would effectively subject all intentional tortfeasors whose conduct may harm industries in California to jurisdiction in California."

The court concluded that the evidence in the record failed to show that Pavlovich expressly aimed his tortious conduct at California or that his conduct intentionally targeted California.

***SEARCH KING, INC. V. GOOGLE TECHNOLOGY, INC.***

*No. CIV-02-1457-M, 2003 WL 21464568 (W.D. Okla. May 27, 2003)*

The district court held that website rankings were protected free speech and were lawful; therefore, plaintiff's claim for tortious interference with contractual relations was without merit.

Google, Inc. ("Google"), a popular online search engine, uses its proprietary "PageRank" algorithm to return results in response to user-supplied Internet search queries. This algorithm depends on various factors, including the number of links to a site, to rank sites with scores indicating their relevance to the search terms. Search King, Inc. was an online seller of advertising space, who sought out highly-ranked websites for their clients' advertisements. Search King compensated the websites with a portion of the fee—based in part on the PageRank of the website—charged to its clients. When the PageRank scores of Search King and its affiliates dropped, Search King claimed that it suffered financially and sued Google for tortious interference with contractual relations. Search King's request for a preliminary injunction was denied, and the court examined Google's motion to dismiss the suit.

The issue before the court was whether Google's devaluation of Search King's PageRank results was malicious and wrongful. Google argued that PageRanks are opinions protected by the First Amendment. Search King argued that the PageRank algorithm was patented and professed by its creator to be "objectively verifiable." Therefore, PageRanks were not ideas or expressions protected by free speech, and Google's interference was unlawful. The court rejected Search King's argument, finding that although the process in PageRank's algorithm is objective, it produced results that are fundamentally subjective in nature, since each search engine's method of determining rankings is "unique." Finding no way to prove Google's PageRank "false," the court concluded that Google's PageRank results are subjective opinions entitled to full constitutional protection. Protected speech cannot be tortious interference with contractual relations, thus the court ruled that Search King had failed to state a claim upon which relief could be granted and dismissed the suit.

## USA PATRIOT ACT UPDATE

*Pub. L. No. 107-56, 115 Stat. 272 (2001) (codified as amended in scattered sections of 8 U.S.C., 18 U.S.C., 42 U.S.C., and 50 U.S.C.)*

Legal and legislative efforts to define more precisely the constitutional scope of the government's authority to conduct Internet and electronic surveillances under the USA PATRIOT Act ("Patriot Act") are continuing.

On the legal front, the Foreign Intelligence Surveillance Court of Review ruled in November 2002 that the Department of Justice ("DOJ") has broad discretion to use wiretaps and other surveillance measures to track suspected terrorists and spies. *In re Sealed Case No. 02-001*, 310 F.3d 717 (Foreign Int. Surv. Ct. Rev. 2002) (per curiam). The decision overturned an earlier ruling by the secret Foreign Intelligence Surveillance Court, which held that there must be a well-defined wall separating domestic police agencies from spy agencies. The Court of Review stated the Patriot Act's expansion of the wiretap guidelines made any such wall obsolete and unnecessary. In overturning the lower court, the Court of Review found "no definitive jurisprudential answer" to the question of constitutionality, but it upheld the amendments to the guidelines because the authorized surveillances "certainly come close" to meeting minimal constitutional standards regarding searches and seizures and therefore are reasonable.

Separately, a federal judge in California declared unconstitutional a portion of the Patriot Act that prohibits giving expert advice or assistance to groups designated as international terrorist organizations. The judge found that ban impermissibly vague, in violation of the First and Fifth Amendments. *Humanitarian Law Project v. Ashcroft*, CV 03-6107 ABC (MCx), 2004 U.S. Dist. LEXIS 926 (C.D. Cal. Jan. 23, 2004).

In Congress, Sen. Larry Craig (R-Idaho) in October 2003 introduced the Security and Freedom Ensured Act ("SAFE"), H.R. 3352, 108th Cong. (2003), to amend the Patriot Act by placing limits on current police practices relating to surveillance and search warrants. SAFE would, among other things, roll back "sneak-and-peek" searches that allow searches without having to notify the target, establish expiration dates on nationwide search warrants, and prohibit law enforcement agents from obtaining library records without a reason supported by specific facts. In response, Attorney General Ashcroft warned that President Bush would veto any legislation that curtails the Patriot Act. President Bush urged Congress in his annual State of the Union address to renew key provisions of the Patriot Act, such as warrantless Internet surveillances, which are due to expire in December 2005.

Also in Congress, a divided House Judiciary Committee killed a bill, which would have barred the surveillance of people or groups engaged in legal activities if law enforcement lacks "particularized suspicion" to justify the surveillance.

The DOJ, responding to questions by the House Judiciary Committee, released an extensive report in late 2002 detailing how it has used the Patriot Act to conduct Internet and electronic surveillance. Letter from Daniel J. Bryant, Assistant Attorney General, Office of Legislative Affairs, U.S. Department of Justice, to F. James Sensenbrenner, Jr., Chairman, Committee on the Judiciary, U.S. House of Representatives (Jul. 26, 2002), available at <http://www.house.gov/judiciary/patriotresponses01702.pdf>. The report stated that the DOJ had made relatively limited use of its new powers, sharing intelligence information from criminal grand juries with other agencies on forty occasions in thirty-eight jurisdictions nationwide, and sharing information from regular criminal wiretaps twice. Some of the information in the report was deemed classified, and has not been

made available to the public. This classified information included answers to questions concerning the number of times that the DOJ has used its new powers to obtain roving surveillance orders. The American Civil Liberties Union last year sued the DOJ under the Freedom of Information Act seeking disclosure of information related to this classified information. The court held that the information could be withheld on national security grounds. *ACLU v. U.S. Dep't of Justice*, 265 F. Supp. 2d 20 (D.D.C. 2003).

President Bush also took steps last year to address threats to the nation's technological infrastructure by releasing a policy statement. The White House, *National Strategy to Secure Cyberspace* (2003), at [http://www.whitehouse.gov/pcipb/cyberspace\\_strategy.pdf](http://www.whitehouse.gov/pcipb/cyberspace_strategy.pdf). The statement calls for the government to cooperate with private industry to create an emergency response system to cyber attacks, to establish a threat and vulnerability reduction program, to improve security training and awareness, to protect the government's own systems and to work internationally to address security issues. As part of this plan and the Homeland Security Act of 2002, the Department of Homeland Security created the National Cyber Security Division, which operates under the Department's Information Analysis and Infrastructure Protection Directorate.

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**CONSTITUTIONAL LAW**



# UNITED STATES V. AMERICAN LIBRARY ASS'N: THE CHILDREN'S INTERNET PROTECTION ACT, LIBRARY FILTERING, AND INSTITUTIONAL ROLES

*By Felix Wu*

The explosive growth of the Internet over the last decade has revolutionized communications, greatly expanding the potential audience for any one message and the messages available to any one person. There is more of every kind of communication, from personal correspondence to commercial transactions, and from political commentary to pornography. It is the ready availability of pornography on the Internet that has troubled many in the United States, some of whom claim that such material threatens to undermine the development of the Internet as a whole.<sup>1</sup> In particular, there is substantial concern that the future of the Internet as an educational tool for children depends on being able to prevent children from seeking out or stumbling upon pornographic material.<sup>2</sup>

Congress initially responded to this concern by regulating the Internet directly, attempting to ban the transmission of indecent material to minors.<sup>3</sup> However, the Supreme Court has all but stated that such efforts are doomed to failure, because any attempt to restrict minors' access to speech will impermissibly restrict adults' access to the same speech.<sup>4</sup> The Court

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1. See, e.g., *Reno v. ACLU*, 521 U.S. 844, 885 (1997) ("The Government apparently assumes that the unregulated availability of 'indecent' and 'patently offensive' material on the Internet is driving countless citizens away from the medium because of the risk of exposing themselves or their children to harmful material.").

2. See *YOUTH, PORNOGRAPHY, AND THE INTERNET* 19-20 (Dick Thornburgh & Herbert S. Lin eds., 2002) ("Success in dealing with [concerns about pornography] is arguably a necessary (but not sufficient) condition for fully exploiting the social and educational potential of the Internet for children."), available at [http://bob.nap.edu/html/youth\\_internet/](http://bob.nap.edu/html/youth_internet/).

3. See Child Online Protection Act (COPA), Pub. L. No. 105-277, 112 Stat. 2681-736 (1998) (codified at 47 U.S.C. § 231 (2000)); Communications Decency Act of 1996 (CDA), Pub. L. No. 104-104, § 502, 110 Stat. 133, 133-36 (codified as amended at 47 U.S.C. § 223 (2000)).

4. See *Reno v. ACLU*, 521 U.S. 844 (1997) (striking down CDA § 502 except as applied to child pornography); see also *Ashcroft v. ACLU*, 535 U.S. 564 (2002) (raising questions about the constitutionality of COPA); *ACLU v. Ashcroft*, 322 F.3d 240 (3d Cir. 2003) (affirming the grant of a preliminary injunction against COPA), cert. granted, 124 S. Ct. 399 (2003).

has suggested that a better approach might be to allow individuals to filter the content they receive at home, so that adults can decide for themselves how to control what they and their children see.<sup>5</sup>

Congress' latest attempt to protect children from pornography takes up the idea of filters, but moves it from the home to public libraries and schools, raising First Amendment questions in the process. The Children's Internet Protection Act (CIPA) requires that libraries enable filters on all Internet-accessible computers in order to receive federal subsidies for Internet access and related computer equipment.<sup>6</sup> In *United States v. American Library Ass'n* ("ALA II"), a highly fractured Supreme Court held that the Act does not violate the First Amendment because libraries have the discretion to provide only filtered Internet access and Congress has the discretion to refuse subsidies to libraries with unfiltered access.<sup>7</sup>

The constitutionality of CIPA hinges primarily on the level of scrutiny a court should apply to the Act. This question in turn implicates a host of First Amendment doctrines, including public forum doctrine, editorial discretion cases, the selection-removal distinction, and prior restraint doctrine. Unfortunately, the Supreme Court has never laid out a consistent framework for dealing with these different doctrines, and as a result, the many opinions in this case talk past each other, each using a different doctrinal framework without explaining why one framework should be preferred over another.

Reconciling the competing doctrines and cases is possible if one understands that to choose among them is to make judgments about the social roles of various institutions. To say that the public forum doctrine does or does not apply to this case is to say something about the role of libraries, the nature of the Internet, and the place for federal subsidies to libraries. Framing the debate in this way clarifies the real differences in a way that First Amendment doctrines standing alone do not. More importantly, by focusing on institutions, courts have a way of grounding the inevitably normative judgments that these doctrines invite. Whether or not library Internet access is a public forum depends on how one characterizes such access. In the absence of constraints on this characterization, courts remain free to choose whatever characterization justifies the ultimate re-

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5. See *Reno*, 521 U.S. at 877.

6. Children's Internet Protection Act (CIPA), Pub. L. No. 106-554, 114 Stat. 2763A-335 (2000) (codified at 20 U.S.C. § 9134(f) (2000) and 47 U.S.C. § 254(h) (2000)). The Act also requires the filtering of Internet content on public school computers, but this provision was not at issue in this case and will not be analyzed in this Note.

7. 123 S. Ct. 2297 (2003) [hereinafter *ALA II*].

sult they reach. The characterization of library Internet access should depend, however, on the characterization of libraries and the characterization of the Internet. The histories and social roles of these institutions limit the universe of plausible characterizations of library Internet access.

In particular, in the case of government restrictions on public spaces or public subsidies, there are at least two distinct institutions that matter: the government entity making the restriction and the space<sup>8</sup> being restricted. Whether the entity can restrict the space consistent with the First Amendment should depend on the level and type of discretion entrusted to it as an institution, and on the openness of the space, as an institution, to public discourse. Courts often use one or both of these factors, but they rarely do so explicitly, leading to gaps in their analysis. Thus, the plurality in *ALA II* fixates on the need to continue to defer to libraries' book selection decisions, even though such deference is ambiguous at best in defining the role of libraries and potentially inapplicable in the context of the Internet. An explicit analysis of institutions suggests that the evolution of librarians from gatekeepers to information managers and the interactive nature of the Internet together require that library filtering be subject to strict scrutiny. Similarly, the role of the federal government in libraries and the federal interest in using subsidies to promote widespread Internet access together suggest that the decision to mandate filters as part of a federal funding program is also subject to strict scrutiny. Because the Act cannot pass strict scrutiny, the Court erred in upholding it.

Part I describes the treatment of pornography under the First Amendment, explains why filtering technology poses First Amendment problems, and sets out the doctrines that courts have applied to these problems. Part II fits the *ALA II* opinions into this First Amendment framework. Finally, Part III explores the importance of the social roles of institutions to the application of First Amendment doctrines, examining the roles of libraries, of Internet access, and of federal funding for libraries and Internet access.

## I. BACKGROUND

To understand *ALA II*, one must understand not only the Act in question, but also the reasons why filtering pornography tends to raise First

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8. Throughout this Note, "space" refers to both physical spaces and the nonphysical "spaces" created by funding programs. One can conceive of those who receive funding as having been admitted into the space created by the program. See *Rosenberger v. Rector & Visitors of the Univ. of Va.*, 515 U.S. 819, 830 (1995) ("The [fund] is a forum more in a metaphysical than in a spatial or geographic sense, but the same principles are applicable."); see also *Cornelius v. NAACP Legal Def. & Educ. Fund*, 473 U.S. 788 (1985) (applying public forum doctrine to a charity drive aimed at federal employees).

Amendment issues and the tools courts have used to deal with similar issues in the past.

### A. Children's Internet Protection Act

CIPA requires that a library may only receive funds under two programs designed to subsidize the cost of Internet access and associated computer equipment if

(A) such library—

(i) has in place a policy of Internet safety for minors that includes the operation of a technology protection measure with respect to any of its computers with Internet access that protects against access through such computers to visual depictions that are obscene, child pornography, or harmful to minors; and

(ii) is enforcing the operation of such technology protection measure during any use of such computers by minors; and

(B) such library—

(i) has in place a policy of Internet safety that includes the operation of a technology protection measure with respect to any of its computers with Internet access that protects against access through such computers to visual depictions that are obscene or child pornography; and

(ii) is enforcing the operation of such technology protection measure during any use of such computers.<sup>9</sup>

Libraries "may disable a technology protection measure . . . to enable access for bona fide research or other lawful purposes."<sup>10</sup> One program restricts such disabling to "use by an adult."<sup>11</sup>

### B. Pornographic Content and Filtering Technology

Not all content that might be considered pornographic receives the same treatment under the First Amendment. Two types of pornography can be banned outright: obscenity<sup>12</sup> and child pornography.<sup>13</sup> The First

9. 20 U.S.C. § 9134(f)(1) (restricting grants under the Library Services and Technology Act); *see also* 47 U.S.C. § 254(h)(6)(B)-(C) (placing similar restrictions on discounts under the E-rate program).

10. 20 U.S.C. § 9134(f)(3).

11. 47 U.S.C. § 254(h)(6)(D).

12. *Miller v. California*, 413 U.S. 15, 24 (1973) (defining the test for obscenity). Material is obscene if:

(a) whether the average person, applying contemporary community standards, would find that the work, taken as a whole, appeals to the prurient interest;

(b) whether the work depicts or describes, in a patently offensive way,

Amendment protects pornography that does not fall into one of these two categories, and governments cannot restrict adult access to such material.<sup>14</sup> Much of this material is considered “harmful to minors,” however, and access by minors can be restricted.<sup>15</sup> Ostensibly, the goal of CIPA is to restrict all access to obscenity and child pornography and to restrict minors’ access to material harmful to minors.<sup>16</sup>

If it were possible to filter out only material in these three categories (two for adults), filtering would pose no constitutional issue; the problem is that no filter can block precisely the content that fits into one of the legal categories.<sup>17</sup> The predominant form of filtering technology in use today consists of software that compares each request for a Web page against a precompiled control list of pages.<sup>18</sup> The control list is generally divided into categories of potentially objectionable content, one or more of which usually deals with sexual content.<sup>19</sup> If a given category has been selected, the software will block all requests for Web pages within that

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sexual conduct specifically defined by the applicable state law; and  
(c) whether . . . the work, taken as a whole, lacks serious literary, artistic, political, or scientific value.

*Id.*

13. *New York v. Ferber*, 458 U.S. 747, 764 (1982) (finding that for child pornography, the *Miller* test should be adjusted such that “[a] trier of fact need not find that the material appeals to the prurient interest of the average person; it is not required that sexual conduct portrayed be done so in a patently offensive manner; and the material at issue need not be considered as a whole”).

14. *See Ashcroft v. Free Speech Coalition*, 535 U.S. 234 (2002) (invalidating a ban on “virtual” child pornography—material produced using adults, but made to look like child pornography); *Reno v. ACLU*, 521 U.S. 844, 875 (1997) (“[T]he Government may not ‘reduce the adult population [to consuming] only what is fit for children.’”) (quoting *Denver Area Educ. Telecomms. Consortium v. FCC*, 518 U.S. 727, 759 (1996)) (brackets added).

15. *Ginsberg v. New York*, 390 U.S. 629 (1968).

16. *See* 20 U.S.C. § 9134(f)(1) (2000); 47 U.S.C. § 254(h)(6)(B)-(C).

17. The focus here is on the technological limits of filters, but even if filters were technologically perfect, uncertainty about the application of the *Miller* test would still lead to filtering errors. *See Jenkins v. Georgia*, 418 U.S. 153, 164-65 (1974) (Brennan, J., concurring in the result) (“Thus, it is clear that as long as the *Miller* test remains in effect ‘one cannot say with certainty that material is obscene until at least five members of this Court, applying inevitably obscure standards, have pronounced it so.’”) (quoting *Paris Adult Theatre I v. Slaton*, 413 U.S. 49, 92 (1973) (Brennan, J., dissenting)).

18. *Am. Library Ass’n v. United States*, 201 F. Supp. 2d 401, 428 (E.D. Pa. 2002) [hereinafter *ALA I*]. *See generally* Richard J. Peltz, *Use “The Filter You Were Born With”: The Unconstitutionality of Mandatory Internet Filtering for the Adult Patrons of Public Libraries*, 77 WASH. L. REV. 397, 404-16 (2002) (discussing the technology and limits of filtering).

19. *ALA I*, 201 F. Supp. 2d at 428.

category. While each software company compiles its control list somewhat differently (and keeps secret its process for doing so),<sup>20</sup> the basic idea is that the company first searches the Web to find the universe of Web pages, much as a search engine might do, then uses automated techniques to try to focus on potentially objectionable pages, and then employs some human review of the content on these pages.<sup>21</sup> Companies do not generally re-review pages on a systematic basis.<sup>22</sup>

This process inevitably leads to both underblocking, the omission of objectionable pages from the control list, and overblocking, the inclusion of unobjectionable pages on the control list.<sup>23</sup> Underblocking happens because no search can find every Web page, pages are constantly being added, and automated screening cannot detect pages with objectionable pictures but no text.<sup>24</sup> Overblocking happens because the automated screening is very imprecise, and the subsequent human review is either not comprehensive or prone to error.<sup>25</sup> Furthermore, overblocking and underblocking occur when Web page content changes from objectionable to unobjectionable, or vice versa, between when the control lists are compiled and when they are used.<sup>26</sup> Given the technological limitations, any filtering system that blocks enough unprotected content to be considered an effective technology protection measure will also block a substantial amount of protected content.<sup>27</sup>

Because of the substantial overblocking, courts would likely hold that banning outright all material blocked by any given software filter would be overbroad and hence a violation of the First Amendment.<sup>28</sup> The question in this case is whether a public library's use of the same filter violates the First Amendment, and if not, whether Congress can require such filtering as a condition of federal funding.

### C. Library Filtering and First Amendment Doctrines

Before *ALA I*, the only case to address the constitutionality of library Internet filtering was *Mainstream Loudoun v. Board of Trustees of the*

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20. *Id.* at 430.

21. *Id.* at 430-33.

22. *Id.* at 435-36.

23. *Id.* at 436-37.

24. *Id.* at 431-32.

25. *Id.* at 432-35.

26. *Id.* at 435-36.

27. *Id.* at 450.

28. *See Reno v. ACLU*, 521 U.S. 844, 870-79 (1997) (finding the coverage of the CDA to be overbroad).

*Loudoun County Library*.<sup>29</sup> In *Loudoun*, members of the local community challenged the library board's decision to install filters on all library computers. In finding the library's policy unconstitutional, the district court held that library Internet filtering was: (1) a content-based restriction in a limited public forum;<sup>30</sup> (2) not simply an exercise of the library's discretion in selecting materials for its collection;<sup>31</sup> (3) a content-based removal decision;<sup>32</sup> and (4) a prior restraint.<sup>33</sup> For all of these reasons, the court applied strict scrutiny.<sup>34</sup> Finding "many less restrictive means available," including the possibility of only filtering children's access, the court invalidated the library policy.<sup>35</sup> The three-judge district court panel<sup>36</sup> in *ALA I* used similar reasoning to reach the same conclusion that library Internet filtering is unconstitutional, and thus found CIPA unconstitutional.<sup>37</sup> Each of these lines of First Amendment doctrine, as well as their application in *Loudoun* and *ALA I*, will be examined below.

### 1. Public Forum Doctrine

Public forum doctrine captures the idea that the more a government venue is open to speech and speakers, the less control the government has over speech within the venue.<sup>38</sup> Courts have divided such venues into four categories: traditional public forums, limited public forums, nonpublic forums, and nonforums. Traditional public forums are places such as streets and parks that "have immemorially been held in trust for the use of the public and, time out of mind, have been used for purposes of assembly, communicating thoughts between citizens, and discussing public ques-

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29. 24 F. Supp. 2d 552 (E.D. Va. 1998) [hereinafter *Loudoun II*] (granting plaintiff's motion for summary judgment); 2 F. Supp. 2d 783 (E.D. Va. 1998) [hereinafter *Loudoun I*] (denying defendant's motion to dismiss and motion for summary judgment).

30. *Loudoun II*, 24 F. Supp. 2d at 563.

31. *Loudoun I*, 2 F. Supp. 2d at 793-94.

32. *Id.* at 794-95.

33. *Id.* at 797.

34. Under strict scrutiny, "[a] content-based limitation on speech will be upheld only where the state demonstrates that the limitation 'is necessary to serve a compelling state interest and that it is narrowly drawn to achieve that end.'" *Loudoun II*, 24 F. Supp. 2d at 564 (quoting *Perry Educ. Ass'n v. Perry Local Educators' Ass'n*, 460 U.S. 37, 45 (1983)). Part of this test involves determining whether the limitation is the "least restrictive means" to achieve those interests. *Id.* at 566.

35. *Id.* at 566-67.

36. CIPA stipulates that challenges to its constitutionality will be heard by a three-judge district court panel and provides for a direct appeal to the Supreme Court of any decision holding the act unconstitutional. See CIPA, Pub. L. No. 106-554, § 1741, 114 Stat. 2763A-335, -351 to -352 (2000).

37. See *ALA I*, 201 F. Supp. 2d 401 (E.D. Pa. 2002).

38. See *Perry Educ. Ass'n v. Perry Local Educators' Ass'n*, 460 U.S. 37 (1983).

tions.”<sup>39</sup> Such forums cannot be closed, and any content-based restrictions within them are subject to strict scrutiny.<sup>40</sup>

Limited or designated public forums are venues the government sets aside for expressive activity, often for a particular purpose and possibly for a particular set of participants. Examples include public university meeting spaces available to registered student groups,<sup>41</sup> and municipal theaters available for arts productions.<sup>42</sup> Such forums can be closed, and the government has some leeway in defining the boundaries of the forum, but otherwise, content-based restrictions are still subject to strict scrutiny.<sup>43</sup>

Nonpublic forums are venues in which communicative activity occurs, but which the government has not opened for such activity; one example is a public school teacher’s mailbox.<sup>44</sup> In nonpublic forums, content-based restrictions need only be “reasonable and not an effort to suppress expression merely because public officials oppose the speaker’s view.”<sup>45</sup> Finally, non-forums are venues not designed for public discourse of any sort. In such spaces, the government can eliminate speech altogether or use the venue to promote its own views without providing an opportunity to respond.<sup>46</sup>

Thus, to determine whether to apply strict scrutiny, one issue courts need to consider is whether the relevant venue is a limited public forum. In *Kreimer v. Bureau of Police*, the court determined that a library is a limited public forum, in the course of deciding whether the library could exclude a homeless man for violating its patron conduct rules.<sup>47</sup> The court cited three factors relevant to this determination: government intent, extent of use, and the nature of the forum.<sup>48</sup> In assessing these factors, the court noted that the government established libraries for the express purpose of

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39. *Hague v. CIO*, 307 U.S. 496, 515 (1939).

40. *Perry*, 460 U.S. at 45.

41. *Widmar v. Vincent*, 454 U.S. 263 (1981).

42. *Southeastern Promotions, Ltd. v. Conrad*, 420 U.S. 546 (1975).

43. *Perry*, 460 U.S. at 46.

44. *Id.* at 46-47.

45. *Id.* at 46.

46. Courts generally do not use the label “non-forums” in the context of public forum doctrine. Rather, courts often speak about “whether public forum principles apply to the case at all.” See *Ark. Educ. Television Comm’n v. Forbes*, 523 U.S. 666, 672 (1998). When venues are found to be non-forums, that is, outside the other forum categories, courts allow the venue to “facilitate the expression of some viewpoints instead of others.” *Id.* at 674.

47. 958 F.2d 1242 (3d Cir. 1992).

48. *Id.* at 1259-62.

communicating information, libraries were open to the public generally, and the nature of libraries was compatible with communicative activity.<sup>49</sup> All three factors suggested that the government had designed libraries to provide the widest possible access to the written word.<sup>50</sup>

The *Loudoun* court cited *Kreimer* and used the same factors to find that the library, considered as a whole, is a limited public forum.<sup>51</sup> The *ALA I* court noted that the access sought in the case defined the relevant forum, so that in this case, it was library Internet access, and not the access to library as a whole or the library's book collection, that defined the relevant forum.<sup>52</sup> The court also distinguished between content restrictions that define the boundaries of a limited public forum, and content restrictions within a limited public forum, noting that the former is subject to more lenient review.<sup>53</sup> Finding that filtering removes content from what is otherwise a relatively broad forum, the court held that Internet filtering did not simply define the boundaries of a limited forum and was therefore subject to strict scrutiny.<sup>54</sup>

## 2. Editorial Discretion

An important class of cases that courts have held to lie outside the public forum doctrine is those in which the government legitimately exercises some form of editorial discretion. Thus, in *Arkansas Educational Television Commission v. Forbes*,<sup>55</sup> the Court held that public television stations have wide latitude in deciding which programs to air, and in *National Endowment for the Arts v. Finley*,<sup>56</sup> the Court held that the NEA has wide latitude in deciding which proposals to fund. Courts have almost universally suggested that libraries have the same discretion in deciding which books to acquire.<sup>57</sup> The *ALA I* court, however, held that such discretion did not apply to decisions about Internet filtering, reasoning that dis-

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49. *Id.*

50. *Id.*

51. *Loudoun II*, 24 F. Supp. 2d 552, 563 (E.D. Va. 1998).

52. *ALA I*, 201 F. Supp. 2d 401, 455-56 (E.D. Pa. 2002).

53. *Id.* at 457.

54. *Id.* at 461.

55. 523 U.S. 666 (1998).

56. 524 U.S. 569 (1998).

57. *See, e.g., Bd. of Educ. v. Pico*, 457 U.S. 853, 870 (1982) ("Petitioners rightly possess significant discretion to determine the content of their school libraries."); *ALA I*, 201 F. Supp. 2d at 462 ("[W]e agree . . . that generally the First Amendment subjects libraries' content-based decisions about which print materials to acquire for their collections to only rational review.").

cretion only applied to judgments that singled out speech of particular value, rather than those that excluded disfavored speech.<sup>58</sup>

### 3. *The Selection-Removal Distinction*

In making this distinction, the *ALA I* court joined the *Loudoun* court in distinguishing between a library's selection decisions and its removal decisions. This distinction originated in the case of *Board of Education v. Pico*.<sup>59</sup> In *Pico*, a local school board removed books from a public high school library that it felt were "anti-American, anti-Christian, anti-[Semitic], and just plain filthy."<sup>60</sup> Justice Brennan, writing for the plurality, held that although schools had substantial discretion to determine the content of their libraries, they could not exercise that discretion "in a narrowly partisan or political manner," and that books could be removed based on their "educational suitability," but not based on their ideas.<sup>61</sup> Justice Brennan further noted that his opinion was limited to the removal of books, and not their acquisition,<sup>62</sup> a distinction that drew fire from Justice Rehnquist,<sup>63</sup> and that has been the subject of much commentary, particularly in the library filtering context.<sup>64</sup>

The *Loudoun* court applied the distinction and determined that Internet filtering was a removal decision, not a selection decision.<sup>65</sup> The court found that the Internet is an integrated whole and that in deciding to purchase Internet access, "each Loudoun library has made all Internet publications instantly accessible to its patrons."<sup>66</sup> A single purchase provided complete access, and the library need not spend additional funds to access

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58. 201 F. Supp. 2d at 462-66.

59. 457 U.S. 853 (1982).

60. *Id.* at 857.

61. *Id.* at 870-71.

62. *Id.* at 871-72.

63. *Id.* at 916 (Rehnquist, J., dissenting) ("[T]his distinction between acquisition and removal makes little sense. The failure of a library to acquire a book denies access to its contents just as effectively as does the removal of the book from the library's shelf.")

64. See Bernard W. Bell, *Filth, Filtering, and the First Amendment: Ruminations on Public Libraries' Use of Internet Filtering Software*, 53 FED. COMM. L.J. 191, 215-16 (2001) (arguing that filtering is a removal decision); Mark S. Nadel, *The First Amendment's Limitations on the Use of Internet Filtering in Public and School Libraries: What Content Can Librarians Exclude?*, 78 TEX. L. REV. 1117, 1122-27 (2000) (suggesting that only viewpoint neutrality is required in both selection and removal decisions); Peltz, *supra* note 18, at 468-75 (distinguishing filtering from book selection, regardless of whether an abstract selection-removal distinction can be made); David F. Norden, Note, *Filtering Out Protection: The Law, the Library, and Our Legacies*, 53 CASE W. RES. L. REV. 767, 786-89 (2003) (arguing that filtering is a selection decision).

65. *Loudoun I*, 2 F. Supp. 2d 783, 793-94 (E.D. Va. 1998).

66. *Id.* at 793.

any particular Web page; in fact, the library had to spend additional funds in order to block Web pages.<sup>67</sup>

After the *Loudoun* decision, Mark Nadel criticized the idea that resource constraints would only push libraries to offer more Internet content and not less.<sup>68</sup> Nadel noted that time on Internet-accessible computers is often a scarce resource and that libraries should have the same discretion in deciding how to fill that time as they do in deciding how to fill their shelves.<sup>69</sup> The *ALA I* court quoted Nadel on this point approvingly,<sup>70</sup> but nevertheless found that Internet filtering is a removal decision, noting that filters make an affirmative judgment about what content to exclude, rather than an affirmative judgment about what content to allow.<sup>71</sup>

#### 4. *Prior Restraint Doctrine*

Prior restraint doctrine places a strong presumption of unconstitutionality on any government attempt to prevent speech beforehand, rather than sanctioning it after the fact. The theory is that such prior restraints have a "chilling effect,"<sup>72</sup> potentially deterring speech that would be found lawful after a full judicial review. One result of this doctrine is that an otherwise impermissible ban on speech is generally still impermissible even if speakers are given the opportunity to petition to circumvent the ban.

In the Internet filtering context, courts have invoked prior restraint doctrine to hold that if filtering is impermissible, it remains so even if library patrons have the opportunity to request that individual pages be unblocked.<sup>73</sup> Often cited is *Lamont v. Postmaster General*, in which the Court struck down a provision requiring the postal service to separate out "communist political propaganda," and deliver it only on request.<sup>74</sup> Citing *Lamont*, both the *Loudoun* court and the *ALA I* court held that the library's unblocking policy did not cure any constitutional defects in the filtering policy, even if library staff had no discretion in deciding whether to fulfill a patron's request.<sup>75</sup>

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67. *Id.*

68. Nadel, *supra* note 64, at 1128-29.

69. *Id.*

70. *ALA I*, 201 F. Supp. 2d 401, 465 n.25 (E.D. Pa. 2002).

71. *Id.* at 464-65.

72. *Dombrowski v. Pfister*, 380 U.S. 479, 494 (1965).

73. *See ALA I*, 201 F. Supp. 2d at 486; *Loudoun I*, 2 F. Supp. 2d at 797.

74. 381 U.S. 301 (1943).

75. *ALA I*, 201 F. Supp. 2d at 486; *Loudoun I*, 2 F. Supp. 2d at 797.

## II. THE SUPREME COURT DECISION

In *ALA II*, most of the members of the Court analyzed the constitutionality of CIPA in two parts. First, as an exercise of Congress' spending power, CIPA would be unconstitutional under *South Dakota v. Dole*<sup>76</sup> if it required states to violate the Constitution.<sup>77</sup> This inquiry is equivalent to asking whether libraries infringe the First Amendment rights of their patrons by installing filters, independently of CIPA. Second, CIPA would be unconstitutional if it conditioned federal funding on the surrender of First Amendment rights.<sup>78</sup> Whether libraries have First Amendment rights to surrender, or whether they can assert the rights of their patrons, is unclear, but while the plurality expressed some doubt about the existence of such rights, it ultimately assumed that the rights do exist.<sup>79</sup> This second inquiry then amounts to asking whether, even if a library could constitutionally filter Internet access, Congress can constitutionally require libraries to do so.

### A. The Constitutionality of Library Filtering

Seven members of the Court held that libraries could constitutionally implement a filtering program under CIPA, though only four could agree on a rationale. Chief Justice Rehnquist, writing for the plurality, held that public forum doctrine was inapplicable to the case because "[a] public library does not acquire Internet terminals in order to create a public forum for Web publishers to express themselves, any more than it collects books in order to provide a public forum for the authors of books to speak."<sup>80</sup> Justice Rehnquist held instead that as in *Forbes* and *Finley*, libraries have the right and responsibility to make discretionary judgments about the material provided to patrons, and that this judgment is subject to lenient judicial review.<sup>81</sup> Furthermore, Justice Rehnquist rejected any distinction between selection and removal, holding that a library's decision to employ a filter was a reasonable exercise of its discretion.<sup>82</sup> Finally, Justice Rehnquist suggested that there was no prior restraint problem, writing that "the Constitution does not guarantee the right to acquire information at a public library without any risk of embarrassment."<sup>83</sup>

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76. 483 U.S. 203 (1987).

77. *ALA II*, 123 S. Ct. 2297, 2303 (2003).

78. *Id.* at 2307.

79. *Id.*

80. *Id.* at 2305.

81. *Id.* at 2304.

82. *Id.* at 2306.

83. *Id.* at 2307.

Justice Souter, joined by Justice Ginsburg, dissented, arguing that a selection-removal distinction was defensible and should have been applied in this case. Justice Souter characterized the deference given to selection decisions as being administrative in nature, based in the difficulty of judicially reviewing the numerous resource-constrained decisions librarians make.<sup>84</sup> Justice Souter acknowledged that resources to provide Internet access might also be limited, but suggested that these limitations did not justify filtering.<sup>85</sup> Hence, Justice Souter argued that strict scrutiny applied to a library's decision to filter.<sup>86</sup> Filtering failed strict scrutiny, according to Justice Souter, because restricting only children to filtered access is a less restrictive means of achieving the interest in protecting children.<sup>87</sup>

The remaining three members of the Court focused in one way or another on the unblocking provisions of CIPA. Justice Kennedy, citing no case law, argued that the need to request that pages be unblocked was not a constitutional burden of "any significant degree."<sup>88</sup> Justice Breyer argued for the novel proposition that the selection-removal debate should be resolved by applying intermediate scrutiny.<sup>89</sup> Under intermediate scrutiny, Justice Breyer found that the unblocking provisions ensured a reasonable fit between the filtering policy and the government's interest in protecting children.<sup>90</sup> Justice Stevens argued that library filtering was constitutional, despite characterizing CIPA as a prior restraint.<sup>91</sup> For Justice Stevens, this characterization of CIPA indicated not that library Internet filtering was unconstitutional, but that it was unconstitutional for Congress to require such filtering.<sup>92</sup>

## B. The Constitutionality of Congress' Funding Condition

The plurality and Justice Stevens agreed that filtering was constitutional, and each went on to consider whether CIPA might nevertheless be unconstitutional. In dividing on this question, the two opinions took very different approaches to resolving two leading cases in the area: *Rust v. Sullivan*<sup>93</sup> and *Legal Services Corporation v. Velazquez*.<sup>94</sup> In *Rust*, the

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84. *Id.* at 2324 (Souter, J., dissenting).

85. *Id.* at 2321 n.3 (Souter, J., dissenting).

86. *Id.* at 2324 (Souter, J., dissenting).

87. *Id.* at 2320 (Souter, J., dissenting).

88. *Id.* at 2310 (Kennedy, J., concurring in the judgment).

89. *Id.* at 2311 (Breyer, J., concurring in the judgment).

90. *Id.* at 2312 (Breyer, J., concurring in the judgment).

91. *Id.* at 2313 (Stevens, J., dissenting).

92. *Id.*

93. 500 U.S. 173 (1991).

94. 531 U.S. 533 (2001).

Court upheld a restriction preventing doctors receiving funding under a specific program from engaging in abortion counseling, while in *Velazquez*, the Court struck down a restriction preventing lawyers receiving funding under a specific program from challenging welfare laws. In upholding CIPA, Justice Rehnquist cited *Rust* for the general proposition that the government is allowed to dictate how its money will be spent, and distinguished *Velazquez* as a case in which the speech being funded was inherently anti-government.<sup>95</sup> In voting to strike down CIPA, Justice Stevens cited *Velazquez* for the general proposition that the government is not allowed to distort the usual functioning of a medium of expression, and distinguished *Rust* as a case in which the government used private actors to convey its own viewpoint.<sup>96</sup>

### III. ANALYSIS

What is most striking about the opinions in this case is that they demonstrate that the Court lacks a broad framework within which to understand the different First Amendment doctrines that might apply. Thus, the district court relied primarily on public forum doctrine,<sup>97</sup> but the plurality in the Supreme Court found such reliance “out of place in the context of this case,” invoking instead the cases on editorial discretion.<sup>98</sup> On the other hand, Justice Souter’s dissent relied on *Pico*, unmentioned by the plurality, while not addressing *Forbes* and *Finley*, and expressing no view on whether public forum principles applied to the case.<sup>99</sup> The other three opinions proposed entirely different approaches to the problem, largely without explaining why they rejected the application of other doctrines.<sup>100</sup>

A satisfactory reconciliation of these different doctrines and lines of cases requires a broader First Amendment framework in order to understand what factors are relevant when applying the doctrines to any given case. Without such a framework, the Court’s opinions seem ad hoc, convincing only to those who share the same underlying assumptions. Exposing these assumptions at least clarifies any essential differences, and ideally also makes possible other arguments for reaching a particular conclusion in a case.

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95. *ALA II*, 123 S. Ct. at 2307-08.

96. *Id.* at 2316-17.

97. *ALA I*, 201 F. Supp. 2d 401, 454-70 (E.D. Pa. 2002).

98. *ALA II*, 123 S. Ct. at 2304.

99. *See id.* at 2321 (Souter, J., dissenting).

100. *See id.* at 2309-10 (Kennedy, J., concurring in the judgment); *id.* at 2310-12 (Breyer, J., concurring in the judgment); *id.* at 2312-18 (Stevens, J., dissenting).

This Note suggests that in the context of restrictions on government spaces, courts should analyze two different institutional roles—that of the government entity making the restriction and that of the space being restricted—in order to apply First Amendment doctrines to the restriction. In analyzing the government entity, courts should consider whether the proposed restriction is consistent with the level and type of discretion entrusted to that entity. In analyzing the government space, courts should consider whether the restriction is consistent with the features and degree of openness of the space. In both cases, the question is whether the restriction comports with the social role played by the various institutions. Neither government entities nor government spaces exist in a vacuum; courts should look to the history of such entities and spaces, as well as their interaction with other institutions, in order to decide whether their nature supports or undermines the proposed restriction.

Many commentators have suggested that the Supreme Court's current First Amendment jurisprudence has become encumbered by doctrinal categories which, though based upon sound intuitions, now lack any underlying justifications.<sup>101</sup> Professor Robert Post, in particular, has argued that the underlying intuitions are highly contextual, and that rather than seek principles that are context-independent, the Court should formulate principles that explicitly describe the ways in which social context matters.<sup>102</sup> Looking to the history and nature of government entities and spaces describes one particular way in which context matters.

Part III.A describes Professor Post's theories and two contexts that matter in this case: the social role of the space and the role of the entity intervening in the space. Part III.B applies this framework to libraries' decisions to filter, arguing that an analysis of the role of libraries and of the features of the Internet suggests that library filtering should be unconstitutional. Part III.C applies this framework to the federal government's decision to impose a filtering condition on federal funding. Here again, the purpose of the Internet subsidy program and the role of the federal government in local libraries suggest that CIPA should be unconstitutional.

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101. See, e.g., Robert C. Post, *Recuperating First Amendment Doctrine*, 47 STAN. L. REV. 1249 (1995) [hereinafter Post, *Recuperating*]; Jed Rubenfeld, *The First Amendment's Purpose*, 53 STAN. L. REV. 767 (2001).

102. See Robert C. Post, *The Constitutional Concept of Public Discourse: Outrageous Opinion, Democratic Deliberation, and Hustler Magazine v. Falwell*, 103 HARV. L. REV. 603 (1990) [hereinafter Post, *Constitutional Concept*]; Post, *Recuperating*, *supra* note 101; Robert C. Post, *Subsidized Speech*, 106 YALE L.J. 151 (1996) [hereinafter Post, *Subsidized Speech*].

### A. Forums, Funding, and the First Amendment

In the context of subsidized speech,<sup>103</sup> Professor Post has posited two contextual distinctions to separate government restrictions subject to strict scrutiny from those subject to a more lenient standard of review.<sup>104</sup> The first distinction is between regulations of public discourse and regulations in the managerial domain; the latter describes those regulations that affect speech as only a means to some legitimate government end.<sup>105</sup> For example, a school's decision to favor some papers over others (with better grades) is best seen as a means to achieve educational goals and not a restriction on students' speech; such a decision is subject to a lenient standard of review.<sup>106</sup> The second distinction is between regulations that constrain private conduct and regulations that provide internal directives to government agencies.<sup>107</sup> Hence, the decision to dedicate the Kennedy Center to performing arts, rather than political speech, receives deference as an internal directive, while a decision to dedicate the second-class mailing rate to only some kinds of magazines would receive scrutiny as a constraint on private conduct.<sup>108</sup>

Applying these distinctions requires two normative characterizations: first, a characterization of the regulated speech, to determine whether it is within or outside public discourse; and second, a characterization of the government action, to determine whether it is directed internally or externally.<sup>109</sup> Professor Post recognizes that these characterizations must in turn depend on other factors, and he cites both Professor Seth Kreimer's baselines<sup>110</sup> and Professor Kathleen Sullivan's distribution of rights<sup>111</sup> as appropriate factors.<sup>112</sup>

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103. Subsidized speech refers to expressive activities for which the government provides funds. When the government attaches conditions to the speech it subsidizes, this raises line-drawing issues that are analytically similar to the other issues considered here. *See supra* note 8.

104. *See* Post, *Subsidized Speech*, *supra* note 102; *see also* Matthew Thomas Kline, *Mainstream Loudoun v. Board of Trustees of the Loudoun County Library*, Note, 14 BERKELEY TECH. L.J. 347 (1999) (applying Post's framework to the *Loudoun* court's decision).

105. Post, *Subsidized Speech*, *supra* note 102, at 164.

106. *Id.* at 166.

107. *Id.* at 176.

108. *Id.* at 178-79.

109. *Id.* at 179.

110. *See* Seth F. Kreimer, *Allocational Sanctions: The Problem of Negative Rights in a Positive State*, 132 U. PA. L. REV. 1293 (1984) (describing the use of history, equality, and predictions about the future as baselines to determine whether government regulations are penalties or subsidies).

111. *See* Kathleen Sullivan, *Unconstitutional Conditions*, 102 HARV. L. REV. 1413

This Note suggests a somewhat different method of characterization, one that focuses on relevant institutions.<sup>113</sup> The idea is that institutions have histories and social roles, and that these histories and roles can be used to constrain judicial characterizations. In particular, characterization of the regulated speech should depend on a characterization of the space in which the speech resides, and characterization of the government action should depend on a characterization of the government actor. In analyzing the space, courts should consider its compatibility with and openness to speech, while in analyzing the government actor, courts should consider the level and type of discretion entrusted to it. These analyses will incorporate the history of these institutions and the ways in which they interact with other institutions. These histories and interactions provide a foundation for courts to apply First Amendment doctrine, dictating whether it is appropriate to invoke public forum doctrine, editorial discretion, or the selection-removal distinction. By referring to such evidence about social roles, courts can avoid the potential circularity or groundlessness of assertions based solely in doctrine—assertions that strike many as reflecting nothing more than personal opinions about the merits of the case at hand.

Characterizations of the space regulated and the actor regulating appear throughout the Court's First Amendment cases, but the Court rarely highlights the importance of such considerations to the result they reach. *Velazquez* demonstrates the need for the characterization of the government space to be consistent with the roles of related institutions.<sup>114</sup> There the Court held that to prevent legal aid attorneys from challenging welfare laws was to distort the "usual functioning" of a medium of expression.<sup>115</sup> To determine the "usual functioning," the Court must have looked to something other than the government legal aid program in question. Indeed, the Court noted that the legal aid program used "the State and Federal courts and the independent bar on which those courts depend" in order to accomplish the program's goals.<sup>116</sup> Having established a program that was integrated into the legal system as a whole, Congress could not regulate the program in ways that were inconsistent with the features of the

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(1989) (suggesting that courts should consider the effect of regulations on three types of distributions of rights: between the public and private realms, among rightholders, and among those with varying dependency on government benefits).

112. Post, *Subsidized Speech*, *supra* note 102, at 179-80.

113. See also Frederick Schauer, *Principles, Institutions, and the First Amendment*, 112 HARV. L. REV. 84 (1998) (arguing that courts should develop institution-specific First Amendment doctrines).

114. See *Legal Servs. Corp. v. Velazquez*, 531 U.S. 533 (2001).

115. *Id.* at 543.

116. *Id.* at 544.

American legal system: in this case, with the autonomy given to lawyers to advance all reasonable arguments on behalf of their clients.<sup>117</sup>

The *Velazquez* Court also noted the application of this principle to public forum and editorial discretion cases, citing *Rosenberger* and *Forbes*.<sup>118</sup> In *Rosenberger*, the Court held that a fund for university student newspapers created a limited public forum, from which the university could not exclude religious publications.<sup>119</sup> The *Velazquez* Court noted as important to this result “the fact that student newspapers expressed many different points of view.”<sup>120</sup> This claim presumably reflects not an empirical fact, but rather a characterization of the space the university tried to regulate. Similar considerations can also inform the decision to reject public forum principles and instead follow cases such as *Forbes* and *Finley*, granting broad editorial discretion to government entities. Thus, the *Velazquez* Court referred to the result in *Forbes* as being based in “the dynamics of the broadcasting system.”<sup>121</sup>

*Finley* provides an example in which the characterization of the government actor mattered to the Court. In *Finley*, the Court held that because the NEA already had discretion to evaluate proposals according to standards of “artistic excellence,” it also had the discretion to consider the generic criteria of “decency and respect for the diverse beliefs and values of the American public.”<sup>122</sup> Similarly, in *Pico*, the Court took into consideration the wide discretion granted to school boards.<sup>123</sup>

Discretion in one area, however, does not imply discretion in every area. Courts should analyze the nature of the discretion carefully to determine whether it applies in new settings. Thus, in *Pico*, despite recognizing the right of school boards “to establish and apply their curriculum in such a way as to transmit community values,”<sup>124</sup> the plurality held that school libraries were different because, as libraries, they were places for inde-

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117. Justice Rehnquist appears to have a different interpretation of *Velazquez*, namely, that the case stands for the proposition that the government may not restrict what is inherently speech pitted against the government. *ALA II*, 123 S. Ct. 2297, 2309 (2003). Such a reading, while not entirely consistent with the language quoted above, does fit into the framework developed here. Justice Rehnquist focuses not on the space, but on the actor, reasoning that it is inconsistent to characterize the government as having the discretion to restrict challenges to itself.

118. *Velazquez*, 531 U.S. at 543.

119. *Rosenberger v. Rector & Visitors of the Univ. of Va.*, 515 U.S. 819 (1995).

120. *Velazquez*, 531 U.S. at 543.

121. *Id.*

122. *Nat'l Endowment for the Arts v. Finley*, 524 U.S. 569, 584 (1998).

123. *Bd. of Educ. v. Pico*, 457 U.S. 853, 863 (1982).

124. *Id.* at 864.

pendent intellectual inquiry.<sup>125</sup> Such a distinction reappears in *Forbes*, where the Court held that a public television station should generally be given broad discretionary control over its programming, but that a candidate debate on such a station should be considered a nonpublic forum.<sup>126</sup> The Court justified a general rule of discretion by referring to the need for the station to exercise “sound journalistic judgment.”<sup>127</sup> At the same time, it carved out an exception for candidate debates because such debates implicate political speech and the electoral process in a way that justified heightened First Amendment review.<sup>128</sup> Thus, the Court used the level of discretion entrusted to public broadcasters to label public broadcasting a non-forum, while using the role of the candidate debate in electoral politics to label it a nonpublic forum.

Resort to an institutional analysis allows courts to avoid potential circularities in their reasoning. Such circularity is particularly prominent when courts use government intent as a factor in their analysis, as the *Kreimer* and *Loudoun* courts did in finding the library a limited public forum.<sup>129</sup> These courts held that governments established libraries with the intent of promoting open access, and hence restrictions on this access were subject to strict scrutiny.<sup>130</sup> The problem is that the government can counter that CIPA and similar acts evince an intent to provide open access only to non-pornographic materials. What the courts mean to say here is that government and society jointly have created libraries to be a particular social institution, and the features of this institution, having been created, constrain the government’s future attempts at regulation. *Rosenberger* proves the same point. A university’s argument that it intended to fund only non-religious student publications should be unavailing against a characterization of student publications as providing a broad forum for student speech.<sup>131</sup>

Context can also suggest whether a distinction between selection and removal is appropriate. In some contexts, these might really be indistinguishable. For example, in most elections, the number of candidates is small enough that a decision about which candidates to include in a debate is essentially equivalent to a decision about which candidates to exclude.

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125. *Id.* at 868.

126. *Ark. Educ. Television Comm’n v. Forbes*, 523 U.S. 666, 674-75 (1998).

127. *Id.* at 674.

128. *Id.* at 675-76.

129. *See Kreimer v. Bureau of Police*, 958 F.2d 1242, 1259 (3d Cir. 1992); *Loudoun II*, 24 F. Supp. 2d 552, 562-63 (E.D. Va. 1998).

130. *Kreimer*, 958 F.2d at 1259; *Loudoun II*, 24 F. Supp. 2d at 562-63.

131. *See Rosenberger v. Rector & Visitors of the Univ. of Va.*, 515 U.S. 819, 834 (1995).

In other contexts, however, selection and removal might not amount to the same thing. In particular, in the context of libraries, selection and removal decisions differ in the types of resource constraints faced and in the ability of courts to detect improper motives.<sup>132</sup> These contextual differences may mean that the discretion to select does not imply the discretion to remove.

Thus, whether a restriction on a government space is a regulation of a limited public forum or an exercise of editorial discretion depends on the features and openness of the space and the discretion of the entity restricting the space. These, in turn, depend on whether restrictions and discretion are consistent with the histories and interactions of the relevant institutions. In applying these principles to CIPA, it is important to distinguish between the two different spaces and two different government entities at issue in the case. To determine whether libraries can constitutionally filter Internet content, we consider the discretion granted to libraries and the nature of library Internet access. To determine whether Congress can constitutionally require library filtering, we consider the discretion granted to Congress vis-à-vis libraries and the nature of federal subsidy programs for library Internet access. Each will be analyzed in turn.

## **B. The Constitutionality of Library Filtering**

The framework developed above suggests that to determine the constitutionality of library filtering, courts should analyze the social role of libraries and of library Internet access. History provides a particularly useful window on the former, and the characteristics of the Internet as a whole inform our determination of the latter. Both the modern evolution of librarians from gatekeepers to information managers and the open and interactive nature of the Internet suggest that public forum doctrines apply, rather than editorial discretion cases, and that there is reason to label filtering decisions as removal decisions.<sup>133</sup>

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132. See *ALA II*, 123 S. Ct. 2297, 2321 (2003) (Souter, J., dissenting); *Loudoun I*, 2 F. Supp. 2d 783, 793 (E.D. Va. 1998).

133. Despite the opinions of Justices Kennedy, Breyer, and Stevens, this case cannot turn on the unblocking provisions and prior restraint doctrine. On the one hand, *Lamont* holds that individuals cannot be required to affirmatively request access to protected speech, and therefore suggests that patrons should not be required to request unblocking of pages they have a right to see. See *ALA I*, 201 F. Supp. 2d 401, 486-89 (E.D. Pa. 2002). On the other hand, almost any exercise of editorial discretion functions as a prior restraint as to those materials not selected, but courts have never viewed this as a problem.

### 1. *The Role of Libraries*

The plurality in *ALA II* focused on reconciling the result in the case with the deference given to library book selection policies.<sup>134</sup> The trouble with this approach is that deference is consistent with two different views of the role of the library, and this approach does not provide a principled way to choose between them. On the one hand, society might defer to library collection judgments because it is the role of libraries to guide society's morals; on the other hand, courts might defer to such judgments simply because it is too difficult for them to separate proper from improper motives in the making of such judgments.<sup>135</sup>

The history of libraries suggests that while in the nineteenth and early twentieth centuries librarians may have been expected to provide moral guidance to patrons, deference to librarians today is rooted mainly in procedural concerns.<sup>136</sup> Where librarians were once information gatekeepers, they are now information managers. Modern librarians see their role as helping patrons to find the most appropriate material for their needs.<sup>137</sup> The modern rise of schools of "information management," to replace schools of "library science," reflects this change.<sup>138</sup> The writings of librarians themselves also points to a changed role. Noticeably the quotation cited by the plurality that most suggests a moral purpose for libraries dates from 1930.<sup>139</sup> The American Library Association's current position is that "library materials 'should not be proscribed or removed because of partisan or doctrinal disapproval.'"<sup>140</sup>

The plurality's characterization of libraries seems inconsistent with the role the public expects libraries to play, namely that of providing access to information. The plurality characterized libraries as having "broad discretion," and suggested that public libraries have an editorial role analogous

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134. See *ALA II*, 123 S. Ct. at 2304.

135. See *id.* at 2321 (Souter, J., dissenting).

136. See Gregory K. Laughlin, *Sex, Lies, and Library Cards: The First Amendment Implications of the Use of Software Filters to Control Access to Internet Pornography in Public Libraries*, 51 *DRAKE L. REV.* 213, 219-34 (2003).

137. *ALA I*, 201 F. Supp. 2d at 420-21.

138. See Katherine S. Mangan, *In Revamped Library Schools, Information Trumps Books*, *CHRON. OF HIGHER EDUC.*, Apr. 7, 2000, at A43; Kate Murphy, *Moving From the Card Catalogue to the Internet*, *N.Y. TIMES*, Jan. 6, 1997, at D5.

139. *ALA II*, 123 S. Ct. at 2304 (quoting F. Drury, *Book Selection* at xi (1930) ("It is the aim of the selector to give the public, not everything it wants, but the best that it will read or use to advantage.")).

140. *ALA I*, 201 F. Supp. 2d at 420 (quoting the American Library Association's ("ALA") *Library Bill of Rights*, which the ALA adopted in 1948).

to that of public television stations.<sup>141</sup> However, while society needs librarians to make certain inevitably content-based judgments, it is not at all clear that libraries have the sort of discretion that television stations have. For example, suppose a public television station refused to broadcast programs on the abortion debate, whatever the viewpoint, claiming that such programs are too controversial. *Forbes* suggests that such a decision would be well within the discretion of the station,<sup>142</sup> and viewers would probably accept both the decision and the explanation. Now suppose a public library refused to acquire books about the abortion debate for the same reason. This decision seems inconsistent with the library's role in providing access to information in a way that the television station's equivalent decision does not conflict with its more selective role.

Of course, the library might fail to acquire books about the abortion debate in the course of filling its shelves with other books. This result could be consistent with the library's role, since in the face of limited resources, the library must choose to provide access to some materials over others. The difference is that in making this type of decision, the library makes a comparative judgment about the relative value of different material, while in refusing to collect books on certain topics, the library makes an absolute value judgment. In focusing on the evaluation of individual materials, rather than on collection decisions as a whole, the plurality made a subtle and unwarranted shift from approving comparative judgments to approving absolute judgments.<sup>143</sup> Resource constraints make comparative judgments necessary, since in order to fulfill the goal of providing access to information, libraries must develop their collections within the applicable constraints in some systematic way. Absolute judgments are not consistent with this goal, however, since such judgments deny access to some information without also providing access to other information.<sup>144</sup>

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141. *ALA II*, 123 S. Ct. at 2304.

142. *See* Ark. Educ. Television Comm'n v. *Forbes*, 523 U.S. 666, 682 (1998).

143. *Compare ALA II*, 123 S. Ct. at 2304 (“[L]ibraries collect only those materials deemed to have ‘requisite and appropriate quality.’”) (quoting *ALA I*, 201 F. Supp. 2d at 421), *with ALA I*, 201 F. Supp. 2d at 421 (“[L]ibrarians . . . build, develop and create collections that have certain characteristics, such as balance in its coverage and requisite and appropriate quality.”).

144. Of course, libraries can (and must) make absolute judgments in eliminating obscenity and child pornography, but the categorization of some speech as illegal is itself the absolute judgment upon which the library bases its action. *Cf.* Laughlin, *supra* note 136, at 264-65 (arguing that librarians must make the sometimes hard decision about whether specific material is obscene, child pornography, or harmful to minors).

Thus, the real distinction in the context of libraries is not between selection decisions and removal decisions, but between resource-constrained failures to acquire, which involve comparative judgments, and refusals to acquire and outright removals, which involve absolute judgments.<sup>145</sup> Viewed in this light, it does not matter whether we characterize the blocking of a Web page as a failure to acquire the page or a removal of the page. In either case, the filter makes an absolute judgment about the page's value (or lack thereof). Even if libraries face a resource constraint in allocating time on Internet-accessible computers,<sup>146</sup> this constraint does not justify such absolute judgments. A library's decision about how best to fill its patrons' time on the Internet is different from its decision about how best to fill its book shelves. The latter is in furtherance of its goal of providing information to its patrons, while the former puts the library back in its now disclaimed position as arbiter of society's morals.<sup>147</sup>

## 2. *The Characteristics of the Internet*

The difference in the type of resource constraints faced provides at least one reason why library book collection policies and Internet filtering policies need not be treated alike under the First Amendment. Indeed, the Court has cautioned repeatedly that different media have different characteristics, leading to different results for First Amendment purposes.<sup>148</sup> It is important to consider how the features of the Internet determine the possibilities for the characterization of library Internet access.

In discussions about library filtering, courts often conceive of the Internet as the world's master library, a storehouse of information from which either libraries or patrons can choose.<sup>149</sup> Under this view, Web pub-

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145. The argument here is that this distinction separates judgments that are consistent with the library's role from those that are not. Whether the distinction is judicially manageable is a separate issue. Considerations of judicial manageability may support drawing the line between selection and removal in the context of book collections.

146. See *supra* notes 68-69 and accompanying text.

147. See Peltz, *supra* note 18, at 465 ("Librarianship, after all, is about helping people access and sift information and ideas; librarianship, ideally, is not about deciding what information people may access and what they may not.")

148. See *ALA II*, 123 S. Ct. at 2305 n.3 ("We are wary of the notion that a partial analogy in one context, for which we have developed doctrines, can compel a full range of decisions in such a new and changing area.") (quoting *Denver Area Educ. Telecomms. Consortium v. FCC*, 518 U.S. 727, 749 (1996)). Compare *FCC v. Pacifica Found.*, 438 U.S. 726 (1978) (upholding regulation of indecent radio broadcast), with *Sable Communications of Cal., Inc. v. FCC*, 492 U.S. 115 (1989) (striking down regulation of indecent dial-a-porn).

149. See, e.g., *ALA II*, 123 S. Ct. at 2305 ("[The Internet] is 'no more than a technological extension of the book stack.'") (quoting S. REP. NO. 106-141, at 7 (1999)); *Lou-*

lishers, and their First Amendment interests, lie outside the library. This view, however, minimizes one of the greatest assets of the Internet: its interactive nature. In a library's book stacks, the line between speaker and listener is clear, but on the Internet, the line becomes blurred. Publication on the Internet is relatively cheap and easy, so that library patrons now have the ability to add to the "library" themselves by setting up their own Web pages, which can then be accessed by other patrons and everyone else. The recent rise in blogging, the creation of online journals, is expanding the universe of Internet authors even more.<sup>150</sup>

More importantly, much of the Internet is designed to integrate the speech of many different participants so that each is simultaneously speaker and listener. Personal Web pages invite visitors to comment in guestbooks, which other visitors can then read. Auction sites invite buyers and sellers to post feedback, which is then read by other potential buyers and sellers. Online forums provide places where communities can gather to discuss issues; in such a setting, it is hard to imagine a line between authors and readers. The existence and proliferation of online forums particularly suggests that even as an information gathering tool, the Internet is different from a book collection. By allowing individuals to ask and answer questions and to post running commentary, online forums invite users to participate more actively in the process of finding information (by asking questions), and to contribute more directly to the store of information (by answering questions or posting comments).

All of this suggests that even if library Internet access is not a "public forum for Web publishers to express themselves,"<sup>151</sup> at least when "Web publishers" refers to people outside the library, it may well be a public forum for library patrons to express themselves.<sup>152</sup> When the library filters out personal Web pages or (the aptly named) online forums, it restricts not only its patrons' ability to access information, but also their ability to provide information and to participate in discussions.<sup>153</sup>

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*doun I*, 2 F. Supp. 2d 783, 793-94 (E.D. Va. 1998) ("The Internet therefore more closely resembles plaintiffs' analogy of a collection of encyclopedias from which defendants have laboriously redacted portions deemed unfit for library patrons.").

150. See Pamela LiCalzi O'Connell, *Online Diary: Blog Bog*, N.Y. TIMES, Oct. 23, 2003, at G3 (citing a study predicting 5.86 million active blogs in 2004).

151. *ALA II*, 123 S. Ct. at 2305.

152. See Bell, *supra* note 64, at 207 (suggesting that for the *receipt* of information, libraries are at least limited public forums, and are perhaps even traditional public forums); Peltz, *supra* note 18, at 463 (same).

153. It makes no difference that the library provides only the conduit and not the space on which the speech resides. We would never allow the post office to filter mail under the theory that it is merely a conduit for the speech and that private alternatives

Libraries might assert that the interactive features of the Internet are beyond the scope of what they intend to provide their patrons. Indeed, some libraries restrict or prohibit the use of Internet access for email, chat groups, or online games, and many such restrictions may be constitutional because they are content-neutral.<sup>154</sup> Other libraries might provide access to online databases through an Internet connection, but not provide general Internet access.<sup>155</sup> A library cannot, however, provide general Internet access and then claim that it does not intend for its patrons to speak. It cannot claim that it intends for its patrons to retrieve information from the Internet, but not to post to online forums. Such distinctions are not consistent with the nature and functioning of the Internet;<sup>156</sup> on the Internet, posting to online forums is an integral part of information retrieval.

Thus, regardless of how a library might characterize its intent, library Internet access is, at least in part, a forum for its patrons' speech. Because this speech is integral to the public discourse on the Internet as a whole, this forum constitutes a limited public forum, and restrictions on it should be subject to strict scrutiny.<sup>157</sup> Where government venues intersect with existing media, the characteristics of the media matter, and the government is not free to define its venues in any way it sees fit.

### C. The Constitutionality of Congress' Funding Condition

The framework developed in Part III.A can also be used to address the question of whether CIPA might be unconstitutional even if library filtering were constitutional. The focus of the inquiry, however, is different. We are no longer concerned with the role of libraries as regulators of the Internet, but rather with their role as targets of federal regulation. In both cases, courts should consider the institutional role of libraries, but they should be asking different questions, because in the one case, the library is the government entity, and in the other case, the library is a participant in the government space. Clearly delineating between these two views of libraries is crucial to avoiding a strange irony of the plurality opinion. That opinion celebrates the role of libraries in making independent editorial judgments in order to demonstrate the constitutionality of a federal program that constrains those judgments.

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exist to accomplish the same result.

154. See Laughlin, *supra* note 136, at 260.

155. See Peltz, *supra* note 18, at 402-03.

156. See *supra* note 115 and accompanying text.

157. Mandatory library filtering for adults cannot pass strict scrutiny, since there are many less restrictive alternatives that serve the government's interests. See *ALA I*, 201 F. Supp. 2d 401, 471-84 (E.D. Pa. 2002); see also Peltz, *supra* note 18, at 466-68 (arguing that even if filtering were the least restrictive means, it would not be narrowly drawn).

To begin to untwist the logic, recall that if library filtering is itself unconstitutional, then CIPA is also unconstitutional. Hence, for the purposes of this section, we will assume that library filtering is constitutional. Although there are multiple ways the Court could have reached this finding,<sup>158</sup> the most likely route, and the one the Court actually used, involves first determining that libraries have a broad discretion that encompasses the decision to filter Internet access. If libraries do have such broad discretion, however, they must also have some form of First Amendment rights, and the Court should have held that CIPA unconstitutionally conditions funding on the surrender of these rights.<sup>159</sup>

First, if libraries have sufficient editorial discretion to decide whether or not to filter Internet access, that discretion should be protected under the First Amendment. In *Forbes*, the Court held that “[w]hen a public broadcaster exercises editorial discretion in the selection and presentation of its programming, it engages in speech activity.”<sup>160</sup> If a library has similar discretion in its selection decisions, as the plurality found,<sup>161</sup> then it should follow that the library’s selection decisions are also a form of speech activity. Likewise, the Court has held that the “editorial control and judgment” that a newspaper exercises in deciding what to print is a form of speech protected by the First Amendment.<sup>162</sup> Any editorial judgment that the library exercises over what to provide its patrons should be similarly protected.

Furthermore, if the library’s decisionmaking can be properly analogized to that of a newspaper, *Rosenberger* should have guided the Court in *ALA II*.<sup>163</sup> In *Rosenberger*, the Court held that a university fund to subsidize student newspapers was a limited public forum, and that therefore, the university could not refuse to subsidize religious publications.<sup>164</sup> Viewed differently, the Court essentially struck down the university’s re-

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158. For example, the Court could have applied strict scrutiny, but then determined that library filtering passes strict scrutiny.

159. See also R. Polk Wagner, *Filters and the First Amendment*, 83 MINN. L. REV. 755, 802-04 (1999) (arguing that libraries’ editorial rights have First Amendment status and that under “current unconstitutional conditions doctrine,” the Court would be unlikely to allow Congress to require filters on library computers purchased with non-federal funds).

160. *Ark. Educ. Television Comm’n v. Forbes*, 523 U.S. 666, 674 (1998).

161. See *ALA II*, 123 S. Ct. 2297, 2304 (2003).

162. See *Miami Herald Publ’g Co. v. Tornillo*, 418 U.S. 241 (1974) (holding that a newspaper could not be compelled to print a political candidate’s reply to an attack previously printed in the newspaper).

163. See *Rosenberger v. Rector & Visitors of the Univ. of Va.*, 515 U.S. 819 (1995).

164. *Id.* at 834-37.

quirement that funding recipients not publish religious content. The federal subsidy programs constrained by CIPA, like the university subsidy program at issue in *Rosenberger*, provides funds with which individual libraries can determine what content to make available to their patrons, much as the student newspapers determined what content to make available to their readers.<sup>165</sup> In both cases, the funding programs established limited public forums, and courts should subject to strict scrutiny any restrictions on the content that funding recipients can make available. The government should not be allowed to condition access to a limited public forum on the surrender of editorial discretion.

The plurality asserted that *Rosenberger* was inapplicable because, once again, “public libraries do not install Internet terminals to provide a forum for Web publishers to express themselves.”<sup>166</sup> This claim, besides being suspect for the reasons noted above,<sup>167</sup> confuses the role of libraries as regulators with the role of libraries as targets of regulation. In analyzing the constitutionality of CIPA under the assumption that library filtering is constitutional, the question is not how to characterize a library’s decision to install Internet terminals, but how to characterize Congress’ decision to subsidize Internet access. It is the latter question that sheds light on the relevant issue of whether the federal subsidy programs established a limited public forum.<sup>168</sup> Congress has made it clear that the goal of federal subsidies for library Internet access is to expand public access to the resources available on the Internet, and to help bridge the digital divide.<sup>169</sup> Such programs are thus designed to facilitate private speech and encourage public discourse, key attributes of limited public forums.

The plurality’s argument that CIPA should be viewed as merely bounding the scope of the federal programs<sup>170</sup> is inconsistent with the respective roles of the federal government and of local libraries. To the extent that libraries make editorial judgments, constraints on these judgments are not consistent with the federal government’s social role, and thus should be seen as external to federal subsidy programs, not an integral part

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165. *See id.*

166. *ALA II*, 123 S. Ct. at 2309 n.7.

167. *See supra* Part III.B.2.

168. Indeed, by assuming that library filtering is constitutional, we are essentially assuming that library Internet access is not a limited public forum. *See supra* note 157 and accompanying text.

169. *See* 20 U.S.C. § 9121 (2000); *see also ALA I*, 201 F. Supp. 2d 401, 411-12 (E.D. Pa. 2002); Steven D. Hinckley, *Your Money or Your Speech: The Children’s Internet Protection Act and the Congressional Assault on the First Amendment in Public Libraries*, 80 WASH. U. L.Q. 1025, 1025-27 (2002).

170. *See ALA II*, 123 S. Ct. at 2307-08.

of defining the programs' scope.<sup>171</sup> Considering a hypothetical statute will help clarify this point. Suppose Congress established a subsidy program to allow libraries to purchase newspapers, but then required all funded libraries to exclude newspapers that print comics.<sup>172</sup> Such a requirement might be perfectly rational, but one imagines that courts would see this as an intrusion upon libraries' discretion to choose newspaper subscriptions. If Congress' decision to condition funding on the content provided through library newspapers should be subject to strict scrutiny, so should its decision to condition funding on the content provided through library Internet access.<sup>173</sup> In both cases, restrictions should be suspect because Congressional discretion is inconsistent with the role of the federal government in local libraries.

#### IV. CONCLUSION

In order to determine the constitutionality of regulations on government spaces, courts must draw lines between spaces for public discourse and spaces for government speech, and between constraints on government and constraints on private speakers. This line drawing involves inevitably normative judgments, but an analysis of institutions can expose these judgments for further debate and should constrain them. The social roles of relevant spaces and relevant government entities limits the plausible characterizations that a court might give to the speech and the regulation at issue. An understanding of the roles of libraries, of Internet access, and of the federal government suggests that library filtering is unconstitutional and that such filtering cannot be a constitutional condition of federal funding, contrary to the result in *ALA II*.

The need for institutional analysis is particularly keen in the context of regulation of the Internet. Appeals to precedent invite courts to minimize the differences between new media and old. The Internet becomes nothing more than a very large library, or perhaps a very comprehensive encyclo-

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171. See Bell, *supra* note 64, at 231 (suggesting that courts should prefer to insulate library professionals from political pressure).

172. That is, if a library took any funds, it could not subscribe to any such newspapers, using these or other funds.

173. One might argue that the restriction on Internet access is for a more compelling reason than the restriction on newspapers, but this is relevant only to the application of strict scrutiny, not the decision to apply strict scrutiny in the first place. Whether the federal funding condition can pass strict scrutiny essentially depends on whether library filtering would pass strict scrutiny, since any means less restrictive than filtering would also provide a less restrictive funding condition. See *supra* note 157.

pedia.<sup>174</sup> Courts must be careful to notice the differences, to discuss them, and to consider the ways in which they matter. If courts fail to engage in this analysis, at best, they may make rulings that are inconsistent with the social roles of relevant institutions, and at worst, they risk undermining these roles in hidden ways. As Professor Lawrence Lessig points out, the Internet has no inherent nature, it is what we make of it.<sup>175</sup> The plurality in *ALA II* crafts its holding under the assumption that the Internet is a one-way conduit of information subject to centralized control. If courts continue to uphold Internet regulation under the same assumption, this assumption may become reality. While the merits of such a shift are certainly open to debate, at the very least, courts and society should engage the debate in an open and transparent manner. After all, that is what the First Amendment is about.

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174. See *supra* note 149.

175. See LAWRENCE LESSIG, CODE AND OTHER LAWS OF CYBERSPACE 5-6 (1999).



## INTERACTIVE DIGITAL SOFTWARE ASS'N V. ST. LOUIS COUNTY: THE FIRST AMENDMENT AND MINORS' ACCESS TO VIOLENT VIDEO GAMES

By Nathan Phillips

Video games are an increasingly popular pastime for both children and adults.<sup>1</sup> Technological advances have enabled developers to create realistic content whose complexity—and violence—rivals that of motion pictures. For example, the recently released game *Gladiator: Sword of Vengeance* by Acclaim Entertainment has been praised as “one of the most visceral experiences you can find in a [console game].”<sup>2</sup> Acclaim markets *Gladiator*'s graphic content with slogans such as “Combo attacks—produce spectacular sequences and gorier deaths. The more fantastic the kill, the higher the Blood Meter rises” and “Finish him!—When stunned, your enemy is open to a specialized and gory coup de grace.”<sup>3</sup> Acclaim encourages players to “[g]ain experience through combat—the more you kill, the more abilities you learn.”<sup>4</sup> The game is rated *Mature* for “blood and gore” and “intense violence,” yet it is available to any child to buy or rent from myriad game retailers and rental stores. The offering of such mature content coupled with the wide availability of these games presents problems for parents who wish to shield their children from potentially inappropriate material.

This Note assesses the current legal status of minors' access to violent video games, focusing specifically on the recent decision in *Interactive Digital Software Ass'n v. St. Louis County*.<sup>5</sup> In response to a challenge to a St. Louis County, Missouri, ordinance restricting the availability of violent video games to minors, the Eighth Circuit found that video games are speech under the First Amendment, and that the county had failed to prove

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1. Joseph Moran, *Game Players Are an Increasingly Diverse Group, Says Poll*, GameMarketWatch.com, at <http://www.gamemarketwatch.com/news/item.asp?nid=2756> (last visited Jan. 27, 2004).

2. Justin Teats, *Gladiator: Sword of Vengeance Review*, Digital Fan Gaming Network (Dec. 15, 2003), at <http://www.digitalfan.com/xbox/reviews/review14> (last visited Jan. 27, 2004).

3. *Gladiator: Sword of Vengeance, Key Features*, Acclaim Entm't, Inc., at <http://www.acclaim.com/games/gladiator/features/index.html> (last visited Jan. 27, 2004).

4. *Id.*

5. 329 F.3d 954 (8th Cir. 2003) [hereinafter *Interactive*].

compelling interests in shielding minors from violent games—a showing necessary to regulate speech.<sup>6</sup> This Note analyzes the *Interactive* decision, and concludes that the court correctly defined video games as speech, but misapplied Supreme Court doctrine establishing that minors and adults have different constitutional rights. This Note suggests that the enactment of local legislation that enforces the industry's own labeling system is the best approach to the problem of children's exposure to video game violence.

Part I discusses the First Amendment's protection of the freedom of speech and details the Supreme Court's recognition that children have different speech rights than adults because of their developing mental and emotional status. Part I also summarizes the development of video game content and its treatment by the courts, as well as outlines the video game ratings regime. Part II discusses the facts and procedural history of the *Interactive* decision. Part III suggests that recent decisions regarding local regulation of video games failed to acknowledge the ability of local governments to protect parental rights and the welfare of children, and posits that sound public policy demands that the judiciary respect industry labeling and local regulation as tools to regulate minors' access to violent games. Finally, this Note examines the development of the motion picture industry ratings regime, and concludes that classification systems utilized by both industries can be strengthened by local legislation mandating that retailers enforce the ratings.

## I. BACKGROUND

### A. First Amendment

#### 1. *Protection Granted to Speech*

The Free Speech clause of the First Amendment to the Constitution provides, "Congress shall make no law . . . abridging the freedom of speech, or of the press."<sup>7</sup> The guarantee of Free Speech is not absolute; courts recognize limited exceptions: libel and defamation,<sup>8</sup> speech designed to incite imminent lawless action,<sup>9</sup> fighting words,<sup>10</sup> and obscen-

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6. *Id.*

7. U.S. CONST. amend. I, cl. 2.

8. *See, e.g.,* N.Y. Times, Co. v. Sullivan, 376 U.S. 254 (1964).

9. In *Brandenburg v. Ohio*, 395 U.S. 444, 448 (1969), the court overturned an Ohio statute that criminalized speech that "advocate[d] or [taught] the duty, necessity, or propriety of violence 'as a means of accomplishing industrial or political reform.'" The Court held that only speech designed to "incite" "imminent lawless action," could be so

ity.<sup>11</sup> Moreover, the state may place reasonable limitations on the time, place, and manner of public speech provided that the restrictions are content-neutral (i.e., the regulations are not intended to prevent the speech because of its message).<sup>12</sup>

Classification of content as speech is important because any law restricting speech will be reviewed under a strict scrutiny standard.<sup>13</sup> In general, strict scrutiny applies when a law infringes a fundamental right guaranteed by the Constitution.<sup>14</sup> Under strict scrutiny, the state or municipality defending the law in question must demonstrate a compelling interest for passing the legislation, and that the legislation is the least restrictive means of achieving that interest.<sup>15</sup> In addition, the Supreme Court has suggested that there is a further hurdle for legislation that targets speech: the state must show that the legislation will in fact achieve its goal.<sup>16</sup> The court in *Interactive*, for instance, relied upon this additional requirement to find that evidence that violent games harm minors was insufficiently conclusive.<sup>17</sup> If content is not protected by the First Amendment, legislatures merely need to show a rational basis for passing laws restricting its availability.<sup>18</sup>

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punished. The holding is a descendant of the “clear and present danger” doctrine promulgated by Justice Holmes in *Schenk v. United States*, 249 U.S. 47, 52 (1919), which criminalized speech if “the words used are used in such circumstances and are of such a nature as to create a clear and present danger that they will bring about the substantive evils that Congress has a right to prevent.”

10. See, e.g., *Chaplinsky v. New Hampshire*, 315 U.S. 568 (1942).

11. See, e.g., *Roth v. United States*, 354 U.S. 476 (1957).

12. See, e.g., *Ward v. Rock Against Racism*, 491 U.S. 781 (1989).

13. *Perry Educ. Ass’n v. Perry Local Educators’ Ass’n*, 460 U.S. 37, 45 (1983) (holding that “[f]or the state to enforce a content-based exclusion it must show that its regulation is necessary to serve a compelling state interest and that it is narrowly drawn to achieve that end”).

14. See, e.g., *Sable Communications of Cal., Inc. v. FCC*, 492 U.S. 115, 126 (1989) (determining that “[t]he Government may, however, regulate the content of constitutionally protected speech in order to promote a compelling interest if it chooses the least restrictive means to further the articulated interest”).

15. See *id.* at 126. The least restrictive means refers to the requirement that there be no other method by which the legislature could regulate speech that would provide more expressive leeway.

16. See *Turner Broad. Sys., Inc. v. FCC*, 512 U.S. 622, 664 (1994).

17. *Interactive*, 329 F.3d 954, 958 (8th Cir. 2003).

18. See *Lyng v. International Union, United Automobile Aerospace & Agricultural Implement Workers of America*, 485 U.S. 360, 375 (1988) (Marshall, J., dissenting) (discussing the Court’s “least intrusive standard of review—the so-called ‘rational basis’ test, which requires that legislative classifications be ‘rationally related to a legitimate governmental interest,’” in the context of a Fifth Amendment challenge). Justice Marshall

## 2. *Children Have Different Speech Rights Than Adults*

It is well established that children have different constitutional rights than adults. The Supreme Court announced this principle in the seminal case *Ginsberg v. New York*,<sup>19</sup> and has extended it in recent cases.<sup>20</sup> These cases demonstrate that minors' access to violent video games can be regulated despite the fact that the games should be treated as protected speech for adults.

In *Ginsberg*, the operator of a small retail store was charged with violating a New York statute establishing a more expansive obscenity standard for minors.<sup>21</sup> The vendor sold "girlie" magazines, containing pictures "showing [the] female buttocks [and] breast . . . with less than a full opaque covering," to a sixteen-year-old boy in violation of the statute.<sup>22</sup> The Nassau County District Judge determined that the magazines at issue were harmful to minors within the meaning of the statute for three reasons: the pictures at issue predominantly appealed to "the prurient, shameful or morbid interest of minors," they were "patently offensive to prevailing standards in the adult community as a whole with respect to what is suitable material for minors," and they were "utterly without redeeming social importance for minors."<sup>23</sup> The New York State appellate courts upheld this reasoning, and the case ultimately reached the United States Supreme Court.<sup>24</sup>

The Supreme Court directed its inquiry to "whether it was constitutionally impermissible for New York . . . to accord minors under 17 a more restricted right than that assured to adults to judge and determine for themselves what sex material they may read or see."<sup>25</sup> In upholding the decisions of the New York courts, Justice Brennan stated that the statute did not impermissibly restrict the free speech rights of minors because the state has greater authority to police the conduct of children than it does adults.<sup>26</sup> The basis for this distinction is twofold: parents have a legitimate expectation that the state will aid them in rearing their children, and the

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described the test as "contain[ing] two substantive limitations on legislative choice: legislative enactments must implicate legitimate goals, and the means chosen by the legislature must bear a rational relationship to those goals." *Id.* (Marshall, J., dissenting).

19. 390 U.S. 629 (1968).

20. *See Sable Communications of Cal., Inc. v. FCC*, 492 U.S. 115 (1989); *FCC v. Pacifica Found.*, 438 U.S. 726 (1978).

21. *Ginsberg*, 390 U.S. at 631.

22. *Id.* at 631-32.

23. *Id.* at 631-33.

24. *Id.* at 633.

25. *Id.* at 636-37.

26. *Id.* at 638.

state “has an independent interest in the well-being of its youth.”<sup>27</sup> The Court noted that even commentators who generally oppose obscenity exceptions as contrary to the First Amendment supported a different standard for children:

The world of children is not strictly part of the adult realm of free expression. The factor of immaturity, and perhaps other considerations, impose different rules . . . [R]egulations of communication addressed to them need not conform to the requirements of the First Amendment in the same way as those applicable to adults.<sup>28</sup>

Thus, the Supreme Court determined that the special developmental circumstances of childhood allow states to limit children’s speech rights in a manner that would be impermissible if applied to adults.<sup>29</sup>

The Court next addressed the evidentiary standard needed to sustain a broader definition of obscenity as applied to minors. It declared that New York merely needed to show that “it was not irrational for the legislature to find that exposure to material condemned by the statute is harmful to minors.”<sup>30</sup> Significantly, the Court stressed that the legislature did not need to show conclusive evidence that the magazines harmed minors. Justice Brennan stated, in reference to that statute’s assertion that the material caused injury, that “it is very doubtful that this finding expresses an accepted scientific fact.”<sup>31</sup> Justice Brennan continued, “while these studies all agree that a causal link has not been demonstrated, they are equally agreed that a causal link has not been disproved either.”<sup>32</sup>

In sum, *Ginsberg* embodies the proposition that the Constitution affords minors less expansive speech rights because of their special developing status. Consequently, regulations restricting children’s access to speech can be constitutional even though the same restrictions as applied to adults might violate the First Amendment. Obscenity, as applied to adults, is a narrowly drawn, relatively static area of speech defined by the courts’ interpretation of the First Amendment,<sup>33</sup> and is not malleable by

27. *Id.* at 639.

28. *Id.* at 638, n.6 (quoting Thomas Emerson, *Toward a General Theory of the First Amendment*, 72 *YALE L.J.* 877, 938-39 (1963)).

29. *See id.*

30. *Id.* at 641.

31. *Id.*

32. *Id.* at 642.

33. *See, e.g.,* *FW/PBS v. City of Dallas*, 493 U.S. 215, 252 (1990) (Scalia, J., concurring in part and dissenting in part) (explaining “the very stringency of our obscenity test, designed to avoid any risk of suppressing socially valuable expression”); *Miller v.*

legislatures except upon satisfaction of strict scrutiny.<sup>34</sup> By contrast, legislatures have more leeway in structuring the boundaries of obscenity as applied to minors because of their less expansive First Amendment guarantees.<sup>35</sup>

*FCC v. Pacifica Foundation*<sup>36</sup> and *Sable Communications v. FCC*<sup>37</sup> are two more recent Supreme Court decisions that build upon *Ginsberg* to expand the notion that minors' special developing status demands that society treat their speech rights with less deference than those of adults.

In *Pacifica*, the Court faced the question of whether the Federal Communications Commission "has any power to regulate a radio broadcast that is indecent but not obscene."<sup>38</sup> The case arose over a radio station's afternoon broadcast of a prerecorded monologue by comedian George Carlin on "words you couldn't say on the public . . . airwaves."<sup>39</sup> Justice Stevens explained that the FCC can regulate merely indecent speech because of society's responsibility to shield children from inappropriate material. He stated that:

We held in [*Ginsberg*] that the government's interest in the "well-being of its youth" and in supporting "parents' claim to authority in their household" justified the regulation of otherwise protected expression. The ease with which children may obtain access to broadcast material, coupled with the concerns recognized in *Ginsberg*, amply justify special treatment of indecent broadcasting.<sup>40</sup>

In *Sable Communications v. FCC*, the Supreme Court again addressed the issue of minors' speech rights.<sup>41</sup> While the *Sable* Court ultimately found that legislation that prohibited all indecent interstate telephone messages was not narrowly tailored to serve the compelling interest of shielding minors from inappropriate content,<sup>42</sup> Justice White positively reflected upon the status of *Ginsberg*:

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California, 413 U.S. 15, 24 (1973) (establishing "contemporary community standards" test for obscenity).

34. *But see* *Sable Communications of Cal., Inc. v. FCC*, 492 U.S. 115, 125 (1989) (suggesting that local standards may lead to different definitions of obscenity).

35. *See* *Ginsberg v. New York*, 390 U.S. 629, 638 (1968).

36. 438 U.S. 726 (1978).

37. 492 U.S. 115 (1989).

38. *Pacifica*, 438 U.S. at 729.

39. *Id.*

40. *Id.* at 749.

41. *Sable*, 492 U.S. at 115.

42. *Id.* at 131.

We have recognized that there is a compelling interest in protecting the physical and psychological well-being of minors. *This interest extends to shielding minors from the influence of literature that is not obscene by adult standards.* The Government may serve this legitimate interest, but to withstand constitutional scrutiny, “it must do so by narrowly drawn regulations designed to serve those interests without unnecessarily interfering with First Amendment freedoms.”<sup>43</sup>

Justice White further noted that “[t]here is no constitutional barrier under [*Miller v. California*]<sup>44</sup> to prohibiting communications that are obscene in some communities under local standards even though they are not obscene in others.”<sup>45</sup> This declaration supports the policy argument that localities, by referencing community mores, are best able to provide appropriate legislation for protecting children, provided that the localities have rational reasons for limiting minors’ speech rights.<sup>46</sup>

## B. Video Games

### 1. Legal History

Courts first addressed the protected status of games in suits brought against municipalities that passed ordinances dealing with the zoning and licensing of video arcades.<sup>47</sup> They typically concluded that video games do not contain expressive or informational elements apart from their design to entertain.<sup>48</sup> According to the court in one representative case, *America’s Best Family Showcase Corp. v. City of New York, Department of Buildings*:

In no sense can it be said that video games are meant to inform. Rather, a video game, like a pinball game, a game of chess, or a game of baseball, is pure entertainment with no informational element . . . [T]herefore . . . although video games may be copyrighted, they ‘contain so little in the way of particularized form

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43. *Id.* at 126 (internal citations omitted) (emphasis added).

44. 413 U.S. 15 (1973).

45. *Sable*, 492 U.S. at 125.

46. See *infra* Part III.C for a policy proposal for a bifurcated regulatory regime.

47. Kurtis A. Kemper, *First Amendment Protection Afforded to Commercial and Home Video Games*, 106 A.L.R.5th 337 (2003).

48. See, e.g., *Am.’s Best Family Showcase Corp. v. City of New York, Dep’t of Bldgs.*, 536 F. Supp. 170 (E.D.N.Y. 1982).

of expression' that [they] cannot be fairly characterized as a form of speech protected by the First Amendment.<sup>49</sup>

Contemporaneous decisions of other courts emphasized the same logic, finding that video games lacked expressive, communicative, or informational content that would place them within the ambit of the First Amendment.<sup>50</sup>

Courts adjudicated the majority of these cases in the early 1980s, when the video game industry was in its infancy. Technological constraints prevented game developers from designing games that featured storylines and additional content apart from the limited interaction of the user and a graphical interface.<sup>51</sup> Examples of video games from the early 1980's include *Pac-Man*, in which players attempt to navigate a simple maze and consume dots with "Pac-Man" while avoiding ghosts, and *Space Invaders*, in which players move a fighter jet in two dimensions while firing at rows of slowly encroaching aliens.<sup>52</sup> The court in *Caswell v. Licensing Commission for Brockton* specifically examined *Space Invaders* and found that despite the "theme" of saving the planet from alien invasion, the plaintiff, seeking to overturn a regulatory ordinance, "failed to demonstrate that video games import sufficient communicative, expressive or informative elements to constitute expression protected under the First Amendment."<sup>53</sup>

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49. *Id.* at 174.

50. See, e.g., *Rothner v. City of Chicago*, 725 F. Supp. 945, 948 (N.D. Ill. 1989), *aff'd*, 929 F.2d 297 (7th Cir. 1991); *Malden Amusement Co. v. City of Malden*, 582 F. Supp. 297, 294 (D. Mass. 1983) (relying on the reasoning of *Am.'s Best Family*, 536 F. Supp. 170, to disqualify games from First Amendment protection); *Kaye v. Planning & Zoning Comm'n*, 472 A.2d 809, 811 (Conn. Super. Ct. 1983) (finding that games lacked the requisite expressive, informational, or communicative elements to qualify as protected speech); *Marshfield Family Skateland, Inc. v. Town of Marshfield*, 450 N.E.2d 605, 610 (Mass. 1983) (concluding that video games are merely technologically advanced pinball machines, and thus outside the ambit of the First Amendment); *Caswell v. Licensing Comm'n for Brockton*, 444 N.E.2d 922, 926-27 (Mass. 1983) (holding that any expressive or communicative elements present in video games are trivial); *People v. Walker*, 354 N.W.2d 312, 316-17 (Mich. App. 1984) (finding that video game purveyor failed to demonstrate that games contain sufficient expressive elements); *Wen & Liz Realty Corp. v. Bd. of Zoning Appeals*, 94 A.D.2d 182, 187-88 (N.Y. App. Div. 1983) (pronouncing that the plaintiff failed to demonstrate that video games were speech for First Amendment purposes); *Tommy & Tina Inc. v. Dep't of Consumer Affairs*, 459 N.Y.S.2d 220, 227 (N.Y. App. Div. 1983) (stating that video games are not forms of speech because they fail to provide information or communicate ideas).

51. For a history of video games and their aesthetic appeal, see STEVEN POOLE, *TRIGGER HAPPY VIDEOGAMES AND THE ENTERTAINMENT REVOLUTION* (2000).

52. See generally Donald A. Thomas, Jr., *Facts and Stats (1980)*, at [http://www.icwhen.com/book/the\\_1980s/1980.shtml](http://www.icwhen.com/book/the_1980s/1980.shtml) (last updated Jan. 14, 2004).

53. *Caswell*, 444 N.E.2d at 926.

In the late 1990s, a consensus began to emerge that games were forms of speech, likely driven by technological advances that allowed software developers to offer more content in video games. The changing attitude toward the content of games occurred in the context of cases challenging local regulations that sought to control violent and sexually explicit video games, as well as tort suits against game manufacturers and distributors.<sup>54</sup> Courts began to find that video games have “message[s], even ideolog[ies].”<sup>55</sup> In *Interactive*, the court noted that the fact that the county sought to regulate games because of their purported impact on the emotional and mental health of children was telling evidence of their expressive content.<sup>56</sup>

## 2. *IDSAs and the ESRB: Development of a Video Game Ratings System*

In response to Congressional inquiries into the violent content of some video games in the early 1990s, the video game industry formed the Interactive Digital Software Association (“IDSA”) in 1994, which became the Entertainment Software Association (“ESA”) in June 2003. Practically all major game developers, publishers, and distributors are members of the ESA.<sup>57</sup> Intending to stave off government regulation,<sup>58</sup> the IDSA in turn

54. For an example of the former, see *Interactive*, 329 F.3d 954 (8th Cir. 2003) (upholding preliminary injunction against ordinance that prevented minors from obtaining violent and sexually explicit games without parental consent because county did not put forth a compelling interest to justify regulation), and *Am. Amusement Mach. Ass’n v. Kendrick*, 244 F.3d 572 (7th Cir. 2001) (Posner, J.) [hereinafter *Kendrick II*] (finding an Indianapolis ordinance that limited availability of violent video games to minors unconstitutional because games are protected speech and minors have free speech rights).

For examples of the latter, see *James v. Meow Media, Inc.*, 300 F.3d 683, 696 (6th Cir. 2002) (affirming dismissal of wrongful death claim against game distributor because games contain sufficient communicative elements to qualify for First Amendment protection); *Wilson v. Midway Games, Inc.*, 198 F. Supp. 2d 167, 181-82 (D. Conn. 2002) (dismissing wrongful death action against game manufacturer because of protected status of video games, but noting that blanket First Amendment protection to games is inappropriate); *Sanders v. Acclaim Entm’t, Inc.*, 188 F. Supp. 2d 1264 (D. Colo. 2002) (finding wrongful death action against manufacturer of *Mortal Kombat* video game failed because of protected status of video game).

55. *Kendrick II*, 244 F.3d at 577.

56. *Interactive*, 329 F.3d at 957.

57. For more information about the ESA, see the organization’s website at <http://www.theesa.com> (last visited Dec. 10, 2003).

58. See The Video Game Rating Act of 1994, H.R. 3785, 103d Cong. (1994); FTC, *MARKETING VIOLENT ENTERTAINMENT TO CHILDREN: A REVIEW OF SELF-REGULATION AND INDUSTRY PRACTICES IN THE MOTION PICTURE, MUSIC RECORDING & ELECTRONIC GAME INDUSTRIES* 37 (Sept. 2000) [hereinafter *FTC REPORT*], available at <http://www.ftc.gov/reports/violence/vioreport.pdf>.

spawned the Entertainment Software Rating Board (“ESRB”) in 1994 as an industry mechanism for self-regulation.<sup>59</sup> The ESA and ESRB parallel the equivalent organizations in the motion picture industry: the Motion Picture Association of America (MPAA)<sup>60</sup> in conjunction with the National Association of Theater Owners (“NATO”),<sup>61</sup> and the Classification and Ratings Administration (“CARA”).<sup>62</sup> Together, the NATO and the MPAA implement the motion picture ratings system, a system developed for the same reason as the ESRB—to preempt government regulation.<sup>63</sup>

The ESRB rates games using one of the following categories: “EC” for *Early Childhood*; “E” for *Everyone*; “T” for *Teen*; “M” for *Mature*; “AO” for *Adults Only*; and “NR” for *Not Rated*.<sup>64</sup> In addition to these letter-keys, the ESRB provides a variety of content descriptors such as “Blood and Gore” (meaning that the game contains “depictions of blood or the mutilation of body parts”); “Strong Language” (referring to “profanity and explicit references to sexuality, violence, alcohol, or drug use”); and “Use of Drugs” (signifying “consumption or use of illegal drugs”).<sup>65</sup> The ESRB ratings system is comprehensive, and virtually every video game on console systems (e.g., Sony’s *Playstation*<sup>®</sup>, Nintendo’s *GameCube*<sup>®</sup>, and Microsoft’s *Xbox*<sup>®</sup>) and personal computers (including Microsoft *Windows*<sup>®</sup>, Macintosh, and Linux platforms) is rated.<sup>66</sup> The ESRB provides several tools for parents and children to find ratings, such as a searchable database at its website,<sup>67</sup> an “online-hotline” service through which consumers can send email inquiries to the ESRB, and a toll-free ratings hotline.<sup>68</sup>

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59. *About ESRB: What is the Entertainment Software Rating Board*, Entertainment Software Rating Board, at <http://www.esrb.org/about.asp> (last visited Feb. 11, 2004).

60. For more information about the MPAA, see the organization’s website at <http://www.mpa.org> (last visited Feb. 11, 2004).

61. For more information about the NATO, see the organization’s website at <http://www.natonline.org> (last visited Feb. 11, 2004).

62. For more information about the CARA, see the organization’s website at <http://www.filmratings.com> (last visited Feb. 11, 2004).

63. See *About MPA*, Motion Picture Ass’n of Am., at <http://www.mpa.org/about/index.htm> (last visited Feb. 11, 2004). For a more in-depth discussion of the motion picture industry’s ratings regime, see *infra* Part III.C.2.

64. *ESRB Game Ratings: Game Rating and Descriptor Guide*, Entm’t Software Rating Bd., at [http://www.esrb.org/esrbratings\\_guide.asp#symbols](http://www.esrb.org/esrbratings_guide.asp#symbols) (last visited Feb. 11, 2004).

65. *Id.*

66. FTC REPORT, *supra* note 58, at 37.

67. *ESRB Game Ratings*, Entm’t Software Rating Bd., at [www.esrb.org/esrbratings.asp](http://www.esrb.org/esrbratings.asp) (last visited Feb. 11, 2004).

68. *Id.*

In response to public and Congressional concern prompted in part by the Columbine school shootings of 1999, President Clinton commissioned the Federal Trade Commission (FTC) to conduct a special report on violence in the media in 1999.<sup>69</sup> The FTC released its findings in 2000 (with three follow-up studies in 2001 and 2002), singling out the ESRB as “the most comprehensive of the three industry systems (movies, music, and games) studied by the Commission.”<sup>70</sup> The FTC noted the substantial compliance by industry members, and the adaptability of the system “to address new challenges, developments, and concerns regarding the practices of its members.”<sup>71</sup> Regarding enforcement of ESRB policies, the Commission remarked that the IDSA was taking steps to ensure compliance by maintaining communication with publishers and asking association members to conform to guidelines when notified of violations.<sup>72</sup>

## II. THE *INTERACTIVE* DECISION

On October 26, 2000, St. Louis County, Missouri, passed an ordinance making it unlawful for any person to knowingly sell, rent, or make available graphically violent video games to minors or to allow minors to play such games without a parent’s or guardian’s consent.<sup>73</sup> The county sought to protect the emotional and mental health of its children, and assist parents to do the same. It relied on disputed psychological testimony that purported to show that children who play violent video games may act more violently.<sup>74</sup>

A group of video game publishers, distributors, and operators filed suit in the Federal District Court for the Eastern District of Missouri in 2002 to have the ordinance declared unconstitutional as an infringement of the First Amendment.<sup>75</sup> The district court denied the injunction request after holding that video games were not speech for purposes of the First Amendment. Likening them to “baseball and bingo,” the court found that games did not “express ideas, impressions, feelings or information unre-

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69. FTC REPORT, *supra* note 58, at i.

70. *Id.* at 37.

71. *Id.*

72. *Id.* at 40.

73. *Interactive Digital Software Ass’n v. St. Louis County*, 200 F. Supp. 2d 1126, 1129-30 (E.D. Mo. 2002) [hereinafter *Interactive I*] (citing St. Louis County, Mo., Ordinance 20,193 (Oct. 26, 2000), amending Chapter 602 of the St. Louis County Rev. Ordinances by adding new sections 602.425 through 602.460).

74. *Interactive*, 329 F.3d 954, 958-59 (8th Cir. 2003).

75. *Interactive I*, 200 F. Supp. 2d at 1141.

lated to the game itself.”<sup>76</sup> Alternatively, even if regulation of video games warranted strict scrutiny, the court found that the county demonstrated that the ordinance was narrowly tailored to further compelling interests in protecting the psychological well-being of children and aiding parents in that endeavor.<sup>77</sup>

On appeal, the Eighth Circuit reversed, holding that video games contain expressive elements that qualify as speech and that St. Louis County had failed to present sufficient evidence of compelling interests in regulating violent video games.<sup>78</sup> Judge Morris Arnold analogized video games to other forms of entertainment, finding that “these ‘violent’ video games contain stories, imagery, ‘age-old themes of literature’ and messages, ‘even an ideology,’ just as books and movies do.”<sup>79</sup> He found that the medium by which expression is conveyed is irrelevant for First Amendment purposes.<sup>80</sup> Citing *Hurley v. Irish-American Gay, Lesbian, & Bisexual Group*,<sup>81</sup> the court declared that “a particularized message is not required for speech to be constitutionally protected,” challenging the district judge’s logic that “because video games are a new medium, they must be ‘designed to express or inform.’”<sup>82</sup> Relying on Supreme Court precedent, the Eighth Circuit noted that the First Amendment “protects ‘entertainment, as well as political and ideological speech.’”<sup>83</sup>

Along the same lines, the court found immaterial the fact that interactivity allows game players (and DVD and videocassette viewers) to fast forward through storylines and view only violent content.<sup>84</sup> “Video games . . . are ‘analytically indistinguishable from protected media such as motion pictures,’” and to allow interactivity to disqualify them from protection would be unfounded.<sup>85</sup> Thus, the fact that a viewer may use a DVD or VCR to only view violent scenes of a movie does not disqualify the movie from First Amendment protection, and therefore the same should hold true for video games. Relying on Judge Posner’s opinion in *American Amuse-*

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76. *Id.* at 1134.

77. *Id.* at 1136-37.

78. *Interactive*, 329 F.3d at 958.

79. *Id.* at 957 (citing *Kendrick II*, 244 F.3d 572, 577 (7th Cir. 2001)).

80. *Id.* (“The mere fact that they appear in a novel medium is of no legal consequence.”).

81. 515 U.S. 557, 569 (1995).

82. *Interactive*, 329 F.3d at 957.

83. *Id.* (citing *Schad v. Borough of Mount Ephraim*, 452 U.S. 61, 65 (1981)).

84. *Id.*

85. *Id.* (quoting *Wilson v. Midway Games, Inc.*, 198 F. Supp. 2d 167, 181 (D. Conn. 2002)).

*ment Machine Ass'n v. Kendrick*,<sup>86</sup> the court noted that “literature is most successful when it ‘draws the reader into the story, makes him identify with the characters, invites him to judge them and quarrel with them, to experience their joys and sufferings as the reader’s own’”—in other words, when it is interactive.<sup>87</sup>

The court noted that the county’s desire to regulate games because of their purported impact on the emotional and mental health of children was telling evidence of the games’ expressive, communicative, and informational content.<sup>88</sup> It reasoned that if video games did not contain such elements, they could not affect the mental and emotional well-being of children.<sup>89</sup> Thus, the county’s position was untenable unless games are speech. The court then applied a strict scrutiny standard of review because the county ordinance seemed to target the content of video games.<sup>90</sup> It observed that violence absent sexual material cannot be “obscene” in the legal sense, even as applied only to children.<sup>91</sup>

The court next determined that the county failed to prove its first alleged compelling interest of protecting the mental and emotional well-being of children.<sup>92</sup> While the Eighth Circuit did not doubt the county’s sincerity in seeking to protect children, it found the county’s evidence purporting to show harm from violent games deficient.<sup>93</sup> The court required the county to “demonstrate that the recited harms are real, not merely conjectural, and that the regulation will in fact alleviate these harms in a direct and material way.”<sup>94</sup> The county, in the court’s view, merely demonstrated a “vague generality” that violent video games harm minors.<sup>95</sup>

The county relied on *Ginsberg*<sup>96</sup> in asserting its second compelling interest: aiding parents in protecting their children’s well-being.<sup>97</sup> The

86. 244 F.3d 572 (7th Cir. 2001).

87. *Interactive*, 329 F.3d at 957 (quoting *Kendrick II*, 244 F.3d 572, 577 (7th Cir. 2001)).

88. *Id.*

89. *See id.*

90. *Id.* at 958.

91. *Id.* at 958 (citing *Video Software Dealers Ass’n v. Webster*, 968 F.2d 684, 689 (8th Cir. 1992)).

92. *Id.* at 958-59.

93. *Id.*

94. *Id.* at 958 (quoting *Turner Broad. Sys., Inc. v. FCC*, 512 U.S. 622, 664 (1994)).

For a brief description of the evidence presented by St. Louis County, see *infra* note 121.

95. *Id.* at 959. For a summary of the evidence cited by the county, see *infra* note 121.

96. 390 U.S. 629 (1968).

Eighth Circuit, however, distinguished *Ginsberg* as a case that did not involve protected material, in contrast to the video games at issue, which the court classified as speech.<sup>98</sup> Judge Arnold declared:

Nowhere in *Ginsberg* (or any other case that we can find, for that matter) does the Supreme Court suggest that the government's role in helping parents to be the guardians of their children's well-being is an unbridled license to governments to regulate what minors read and view. We do not mean to denigrate the government's role in supporting parents, or the right of parents to control their children's exposure to graphically violent material. We merely hold that the government cannot silence protected speech by wrapping itself in the cloak of parental authority.<sup>99</sup>

In brief, the Eighth Circuit held, contrary to the district court, that video games are protected by the First Amendment because they contain the requisite expressive elements, and that St. Louis County failed to prove that violent video games actually harm minors.

### III. ANALYSIS

The Eighth Circuit correctly held that video games are entitled to First Amendment protection; however, it failed to properly apply Supreme Court precedent establishing different standards of speech for minors and adults. Section A justifies the treatment of video games as speech. Section B reiterates the precedent establishing the "special status of children," and highlights the errors made by the *Interactive* and *Kendrick* courts in failing to appreciate this principle. Section C explains why industry bodies such as the ESRB are the proper vehicles for assessing the content of media. Comparing this system to the regulatory experience of the motion picture industry, this Section concludes that the best method for shielding children from inappropriate content is a combination of industry ratings and local legislation mandating that vendors adhere to the ratings in the absence of parental consent.

#### A. Games Have Properly Been Treated as Speech

Technological advances have allowed game developers to include ever more expressive and informational content in games. In addition, game developers have intertwined games, movies, and music to create multime-

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97. *Interactive*, 329 F.3d at 959; see *supra* notes 19-45.

98. *Interactive*, 329 F.3d at 959.

99. *Id.* at 959-60.

dia products whose constituent elements of music and movies enjoy a long pedigree of First Amendment protection.

A current trend in the video game industry is the confluence of content across media, captured perhaps most vividly by the *Matrix* franchise. *The Matrix* was released in theaters in 1999, and became a blockbuster hit, grossing over \$450 million worldwide.<sup>100</sup> A sequel, *The Matrix Reloaded*, was released March 2003, and attained similar success.<sup>101</sup> *The Matrix Reloaded* team made groundbreaking use of video games to expand the storyline beyond the movie. According to a description of the video game *Enter the Matrix*, a corollary to *The Matrix Reloaded*, on Sony PlayStation's website:

*Enter the Matrix* is a revolution in interactive entertainment—a third-person action game that effectively blurs the line between Hollywood blockbuster films and next generation video games. The game is produced, directed and features a script written by the Wachowski brothers, writers/directors of *The Matrix* film trilogy, creating the most intensive collaboration between a video game publisher and a movie studio to date.<sup>102</sup>

In addition, the game contains “hours of additional *Matrix* film footage and “cineractives” shot exclusively for the game, starring the cast of *The Matrix Reloaded*.”<sup>103</sup>

*The Matrix* franchise is simply one example of the rise of tie-ins with other media and sports. For example, music stars 50-Cent and Mya have released new music on video game soundtracks up to a week before their albums debuted to boost sales of the video games and generate interest in the albums.<sup>104</sup> The group INXS recorded new music solely for the video game *Rugby 2004*, produced by Electronic Arts and released September 2003.<sup>105</sup>

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100. *The Top Grossing Movies of All Time at the Worldwide Box Office*, Internet Movie Database, at <http://www.imdb.com/Charts/worldtopmovies> (last updated Feb. 10, 2004).

101. *Id.*

102. *Playstation Games, Enter the Matrix*, Playstation.com, at <http://us.playstation.com/games/SLUS-20454.asp> (last visited Feb. 11, 2004).

103. *Id.* The *Matrix* producers use the phrase “cineractive” to refer to computer-generated scenes they directed that appear in the video game.

104. Peter Lewis, *Videogames: The Biggest Game in Town*, FORTUNE, Sept. 2, 2003, available at <http://www.fortune.com/fortune/technology/articles/0,15114,480222,00.html>.

105. *INXS and EA Sports Tie-in Spawns Multimedia Spin-offs*, EA SPORTS NEWS, Aug. 4, 2003, at [http://www.electronic-arts.com.au/easports/news.php?news\\_id=12](http://www.electronic-arts.com.au/easports/news.php?news_id=12).

In short, it is becoming increasingly difficult to separate out the unadulterated gaming element within video games. Music and movies have a long history of free speech protection,<sup>106</sup> and it is unreasonable to conclude that video games that blend movies and music with gaming content are not entitled to similar First Amendment treatment. The district court's conclusion in *Interactive* that games are not protected speech is simply inconsistent with the attributes of modern games, as well as with the recent decisions of other courts that have addressed the issue.<sup>107</sup> The court's likening of video games to nothing more than digital "bingo"<sup>108</sup> comports with decisions handed down in the early 1980's, but fails to appreciate advances and changes that have occurred in the video game industry since that time.

### **B. Minors' Access to Violent Video Games Can Be Restricted According to Supreme Court Precedent**

The Constitution prohibits St. Louis County from preventing the acquisition or use of violent games by all citizens because violence alone cannot be obscene.<sup>109</sup> However, St. Louis County only sought to limit access to violent games by children whose parents did not approve of their exposure to violent material. In *Bellotti v. Baird*, the Supreme Court recognized that children and adults have different constitutional rights. The Court noted that that:

The unique role in our society of the family, the institution by which we inculcate and pass down many of our most cherished values, moral and cultural, requires that constitutional principles be applied with sensitivity and flexibility to the special needs of parents and children. We have recognized three reasons justifying the conclusion that the constitutional rights of children cannot be equated with those of adults: the peculiar vulnerability of children; their inability to make critical decisions in an informed,

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106. See, e.g., *Hurley v. Irish-American Gay, Lesbian, & Bisexual Group*, 515 U.S. 557, 569 (1995) (commenting that examples of art, music, and literature are "unquestionably shielded"); *Ward v. Rock Against Racism*, 491 U.S. 781, 790 (1989) (finding that "[m]usic, as a form of expression and communication, is protected under the First Amendment"); *Joseph Burstyn, Inc. v. Wilson*, 343 U.S. 495 (1952) (holding that movies are protected speech).

107. See *supra* note 54 for court decisions finding that games are protected speech.

108. *Interactive I*, 200 F. Supp. 2d 1126, 1134 (E.D. Mo. 2002).

109. See *Miller v. California*, 413 U.S. 15 (1973) (requiring an element of sexual content that appeals to people's prurient interests to qualify as obscenity).

mature manner; and the importance of the parental role in child rearing.<sup>110</sup>

Each of these three policy reasons for the disparate treatment of children's constitutional rights vis-à-vis those of adults' supports the St. Louis County ordinance. First, the vulnerability of children as a consequence of their developing mental status<sup>111</sup> implies that graphic video game violence could have more drastic consequences for them than for mature adults. Indeed, this is precisely the view of the psychologists who testified before the St. Louis County Council's Justice, Health, and Welfare Committee prior to passage of the ordinance.<sup>112</sup> Second, the cited inability of children to make informed decisions clearly encompasses their incapacity to select video games appropriate for their age-group. Finally, by protecting the importance of the role of parents in child rearing, St. Louis County's ordinance was not only legal, but also sound public policy. There is no better method for ensuring that parents' wishes are satisfied than by granting them the power to permit or deny their children exposure to presumptively inappropriate material.

As described above, substantial Supreme Court jurisprudence, of which *Ginsberg* is a part, establishes that the definitional boundaries of material inappropriate for children are larger than that for adults and more readily modifiable by legislatures.<sup>113</sup> Both parents and the state have interests in ensuring the physical and mental health of children. Thus, laws rationally related to this end may be constitutional, even if the same laws as applied to adults would not.<sup>114</sup>

### 1. *The Seventh and Eighth Circuits Misapplied These Principles*

The Eighth Circuit's *Interactive* opinion is misguided from both a legal and policy standpoint. The court attempted to distinguish *Ginsberg* on the ground that *Ginsberg* did not address protected speech and, thus, the New York statute at issue was constitutional if the legislature could demonstrate a rational basis for its enactment.<sup>115</sup> Judge Morris Arnold explained that *Ginsberg* is "inapposite because it invokes the much less ex-

110. *Bellotti v. Baird*, 443 U.S. 622, 634 (1979) (internal quotation and citation omitted).

111. *See Ginsberg v. New York*, 390 U.S. 629, 638 (1968) (discussing the special status of children); *supra* notes 21-45 and accompanying text.

112. *Interactive*, 200 F. Supp. 2d at 1129. For a summary of the evidence used by the County, see *infra* note 121.

113. *See supra* notes 21-45 and accompanying text.

114. *See Ginsberg*, 390 U.S. at 641.

115. *Interactive*, 329 F.3d 954, 959 (8th Cir. 2003).

acting ‘rational basis’ standard of review.”<sup>116</sup> The error of this logic lies in the fact that *Ginsberg* *did* involve protected material; the “girlie” magazines were not obscene to adults.<sup>117</sup> New York simply adjusted the boundaries of obscenity as applied to children because it rationally concluded that the material at issue affected children differently than adults. The Supreme Court concluded that this adjustment was sensible, despite observing that there remained “an ongoing controversy whether obscene material will create a danger of antisocial conduct.”<sup>118</sup> The Court was satisfied that, despite the debate, “a medical practitioner recently suggested that the possibility of harmful effects to youth cannot be dismissed as frivolous.”<sup>119</sup>

Similarly, St. Louis County rationally concluded that violent video games were harmful to minors after reviewing contemporary psychological studies that showed a correlation between violent video games and antisocial behavior.<sup>120</sup> The studies’ conclusions that video game violence was harmful to children were more than “vague generalitie[s]” and the county’s reliance upon them did not make its assertion that violent video games have deleterious effects on the well-being of minors “simply unsupported in the record,” as the Eighth Circuit dismissively declared.<sup>121</sup> The Supreme Court in *Ginsberg* repeatedly stated that legislatures do not need to prove causality, but merely need to demonstrate that studies do not disprove the legislature’s justifications, at least in the context of protecting the well-being of minors.<sup>122</sup> New York was not required to conclusively

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116. *Id.*

117. *Ginsberg*, 390 U.S. at 634.

118. *Id.* at 643, n.10.

119. *Id.*

120. *Interactive I*, 200 F. Supp. 2d 1126, 1129-30 (E.D. Mo. 2002).

121. *Interactive*, 329 F.3d at 958. St. Louis County primarily relied upon a study that concluded that violent television and movies are associated with heightened levels of aggression in minors, and postulated that violent video games cause similar effects. Craig A. Anderson & Brad J. Bushman, *Effects of Violent Video Games on Aggressive Behavior, Aggressive Cognition, Aggressive Affect, Physiological Arousal, and Prosocial Behavior: A Meta-Analytic Review of the Scientific Literature*, 12 PSYCHOL. SCI. 5, 353 (2001). Because longitudinal studies of violent video games were unavailable, Anderson and Bushman were unable to offer as strong proof of antisocial effects associated with violent games as compared with violent television and movies. *Id.* They did reason that it would be highly unlikely for violent video games to not have analogous effects given the similarity of the cognitive processes affected by both types of media. *Id.*

Arguably, this evidence is more significant than the Eighth Circuit’s characterization of it as vague and conjectural. See *Interactive*, 329 F.3d at 958.

122. See *supra* notes 21-45 and accompanying text.

prove that the magazines' material caused harm to minors,<sup>123</sup> and by extension, the Eighth Circuit was incorrect in finding that the studies used by St. Louis County were insufficient. In mandating a higher standard of proof, the court violated *Ginsberg*'s clear directive that the judiciary "not demand of legislatures scientifically certain criteria of legislation."<sup>124</sup>

The Eighth Circuit's misapplication of *Ginsberg* is not without precedent. In *Kendrick*, the Seventh Circuit addressed an issue nearly identical to that presented in *Interactive*: whether an Indianapolis ordinance that sought to restrict minors' access to violent video games violated the Constitution.<sup>125</sup> In fact, Judge Arnold relied heavily upon *Kendrick* in drafting his *Interactive* opinion.<sup>126</sup>

Paralleling the *Interactive* litigation, the district court in *Kendrick* initially upheld the Indianapolis ordinance as defensible under *Ginsberg*.<sup>127</sup> Nonetheless, the Seventh Circuit reversed the district court, avoiding *Ginsberg* by invoking the First Amendment rights of children and the fact that the "cartoon characters and stylized mayhem [of the violent video games at issue] are continuous with an age-old children's literature on violent themes. The exposure of children to the 'girlie' magazines involved in the *Ginsberg* case was not."<sup>128</sup> Judge Posner explained his approach to the case with reference to *Ginsberg*:

The Court in *Ginsberg* was satisfied that New York had sufficient grounds for thinking that representations of nudity that would not constitute obscenity if the consumers were adults were harmful to children. We must consider whether the City of Indianapolis has equivalent grounds for thinking that violent video games cause harm either to the game players or (the point the City stresses) the public at large.<sup>129</sup>

Immediately after this declaration, Posner insisted that because children have First Amendment rights, "the grounds must be compelling and not merely plausible."<sup>130</sup>

123. *Ginsberg*, 390 U.S. at 642-43.

124. *Id.*

125. *Kendrick II*, 244 F.3d 572 (7th Cir. 2001).

126. *Interactive*, 329 F.3d at 957, 959 (citing *Kendrick* for the proposition that games should be treated as speech and that the county failed to produce sufficient support for its contention that violent games harm minors).

127. *Am. Amusement Mach. Ass'n v. Kendrick*, 115 F. Supp. 2d 943, 946 (S.D. Ind. 2000) [hereinafter *Kendrick I*].

128. *Kendrick II*, 244 F.3d at 578.

129. *Id.* at 576.

130. *Id.*

This decision is inconsistent with *Ginsberg*'s guidelines.<sup>131</sup> The *Ginsberg* Court, in refusing to require compelling grounds, declared that "[w]e do not regard New York's regulation in defining obscenity on the basis of its appeal to minors under 17 as involving an invasion of such minors' constitutionally protected freedoms."<sup>132</sup> As asserted earlier, *Ginsberg* only requires plausible grounds for regulation—a threshold that Posner's edict directly rebukes.<sup>133</sup>

## 2. *Ginsberg's Principles Extend Beyond Obscenity*

As discussed, *Ginsberg* was not a case simply about obscenity; the First Amendment protected adults' access to the material at issue. The magazines only became "obscene" to minors when the legislature found a rational reason for adjusting the standards for defining what constitutes obscenity to children. Had the magazines been obscene to all citizens, they would not have been speech protected by the First Amendment,<sup>134</sup> and there would not have been an issue regarding the legislature's regulation of the content. Even assuming that *Ginsberg* was in fact isolated to obscenity, *Pacifica* and *Sable* reaffirm that the basis for the *Ginsberg* decision was the special developing status of children, and that this rationale extends to content that is not obscene.<sup>135</sup>

In *Pacifica*, the Supreme Court relied on *Ginsberg* in justifying the constitutionality of restrictions on broadcast content that was merely "indecent." The special availability of broadcasting does not affect the application of this standard to video games. Home video game systems are a ubiquitous feature of American households, and innumerable video rental stores and arcades can be found in every American city, making video games nearly as accessible as radio broadcasts.<sup>136</sup> Moreover, the trend in

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131. *Ginsberg v. New York*, 390 U.S. 629, 641-43 (1968).

132. *Id.* at 638.

133. *See supra* notes 21-45.

134. *See Roth v. United States*, 354 U.S. 476 (1957) (holding that obscenity is not protected by the First Amendment).

135. *See Sable Communications of Cal., Inc. v. FCC*, 492 U.S. 115, 126 (1989); *FCC v. Pacifica Found.*, 438 U.S. 726, 749 (1978); *supra* notes 36-45.

136. According to the ESA, fifty percent of Americans play video games. *Demographic Information*, Entm'y Software Ass'n, at <http://www.theesa.com/demographic/information.html> (last visited Feb. 19, 2004).

At least one survey places the number of American households with a video game console at 49.2 million in 2001. *See, e.g., Playstation 2 Defeats Xbox and Gamecube in Battle for the Living Room in 2002*, Ziff Davis Media Game Group, Aug. 6, 2002, at <http://gamegroup.ziffdavis.com/presscenter/pr20020806.html>. Certainly the number of households with the capacity to play video games is higher when one counts

the entertainment industry is to offer more content online, in real-time—essentially transforming the delivery of content into a broadcast that may be tapped by anyone connected to the Internet.<sup>137</sup> Regulating video game content thus promises to be a dynamic endeavor. The expanding availability of games provides more incentive to establish safeguards to ensure that children may only view content appropriate to their age group or consistent with their parents' imperatives. St. Louis County's attempted regulations pertaining to the availability of video games at brick and mortar vendors provide a blueprint for dealing with on-demand content.

In *Sable*, Justice White's pronouncement of the existence of a compelling interest in shielding minors from inappropriate literature (that is by no means obscene)<sup>138</sup> surely extends to video games. As explained above in the *Interactive* discussion, video games "are as much entitled to the protection of free speech as the best of literature."<sup>139</sup> If certain literature can be inappropriate for children, so can certain video games. The Supreme Court rejected the regulations in *Sable* because the Federal Communications Commission's blanket prohibition of indecent calls was not the least restrictive means of safeguarding minors.<sup>140</sup> However, the regulations promulgated by St. Louis County were far less restrictive of adults' speech rights than those presented by the Communications Act.<sup>141</sup> The county merely required parental consent for a minor to purchase, rent, or play a violent game while preserving the absolute availability of games to anyone over eighteen.<sup>142</sup>

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personal computer ownership and accounts for increases in console ownership since the survey was conducted.

137. For an example of broadcast gaming, see *Yahoo! Games on Demand*, Yahoo!, Inc., at <http://gamesondemand.yahoo.com/play> (last visited Feb. 19, 2004).

138. See *Sable*, 492 U.S. at 126.

139. *Interactive*, 329 F.3d 954, 958 (8th Cir. 2003) (citing *Winters v. New York*, 333 U.S. 507, 510 (1948)).

140. *Sable*, 492 U.S. at 128-31 (noting that prior, less restrictive, FCC proposals to certify the age of dial-a-porn call recipients, such as credit card verification, may have been constitutional).

141. See *Interactive*, 329 F.3d at 956. Under the ordinance, a child could purchase a presumptively inappropriate game if he or she had parental consent. The FCC regulations did not have a consent mechanism to allow indecent calls to those who did not object. *Sable*, 492 U.S. at 128-31.

142. *Interactive I*, 200 F. Supp. 2d 1126, 1129-31 (E.D. Mo. 2002).

### C. The Solution: Industry Classification Enforced by Local Legislation

#### 1. *The Entertainment Industries are Best Suited to Evaluate Their Content*

*Kendrick* provides a germane illustration of why judges are inappropriate evaluators of content, and why the better solution is a bifurcated regime of industry self-evaluation and local legislation requiring enforcement of industry labels.

In *Kendrick*, Judge Posner simultaneously adopted the role of judge, psychologist, and media critic in evaluating Indianapolis' ability to regulate violent video games. To diminish the evidence proffered by Indianapolis that violent games harm minors, he isolated one game, *House of the Dead*, critiqued its fantastical nature,<sup>143</sup> and used this to claim that video game violence is merely stylish, and impliedly cannot reasonably be expected to negatively affect children.<sup>144</sup> In spite of this assertion, he later stated that "if the games used actors and simulated real death and mutilation convincingly . . . a more narrowly drawn ordinance might survive a constitutional challenge."<sup>145</sup> As explained, games are becoming more realistic in their portrayals of violence, and game developers frequently advertise the heightened realism of their games' content.<sup>146</sup> Posner's conclusion that violent video games are merely "cartoonish and stylized" is misplaced, and a poor basis for determining the broader constitutional question of the propriety of regulating access to violent video games. Judges are neither well-suited nor qualified to form conclusions on the psychological effects of media based upon their limited personal observations.

Ad hoc judicial determinations of the levels of realism and violence necessary to trigger regulation promise to be an unsatisfactory, unwieldy, and arbitrary approach to the problem. Society and the video game industry itself, through the ESRB, are better situated to determine precisely the method by which obscenity is defined in relation to its contravention of

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143. The players shoot at "an unending succession of hideous axe-wielding zombies." *Kendrick II*, 244 F.3d 572, 577 (7th Cir. 2001).

144. *Id.* at 577-78.

145. *Id.* at 579-80.

146. See Chip Carter, *Vice, Violence and Video Games*, ST. PETERSBURG TIMES, Oct. 14, 2002, available at [http://www.sptimes.com/2002/10/14/Technology/Vice\\_\\_violence\\_and\\_vi.shtml](http://www.sptimes.com/2002/10/14/Technology/Vice__violence_and_vi.shtml); see also *Gladiator: Sword of Vengeance*, Acclaim Entm't, Inc., available at <http://www.acclaim.com/games/gladiator/index.html> (last visited Oct. 19, 2003). Acclaim provides trailers of the "executions" during the game in which one player can gruesomely decapitate and otherwise dismember her opponents.

community standards of decency.<sup>147</sup> While judges may ultimately decide the boundaries of obscene speech, they do so only because the Constitution ensures that all but the most offensive speech is protected.<sup>148</sup> Thus, there is a small core of obscene speech, unprotected by the Constitution, whose boundaries are framed by judges acting as agents of the Constitution. Once outside the realm of adult obscenity, parents are free to define the boundaries of content appropriately viewed by their children, and legislatures may aid them in this endeavor by establishing statutory presumptions that material classified in certain ways (e.g., *Mature* by the ESRB) is inappropriate for selected age-groups.

St. Louis County's ordinance attempted to implement such a system whereby industry standards governed the coverage of the ordinance. Games rated *Mature* or *Adults Only* by the ESRB were presumptively inappropriate for minors, absent parental consent.<sup>149</sup> This presumption is logical unless one views the ESRB's ratings as entirely arbitrary and gratuitous. The industry would not bother labeling games if the content of "M" or "AO" games did not have a different effect on minors than on adults, and the music and movie industries would similarly abandon their ratings systems. Obviously, ratings regimes are well-established, reflecting society's reasonable conclusion that certain material is better suited to adults. Parents who nevertheless approve of their children playing violent games may simply consent to their children's purchase of such games.

## 2. *The Parallel Story of Movie Ratings*

The evolution of the video game industry has mimicked that of its more mature motion picture counterpart, and the ratings systems used by the two industries are very similar. St. Louis County's attempted ordinance did nothing more than require proof that children had their parents' consent before playing, renting, or purchasing a game with a rating of "M" or above, equivalent to theaters demanding proof that patrons are over seventeen, or have parental consent, before granting admission to an "R"-rated film.<sup>150</sup> Judging by the label hierarchies of the MPAA and the ESRB, "R"-rated film content roughly correlates to "M"-rated video game content. The self-regulatory experience of the movie industry thus provides a

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147. See *Miller v. California*, 413 U.S. 15, 23-25 (1973) (noting the "inherent dangers of undertaking to regulate any form of expression," and the care which must be taken in writing antiobscenity statutes).

148. See *FW/PBS v. City of Dallas*, 493 U.S. 215, 252 (1990) (Scalia, J., concurring in part and dissenting in part) (explaining "the very stringency of our obscenity test, designed to avoid any risk of suppressing socially valuable expression").

149. *Interactive I*, 200 F. Supp. 2d. 1126, 1130 (E.D. Mo. 2002).

150. *Id.*

template for analyzing the development of the video game industry's self-regulatory endeavors.

The rising popularity of motion pictures in the early decades of the Twentieth century sparked efforts to regulate their content. In 1915, the Supreme Court responded to lawsuit challenging the constitutionality of an Ohio board of movie censors by holding, in *Mutual Film Corp. v. Industrial Commission of Ohio*, that movies were not part of the nation's press, and hence not protected by the First Amendment.<sup>151</sup> State censorship of movies, even for adults, remained legal until the Supreme Court's ruling that movies are speech in *Burstyn v. Wilson* in 1958.<sup>152</sup> Concerned about excessive local regulation sanctioned by the *Mutual* decision, the entertainment industry formed a trade association in 1922, and implemented stringent guidelines for movie producers in 1930 (the Hay's Production Code)—guidelines that remained in place until the MPAA substituted them with the modern labeling regime in the late 1960's.<sup>153</sup>

Currently, movies are evaluated by a board comprised of eight to thirteen unidentified parents that sorts them into the familiar "G," "PG," "PG-13," "R," and "NC-17" categories.<sup>154</sup> In addition to the letter-label, the

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151. 236 U.S. 230 (1915). The Ohio legislature granted the board power "to approve only films of a 'moral, educational or amusing and harmless character'; and established penalties to punish exhibitors of films not submitted to and approved by the board." John Wertheimer, *Mutual Film Reviewed: The Movies, Censorship, and Free Speech in Progressive America*, 37 AM. J. LEGAL HIST. 158, 159 (1993).

152. 343 U.S. 495 (1952).

153. *A Brief History of Movie Ratings*, psvratings.com, at <http://www.psvratings.com/history-of-movie-ratings.html> (last visited Feb. 11, 2004). The Production Code was heavily influenced by Catholic doctrine. In fact, it was the formation of the League of Decency by the Catholic Church in 1934 that stimulated adherence to the Production Code. The League of Decency co-opted the Production Code and used its influence to demand obedience to the guidelines, something the Motion Picture Producers and Distributors of America ("MPPDA," the precursor of the MPAA) had failed to accomplish for lack of a devoted constituency. For more on the history of the MPPDA and the League of Decency, see *Film Censorship in the 20th Century*, at <http://www.stolaf.edu/depts/cis/wp/langes/censorship.html> (last visited Feb. 11, 2004).

154. *Marketing Violent Motion Picture Products to Children: Hearing Before the S. Comm. on Commerce, Sci., and Transp.*, 106th Cong. 11-12 (2000) (statement of Mel Harris, President and CEO, Sony Pictures Entertainment).

The ratings translate as follows: "G," inviting general audiences; "PG," suggesting that some material may not be suitable for children and inviting parental guidance; "PG-13," providing a stronger warning to parents that some material may not be suitable for children; "R," restricting minors' access without parental permission; and "NC-17," prohibiting the admission of minors even with parental consent. Jack Valenti, *How It All Begain* (2000), at <http://www.mpa.org/movieratings/about/index.htm> (last visited Feb. 11, 2004).

board provides a brief description of the content that influenced the classification decision, such as “Sexual Content,” or “Drug References.”<sup>155</sup> Although the present ratings system is completely voluntary, nearly all movies are rated by the board, and admission to their viewing is generally enforced by NATO member theaters due to the dynamics of the industry.<sup>156</sup> The video entertainment industry, including some video game retailers, has a parallel organization that is similarly well-connected to the MPAA and is committed to a system of voluntary ratings enforcement.<sup>157</sup>

In 1999, the NATO responded to a plea from President Clinton to begin “carding” people seeking access to “R”-rated films.<sup>158</sup> Significantly, this change in enforcement essentially transformed movie admissions-regulation into a system similar to that proposed by St. Louis County for video games. Just as patrons seeking admission to an “R”-rated movie need verification of their age at the direction of the government, the county sought to require customers of video game retailers to similarly provide proof that they were either over the requisite age or had parental consent to purchase an “M”-rated game.<sup>159</sup>

### 3. *Need for Legislation*

There are two reasons why St. Louis County’s regulations are sound policy and a more laissez-faire approach akin to that used by the movie industry will not suffice for video games. First, despite the purported commitment by the NATO and the MPAA to ensure adherence to the ratings system, there are many flaws. For example, not all theaters are members of the NATO and therefore do not need to adhere to the NATO’s guidelines.<sup>160</sup> Moreover, as any teenager can attest, even NATO members rarely strictly enforce the ratings system. Undoubtedly theater operators would be more inclined to tighten their practices if faced with legal action for violating an ordinance that mandated adherence to the ratings.

155. For more information, see *Reasons for Movie Ratings, Classification & Rating Admin. (CARA)*, at <http://www.filmratings.com> (last visited Feb. 19, 2004).

156. *Questions & Answers: Everything You Always Wanted To Know About The Movie Rating System*, Classification & Rating Admin., at <http://www.filmratings.com> (last visited Feb. 19, 2004).

157. See *VSDA Position Statement on Media Violence*, Video Software Dealers Association, at <http://www.vsd.org/Resource.phx/vsda/government/positionstatements/mediaviolence.htm> (last visited Feb. 11, 2004).

158. President Bill Clinton, Remarks to the National Association of Theater Owners at the White House (June 8, 1999), available at <http://clinton4.nara.gov/WH/New/html/19990608a.html>.

159. *Interactive I*, 200 F. Supp. 2d. 1126, 1130 (E.D. Mo. 2002).

160. See Jack Valenti, *How It Works*, at 7 (2000), at [http://www.mpa.org/movie\\_ratings/about/content6.htm#7](http://www.mpa.org/movie_ratings/about/content6.htm#7).

Second, the video game industry has a far weaker lineage of self-regulation than its movie industry counterpart. Indeed, the ISA was founded merely ten years ago in 1994,<sup>161</sup> while the MPAA traces its roots back to 1922.<sup>162</sup> Video arcades do not have a strong industry association like the NATO to guide their conduct, nor have retailers adopted a method of “carding” purchasers of “M”-rated games. Enforcement of the movie ratings would undeniably improve with the passage of statutes requiring adherence by theaters. By extension, ordinances enforcing ESRB standards would be of even greater utility in the less-centralized video game industry. A system to verify either purchasers’ ages or parental consent would presumably be relatively easy to institute, especially given the predominance of large chain retailers in the video game market.

Granted, such laws will never be an absolute barrier to minors’ acquisition of violent games against their parents’ wishes. Online ordering is one way to bypass these proposed laws.<sup>163</sup> However, the fact that minors can sneak into movie theaters, watch “R”-rated movies at friends’ homes without parental consent, and view mature content online does not render the movie ratings system moot. The St. Louis County ordinance at issue in *Interactive* did nothing more than make it more difficult for children whose parents desired to shield them from violent media to obtain such material, effectively instituting a system similar to that used by the movie industry to restrict access to “R”- and “NC-17”-rated movies.

#### IV. CONCLUSION

Video games have changed dramatically over the past thirty years, becoming expressive, informational, and communicative media often more complex than movies and books. Content increasingly is blended together across movies, television, games, and music. For these reasons, games should be treated just like books and movies for First Amendment purposes—as speech. The Eighth Circuit’s *Interactive* decision properly applied this analysis, but improperly determined that St. Louis County’s ordinance limiting minors’ access to violent video games without parental consent was unconstitutional. The court failed to recognize that minors and adults have different constitutional rights. Under *Ginsberg* and its progeny, protected material not obscene to adults may be classified as obscene to children if the legislature can demonstrate a rational basis for regarding the material as harmful to minors. St. Louis County presented a

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161. FTC REPORT, *supra* note 58, at 37.

162. *A Brief History of Movie Ratings*, *supra* note 153.

163. *See supra* note 137.

rational basis for believing that violent video games are harmful to the mental and emotional health of children, and hence could be regulated based upon the goals of protecting minors' well-being and aiding parents in shielding their children from harmful material. In effect, St. Louis County's ordinance did nothing more than codify a regulatory regime, similar to that employed by the movie industry, through which children's access to certain violent material, as classified by the industry, is prohibited absent parental consent. This dual-natured system of regulation whereby the industry self-evaluates its content and distributors enforce the ratings according to local legislation is the best answer to dealing with the growing problem of children's exposure to increasingly realistic violent video games.

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**FOREIGN AND INTERNATIONAL LAW**

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## RECENT DEVELOPMENTS—FOREIGN & INTERNATIONAL LAW

### *DOW JONES & Co. v. GUTNICK*

(2002) 210 CLR 575

In a defamation case revolving around materials published on the Internet, the High Court of Australia held that publication takes place where subscribers download the articles to read. This ruling poses significant problems for web publishers, who could face Australian liability for their publications.

Dow Jones & Company (“Dow Jones”) published an article in *Barron’s Magazine*, both in print and online, alleging that Joseph Gutnick (“Gutnick”), a multimillionaire who lives in Victoria, was involved in tax evasion and money laundering. Gutnick brought a libel suit against the author and Dow Jones in the Supreme Court of Victoria. Dow Jones petitioned to set aside service or stay further proceedings. Dow Jones argued the Australian court lacked jurisdiction because publication occurred in New Jersey, where the company’s servers are located, and because *Barron’s Magazine* has only limited circulation in Victoria (though it admitted to having hundreds of online subscribers). The court dismissed the petition, and the Court of Appeal of Victoria denied Dow Jones’s appeal. The High Court of Australia granted special leave to appeal, and worldwide media organizations—including Yahoo!, CNN, and Reuters—intervened on Dow Jones’s side.

The High Court also dismissed Dow Jones’s appeal. It first determined that Gutnick properly served Dow Jones with the originating process. Stating that the applicable law depends on where the tort of defamation occurred, the High Court then addressed the main issue of where the allegedly defamatory article was “published.”

The High Court viewed publication as a bilateral act—materials are published both where the publishers make them available and where readers physically access them. It rejected the “single publication” rule adopted in states such as California and New York. Under this rule, the place of publication would be New Jersey, which is where Dow Jones made the articles available. The High Court stated that the principles of *res judicata* and issue estoppel do not require the identification of a single place of publication in defamation cases, no matter how widely distributed the materials. Australian choice of law also does not limit the place of defamatory conduct to the place of publication. In reaching its holding, the High Court suggested the following logic: defamation in online materials is located where it harms a person’s reputation; the harm occurs where third party readers comprehend the materials; readers cannot comprehend the materials until they download the information to a computer screen. Therefore, the High Court held that the place of defamation and publication is where readers download the article. Since many Australians downloaded the *Barron’s Magazine* article to view in Victoria, the High Court found adequate jurisdiction and affirmed the lower court’s decision. The Supreme Court of Victoria heard further arguments in November 2003, but has not yet issued a decision.

The author of the *Barron’s Magazine* article petitioned the United Nations Office of the High Commissioner for Human Rights. He argued that the decision requiring him to stand trial in Victoria, which has the strictest libel laws of any democratic state, violated his free speech rights guaranteed by the United Nations International Covenant on Civil and Political Rights. The U.N. Human Rights Commission gathered information in April 2003.

## *FINLAND COPYRIGHT REFORM LEGISLATION*

*HE 177/2002 vp*

The Ministry of Education, which administers copyrights, proposed changes to the copyright laws on November 10, 2002. The proposal was based on an earlier draft from May 2002. After approving the 180-page draft, the government forwarded it to the Constitutional Law Committee, but the members did not have opportunity to review the draft before elections in March 2003. This effectively cancelled the proposal. The Ministry of Education issued a new draft on July 16, 2003.

Under Finland's current copyright laws, piracy and unauthorized wide distribution of copyrighted works over the Internet are illegal, but private users have a fair use defense. The proposed law would add to the current prohibitions a ban on the importation of pirated copies from outside the European Economic Area. The importer would likely not be penalized, but the pirated recordings would be confiscated. In addition, the draft contains anti-circumvention provisions similar to those in the Digital Millennium Copyright Act (DMCA) of the United States. The provisions would criminalize the use and distribution of software or devices that circumvent technical protections of copyrights. The proposal provides some exceptions to the anti-circumvention provisions. For example, the proposal does not recognize digital versatile disc (DVD) region codes as legitimate protection mechanisms. The law would permit users to ignore the region coding on the DVDs or take their DVD players to repair shops and have the region coding removed. The draft provides continued protection for the works of journalists and photographers, despite attempts by employers of those professionals to gain the copyrights.

Individuals may still make copies at home for private use. Part of the purchase price of all blank media in Finland is a copyright fee, which compensates copyright owners for home recordings. The fee generates ten million euros annually. If the changes are adopted, the government may need to raise or lower the copyright fee based on how the production of home copies is affected by the new law.

Finland will likely introduce soon a new version of its Copyright Act that incorporates the draft and the comments on it.

## ***U.S. RATIFIES AND IMPLEMENTS THE MADRID PROTOCOL***

*15 U.S.C. §§ 1141-1141n (West Supp. 2003)*

Following the United States’ ratification of the Madrid Protocol in 2002, and its subsequent implementation in November 2003, U.S.-based trademark owners can apply for registration of their marks in over sixty countries based on a single English-language application submitted to the U.S. Patent and Trademark Office (PTO).

Under the terms of the Madrid Protocol Implementation Act, the owner of a basic application pending before the PTO or the owner of a trademark already registered by the PTO may file an international application designating the countries in which the applicant seeks protection. Once certified by the PTO, the application will be transmitted to the International Bureau of the World Intellectual Property Organization (“International Bureau”) and subsequently forwarded to the trademark office in each of the countries designated by the applicant. International applications are ultimately examined under the domestic laws of individual countries; the Protocol does not affect the substantive rights granted under the trademark law of its member-nations, nor does it establish a single body to examine applications.

While many economically powerful nations, including Mexico and Canada, had yet to ratify the Protocol as of October 2003, the new procedure is nevertheless expected to produce significant benefits for many U.S.-based trademark owners, most dramatically by eliminating the need to file individual applications in each country in which protection is sought. All international registrations will also have a single renewal date. As a result, large U.S. companies may reap significant financial benefits, while smaller companies might for the first time be able to seek international protection of their marks. Finally, because the Protocol requires adjudication of international applications within eighteen months of receipt from the International Bureau, applicants may obtain registrations faster than they would have under an individual application.

The United States’ decision to join the Protocol was a historic first: it had declined to sign the previous major international trademark registration treaty, the Madrid Agreement Concerning the International Registration of Marks (“Madrid Agreement”), citing numerous provisions it believed placed U.S.-based registrants at a competitive disadvantage. Under the Madrid Agreement, first adopted in 1891, trademark owners could file an international application only after their mark was *registered* in their home country; and international registrations under the Agreement were subject to “central attack”—if the original registration was rejected or successfully challenged within the first five years, all related international registrations would also fail. These provisions were deemed unfair to U.S.-based trademark owners because of the lengthy registration procedures and the many grounds available for attacking U.S. trademarks. The Protocol, however, addressed these concerns by making international application available upon domestic application (rather than registration) and by allowing trademark owners whose domestic registration has been attacked to convert their international registration into national applications without losing their original priority date.



# BERKELEY TECHNOLOGY LAW JOURNAL

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## ANNUAL REVIEW OF LAW AND TECHNOLOGY

### CUMULATIVE INDEX

The following index lists all cases, statutes, and other topics which were the subject of notes published in the *Annual Review of Law and Technology* from 2003.

#### CASES

- A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1003 (9th Cir. 2001)  
..... 17 BERKELEY TECH. L.J. 71 (2002)
- Abbott Laboratories v. Geneva Pharmaceuticals, Inc.*, 182 F.3d 1315 (Fed. Cir. 1999)..... 15 BERKELEY TECH. L.J. 185 (2000)
- Alcatel USA, Inc. v. DGI Technologies, Inc.*, 166 F.3d 772 (5th Cir. 1999)  
..... 15 BERKELEY TECH. L.J. 25 (2000)
- American Civil Liberties Union of Georgia v. Miller*, 977 F. Supp. 1228 (N.D. Ga. 1997)..... 14 BERKELEY TECH. L.J. 403 (1999)
- Application Group, Inc. v. Hunter Group, Inc.*, 61 Cal. App. 881 (1998)  
..... 14 BERKELEY TECH. L.J. 229 (1999)
- Astaire v. Best Films & Video Corp.*, 136 F.3d 1208 (9th Cir. 1997)  
..... 13 BERKELEY TECH. L.J. 319 (1998)
- AT&T Corp. v. Excel Communications, Inc.*, 172 F.3d 1352 (Fed. Cir. 1999)  
..... 15 BERKELEY TECH. L.J. 165 (2000)
- AT&T Corp. v. Iowa Utilities Board*, 525 U.S. 366 (1999)  
..... 15 BERKELEY TECH. L.J. 417 (2000)
- AT&T Corp. v. Portland*, 43 F. Supp. 2d (D. Ore. 1999)  
..... 15 BERKELEY TECH. L.J. 397 (2000)
- Avery Dennison Corp. v. Sumpton*, 189 F.3d 868 (9th Cir. 1999)  
..... 15 BERKELEY TECH. L.J. 245 (2000)
- Avery Dennison Corp. v. Sumpton*, 999 F. Supp. 1337 (C.D. Cal. 1998)  
..... 14 BERKELEY TECH. L.J. 247 (1999)
- Bally Total Fitness Holding Co. v. Faber*, 29 F. Supp. 2d 1161 (C.D. Cal. 1998)  
..... 15 BERKELEY TECH. L.J. 229 (2000)
- Barcelona.com, Inc. v. Excelentísimo Ayuntamiento de Barcelona*, 185 F. Supp. 2d 367 (E.D. Va. 2002) ..... 18 BERKELEY TECH. L.J. 257 (2003)
- Bartnicki v. Vopper*, 532 U.S. 514 (2000)  
..... 17 BERKELEY TECH. L.J. 449 (2002)
- Bell & Howell Document Management Products Co. v. Altek Systems*, 132 F.3d 701 (Fed. Cir. 1997)..... 14 BERKELEY TECH. L.J. 103 (1999)

<i>Bell Atlantic Telephone Cos. v. Federal Communications Commission</i> , 206 F.3d 1 (D.C. Cir. 2000) .....	16 BERKELEY TECH. L.J. 369 (2001)
<i>Bensusan v. King</i> , 126 F.3d 25 (2d Cir. 1997) .....	13 BERKELEY TECH. L.J. 271 (1998)
<i>Bernier v. Merrill Air Engineers</i> , 770 A.2d 97 (Me. 2001) .....	17 BERKELEY TECH. L.J. 231 (2002)
<i>Bernstein v. United States Department of State</i> , 922 F. Supp. 1426 (N.D. Cal. 1996) .....	13 BERKELEY TECH. L.J. 405 (1998)
<i>Blumenthal v. Drudge</i> , 992 F. Supp. 44 (D.D.C. 1998) .....	14 BERKELEY TECH. L.J. 483 (1999)
<i>Bonneville Int'l Corp. v. Peters</i> , 153 F. Supp. 2d 763 (E.D. Pa. 2001) .....	17 BERKELEY TECH. L.J. 47 (2002)
<i>Bowers v. Baystate Technologies, Inc.</i> , 302 F.3d 1334 (Fed. Cir. 2002) .....	18 BERKELEY TECH. L.J. 349 (2003)
<i>Bridgeman Art Library, Ltd. v. Corel Corp.</i> , 36 F. Supp. 2d 191 (S.D.N.Y. 1999) .....	15 BERKELEY TECH. L.J. 3 (2000)
<i>Brookfield Communications, Inc. v. West Coast Entertainment Corp.</i> , 174 F.3d 1036 (9th Cir.) .....	15 BERKELEY TECH. L.J. 313 (2000)
<i>Castle Rock Entertainment, Inc. v. Carol Publishing Group, Inc.</i> , 150 F.3d 132 (2d Cir. 1998) .....	14 BERKELEY TECH. L.J. 43 (1999)
<i>Chavez v. Arte Publico Press</i> , 157 F.3d 282 (5th Cir. 1998) .....	14 BERKELEY TECH. L.J. 3 (1999)
<i>Chiuminatta Concrete Concepts, Inc. v. Cardinal Industries, Inc.</i> , 145 F.3d 1303 (Fed. Cir. 1998) .....	14 BERKELEY TECH. L.J. 173 (1999)
<i>College Savings Bank v. Florida Prepaid Postsecondary Education Expense Board</i> , 527 U.S. 666 (1999) .....	15 BERKELEY TECH. L.J. 373 (2000)
<i>Comedy III Productions, Inc. v. New Line Cinema</i> , 200 F.3d 593 (9th Cir. 2000) .....	16 BERKELEY TECH. L.J. 183 (2001)
<i>Comedy III Productions, Inc. v. Gary Saderup, Inc.</i> , 25 Cal. 4th 387 .....	17 BERKELEY TECH. L.J. 549 (2002)
<i>Corcoran v. Sullivan</i> , 112 F.3d 836 (7th Cir. 1997) .....	13 BERKELEY TECH. L.J. 55 (1998)
<i>Cyber Promotions, Inc. v. America Online, Inc.</i> , 948 F. Supp. 436 (E.D. Pa. 1996) .....	13 BERKELEY TECH. L.J. 417 (1998)
<i>Cybersell, Inc. v. Cybersell, Inc.</i> , 130 F.3d 414 (9th Cir. 1997) .....	14 BERKELEY TECH. L.J. 267 (1999)
<i>Cybor Corp v. FAS Technologies, Inc.</i> , 138 F.3d 1448 (Fed. Cir. 1998) .....	14 BERKELEY TECH. L.J. 87 (1999)
<i>Dawn Equipment Co. v. Kentucky Farms, Inc.</i> , 140 F.3d 1009 (Fed. Cir. 1998) .....	14 BERKELEY TECH. L.J. 173 (1999)
<i>Dickinson v. Zurko</i> , 527 U.S. 150 (1999) .....	15 BERKELEY TECH. L.J. 209 (2000)
<i>Dr. Seuss Enterprises v. Penguin Books</i> , 109 F.3d 1394 (9th Cir. 1997) .....	13 BERKELEY TECH. L.J. 119 (1998)
<i>Enzo Biochem, Inc. v. Gen-Probe, Inc.</i> , 296 F.3d 1316 (Fed. Cir. 2002) .....	18 BERKELEY TECH. L.J. 195 (2003)
<i>Feltner v. Columbia Pictures Television, Inc.</i> , 523 U.S. 340 (1998) .....	14 BERKELEY TECH. L.J. 23 (1999)
<i>Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.</i> , 122 S. Ct. 1831 (2002) .....	18 BERKELEY TECH. L.J. 117 (2003)

- Finnigan Corp. v. International Trade Commission*, 180 F.3d 1354 (Fed. Cir. 1999)..... 15 BERKELEY TECH. L.J. 129 (2000)
- Florida Prepaid Postsecondary Education Expense Board v. College Savings Bank*, 527 U.S. 627 (1999)..... 15 BERKELEY TECH. L.J. 373 (2000)
- Ford Motor Co. v. Lane*, 67 F. Supp. 2d 745 (E.D. Mich. 1999)  
..... 16 BERKELEY TECH. L.J. 271 (2001)
- Ford Motor Co. v. Lemelson*, 42 U.S.P.Q.2d (BNA) 1706 (D. Nev. 1997)  
..... 13 BERKELEY TECH. L.J. 219 (1998)
- Free Speech Coalition v. Reno*, 25 Media L. Rep. (BNA) 2305 (N.D. Cal. 1997)  
..... 13 BERKELEY TECH. L.J. 389 (1998)
- Gardner v. Nike*, 279 F.3d 774 (9th Cir. 2002)  
..... 18 BERKELEY TECH. L.J. 371 (2003)
- Genentech, Inc v. Novo Nordisk*, 108 F.3d 1361 (Fed. Cir. 1997)  
..... 13 BERKELEY TECH. L.J. 149 (1998)
- Genentech, Inc. v. Chiron Corp.*, 112 F.3d 495 (Fed. Cir. 1997)  
..... 13 BERKELEY TECH. L.J. 137 (1998)
- Gentry Gallery, Inc. v. Berkline Corp.*, 134 F.3d 1473 (Fed. Cir. 1998)  
..... 14 BERKELEY TECH. L.J. 123 (1999)
- GlobeSpan, Inc. v. O'Neill*, 151 F. Supp. 2d 1229 (C.D. Cal. 2001)  
..... 17 BERKELEY TECH. L.J. 251 (2002)
- Hewlett-Packard Co. v. Repeat-o-Type Stencil Manufacturing Corp.*, 123 F.3d 1445 (Fed. Cir. 1997)..... 13 BERKELEY TECH. L.J. 175 (1998)
- Hoechst-Roussel Pharmaceuticals, Inc. v. Lehmann*, 109 F.3d 756 (Fed. Cir. 1997)..... 13 BERKELEY TECH. L.J. 163 (1998)
- Hoffman v. Capital Cities/ABC, Inc.*, 255 F.3d 1180 (9th Cir. 2001)  
..... 17 BERKELEY TECH. L.J. 527 (2002)
- Holmes Group, Inc. v. Vornado Air Circulation Systems, Inc.*, 122 S. Ct. 1889 (2002) ..... 18 BERKELEY TECH. L.J. 141 (2003)
- Hyatt v. Boone*, 146 F.3d 1348 (Fed. Cir. 1998) . 14 BERKELEY TECH. L.J. 137 (1999)
- Image Technical Services, Inc. v. Eastman Kodak Co.*, 125 F.3d 1195 (9th Cir. 1997)..... 13 BERKELEY TECH. L.J. 339 (1998)
- IMS Technology, Inc. v. Haas Automation, Inc.*, 206 F.3d 1422 (Fed. Cir. 2000)  
..... 16 BERKELEY TECH. L.J. 71 (2001)
- In re Independent Service Organizations Antitrust Litigation*, 203 F.3d 1322 (Fed. Cir. 2000)..... 16 BERKELEY TECH. L.J. 323 (2001)
- In re Intel Corp.*, Docket No. 9288 (F.T.C. Mar. 8, 1999)  
..... 15 BERKELEY TECH. L.J. 333 (2000)
- In re Microsoft Corp. Antitrust Litigation*, 127 F. Supp. 2d 702 (D. Md. 2001)  
..... 17 BERKELEY TECH. L.J. 295 (2002)
- Intergraph Corp. v. Intel Corp.*, 3 F. Supp. 2d 1255 (N.D. Ala. 1997)  
..... 14 BERKELEY TECH. L.J. 323 (1999)
- Iowa Utilities Board v. FCC*, 120 F.3d 753 (8th Cir. 1997)  
..... 13 BERKELEY TECH. L.J. 435 (1998)
- Johnson & Johnston Assoc., Inc. v. R.E. Service Co.*, 285 F.3d 1046 (Fed. Cir. 2002) ..... 18 BERKELEY TECH. L.J. 209 (2003)
- Kelly v. Arriba Soft Corp.*, 280 F.3d 934 (9th Cir. 2002)  
..... 18 BERKELEY TECH. L.J. 69 (2003)
- Kemco Sales, Inc. v. Control Papers Co*, 208 F.3d 1352 (Fed. Cir. 2000)  
..... 16 BERKELEY TECH. L.J. 71 (2001)

<i>Loving v. Boren</i> , 133 F.3d 771 (10th Cir. 1998)	14 BERKELEY TECH. L.J. 371 (1999)
<i>Lunney v. Prodigy Services Co.</i> , 1999 N.Y. LEXIS 3746 (Dec. 2, 1999)	15 BERKELEY TECH. L.J. 437 (2000)
<i>Mainstream Loudoun v. Board of Trustees of the Loudoun County Library</i> , 2 F. Supp. 2d 783 (E.D. Va. 1998)	14 BERKELEY TECH. L.J. 347 (1999)
<i>Matthew Bender &amp; Co. v. West Publishing Co.</i> , 42 U.S.P.Q.2d (BNA) 1930 (S.D.N.Y. 1997)	13 BERKELEY TECH. L.J. 83 (1998)
<i>Nabisco, Inc. v. PF Brands, Inc.</i> , 191 F.3d 208 (2d Cir. 1999)	15 BERKELEY TECH. L.J. 265 (2000)
<i>National Basketball Association v. Motorola, Inc.</i> , 105 F.3d 841 (2d Cir. 1997)	13 BERKELEY TECH. L.J. 3 (1998)
<i>New York Times Co. v. Tasini</i> , 533 U.S. 483 (2001)	17 BERKELEY TECH. L.J. 9 (2002)
<i>Nobelpharma AB v. Implant Innovations, Inc.</i> , 141 F.3d 1059 (Fed. Cir. 1998)	14 BERKELEY TECH. L.J. 209 (1999)
<i>Northern Telecom Ltd. v. Samsung Electronics Co.</i> , 215 F.3d 1281 (Fed. Cir. 2000)	16 BERKELEY TECH. L.J. 165 (2001)
<i>Optical Disc Corp. v. Del Mar Avionics</i> , 208 F.3d 1324 (Fed. Cir. 2000)	16 BERKELEY TECH. L.J. 89 (2001)
<i>Panavision International, L.P. v. Toeppen</i> , 945 F. Supp. 1296 (C.D. Cal. 1996)	13 BERKELEY TECH. L.J. 249 (1998)
<i>Pavlovich v. Superior Court</i> , 91 Cal. App. 4th 409 (Cal. Ct. App. 2001)	17 BERKELEY TECH. L.J. 337 (2002)
<i>Prima Tek II, L.L.C. v. A-Roo Co.</i> , 222 F.3d 1372 (Fed. Cir. 2000)	16 BERKELEY TECH. L.J. 109 (2001)
<i>ProCD, Inc. v. Zeidenberg</i> , 86 F.3d 1447 (7th Cir. 1996)	13 BERKELEY TECH. L.J. 35 (1998)
<i>Purdue Pharma L.P. v. Faulding Inc.</i> , 230 F.3d 1320 (Fed. Cir. 2000)	17 BERKELEY TECH. L.J. 95 (2002)
<i>Quality King Distributors, Inc. v. L'Anza Research International</i> , 523 U.S. 135 (1998)	14 BERKELEY TECH. L.J. 65 (1999)
<i>Random House, Inc. v. Rosetta Books LLC</i> , 150 F. Supp. 2d 613 (S.D.N.Y. 2001)	17 BERKELEY TECH. L.J. 29 (2002)
<i>RealNetworks, Inc. v. Streambox, Inc.</i> , No. C99-2070P, 2000 U.S. Dist. LEXIS 1889 (W.D. Wash. Jan. 18, 2000)	16 BERKELEY TECH. L.J. 53 (2001)
<i>Recording Industry Association of America, Inc. v. Diamond Multimedia Systems, Inc.</i> , 180 F.3d 1072 (9th Cir. 1999)	15 BERKELEY TECH. L.J. 67 (2000)
<i>Reno v. ACLU</i> , 521 U.S. 844 (1997)	13 BERKELEY TECH. L.J. 371 (1998)
<i>Ringling Bros.-Barnum &amp; Bailey v. Utah Division of Travel Development</i> , 170 F.3d 449 (4th Cir. 1999)	15 BERKELEY TECH. L.J. 265 (2000)
<i>Sallen v. Corinthians Licenciamentos</i> , 273 F.3d 14 (1st Cir. 2001)	18 BERKELEY TECH. L.J. 257 (2003)
<i>Scaltech Inc. v. Retec/Tetra L.L.C.</i> , 178 F.3d 1378 (Fed. Cir. 1999)	15 BERKELEY TECH. L.J. 185 (2000)
<i>Scheiber v. Dolby Laboratories, Inc.</i> , 293 F.3d 1014 (7th Cir. 2002)	18 BERKELEY TECH. L.J. 159 (2003)
<i>Sega Enterprises v. MAPHIA</i> , 948 F. Supp. 923 (N.D. Cal 1996)	13 BERKELEY TECH. L.J. 101 (1998)

- Signtech USA Ltd. v. Vutek Inc.*, 174 F.3d 1352 (Fed. Cir. 1999)  
 ..... 15 BERKELEY TECH. L.J. 147 (2000)
- SoftMan Products Co. v. Adobe Systems Inc.*, 171 F. Supp. 2d 1075 (C.D. Cal. 2001) ..... 18 BERKELEY TECH. L.J. 349 (2003)
- Sony Computer Entertainment, Inc. v. Connectix Corp.*, 203 F.3d 596 (9th Cir. 2000).....16 BERKELEY TECH. L.J. 33 (2001)
- Southwestern Bell v. FCC*, 153 F.3d 523 (8th Cir. 1998)  
 ..... 14 BERKELEY TECH. L.J. 421 (1999)
- Speedplay, Inc. v. Bebop, Inc.*, 211 F.3d 1245 (Fed. Cir. 2000)  
 .....16 BERKELEY TECH. L.J. 109 (2001)
- Sporty's Farm L.L.C. v. Sportsman's Market, Inc.*, 202 F. 3d 489 (2d Cir. 2000)  
 ..... 16 BERKELEY TECH. L.J. 205 (2001)
- State Street Bank & Trust Co. v. Signature Financial Group, Inc.*, 149 F.3d 1368 (Fed. Cir. 1998)..... 14 BERKELEY TECH. L.J. 153 (1999)
- Tasini v. New York Times Co.*, 972 F. Supp. 804 (S.D.N.Y. 1997)  
 .....16 BERKELEY TECH. L.J. 13 (2001)
- Thomas & Betts Corp. v. Panduit Corp.*, 138 F.3d 277 (Fed. Cir. 1998)  
 ..... 14 BERKELEY TECH. L.J. 229 (1999)
- Tiffany Design, Inc. v. Reno-Tahoe Specialty, Inc.*, 55 F. Supp. 2d 1113 (D. Nev. 1999)..... 15 BERKELEY TECH. L.J. 49 (2000)
- TraFFix Devices, Inc. v. Marketing Displays, Inc.*, 532 U.S. 23 (2001)  
 ..... 17 BERKELEY TECH. L.J. 205 (2002)
- Turner Broadcasting v. FCC*, 520 U.S. 180 (1997)  
 ..... 13 BERKELEY TECH. L.J. 447 (1998)
- U.S. West, Inc. v. FCC*, 182 F.3d 1224 (10th Cir. 1999)  
 ..... 15 BERKELEY TECH. L.J. 353 (2000)
- United States v. Elcom Ltd.*, 203 F. Supp. 2d 1111 (N.D. Cal. 2002)  
 ..... 18 BERKELEY TECH. L.J. 7 (2003)
- United States v. Hilton*, 999 F. Supp. 131 (D. Me. 1998)  
 ..... 14 BERKELEY TECH. L.J. 385 (1999)
- United States v. Microsoft Corp.*, 87 F. Supp. 2d 30 (D.D.C. 2000)  
 .....16 BERKELEY TECH. L.J. 297 (2001)
- United States v. Microsoft Corp.*, 147 F.3d 935 (D.C. Cir. 1998)  
 ..... 14 BERKELEY TECH. L.J. 303 (1999)
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 ..... 13 BERKELEY TECH. L.J. 355 (1998)
- United States v. Microsoft Corp.*, 253 F.3d 34 (D.C. Cir. 2001)  
 ..... 17 BERKELEY TECH. L.J. 273 (2002)
- United States v. Playboy Entertainment Group, Inc.*, 120 S. Ct. 1878 (2000)  
 .....16 BERKELEY TECH. L.J. 347 (2001)
- Universal City Studios, Inc. v. Reimerdes*, 111 F. Supp. 2d. 294 (S.D.N.Y. 2000)  
 .....16 BERKELEY TECH. L.J. 53 (2001)
- Universal City Studios, Inc. v. Corley*, 273 F.3d 429 (2d Cir. 2001)  
 .....18 BERKELEY TECH. L.J. 7 (2003)
- University of California v. Eli Lilly & Co.*, 119 F.3d 1559 (Fed. Cir. 1997)  
 ..... 13 BERKELEY TECH. L.J. 149 (1998)
- Urantia Foundation v. Maaherra*, 114 F.3d 955 (9th Cir. 1997)  
 ..... 13 BERKELEY TECH. L.J. 69 (1998)
- Veeck v. Southern Building Code Congress International, Inc.*, 293 F.3d 791 (5th Cir. 2002) ..... 18 BERKELEY TECH. L.J. 93 (2003)

<i>Vehicular Technologies Corp. v. Titan Wheel International, Inc.</i> , 212 F.3d 1377 (Fed. Cir. 2000).....	16 BERKELEY TECH. L.J. 89 (2001)
<i>Vizcaino v. Microsoft Corp.</i> , 120 F.3d 1006 (9th Cir. 1997) .....	13 BERKELEY TECH. L.J. 483 (1998)
<i>Wal-Mart Stores, Inc. v. Samara Bros.</i> , 529 U.S. 205 (2000) .....	16 BERKELEY TECH. L.J. 251 (2001)
<i>Warner-Jenkinson Company, Inc. v. Hilton Davis Chemical Co.</i> , 520 U.S. 17 (1997).....	13 BERKELEY TECH. L.J. 199 (1998)
<i>Washington Post v. Total News, Inc.</i> , No. 97 Civ. 1190 (S.D.N.Y. filed Feb. 20, 1997).....	13 BERKELEY TECH. L.J. 21 (1998)
<i>WMS Gaming Inc. v. International Game Technology</i> , 184 F.3d 1339 (Fed. Cir. 1999).....	15 BERKELEY TECH. L.J. 109 (2000)
<i>Yahoo!, Inc. v. LICRA</i> , 169 F. Supp. 2d 1181 (N.D. Cal. 2001) .....	17 BERKELEY TECH. L.J. 359 (2002)
<i>YBM Magnex, Inc. v. International Trade Commission</i> , 145 F.3d 1317 (Fed. Cir. 1998).....	14 BERKELEY TECH. L.J. 191 (1999)
<i>Zippo Manufacturing Co. v. Zippo Dot Com, Inc.</i> , 952 F. Supp. 1119 (W.D. Pa. 1997).....	13 BERKELEY TECH. L.J. 289 (1998)
<i>Zodiac Pool Care, Inc. v. Hoffinger Industries, Inc.</i> , 206 F.3d 1408 (Fed. Cir. 2000).....	16 BERKELEY TECH. L.J. 89 (2001)

## STATUTES AND OTHER TOPICS

2001 PTO Utility Examination Guidelines and DNA Patents .....	16 BERKELEY TECH. L.J. 123 (2001)
2001 USPTO Written Description Guidelines and Gene Claims .....	17 BERKELEY TECH. L.J. 117 (2002)
Anticybersquatting Consumer Protection Act.....	16 BERKELEY TECH. L.J. 205 (2001)
California Legislative Service 688 (West)—Human Cloning 1997 .....	13 BERKELEY TECH. L.J. 465 (1998)
Canadian Copyright Act Revisions (1997).....	13 BERKELEY TECH. L.J. 517 (1998)
Communications Decency Act § 230.....	17 BERKELEY TECH. L.J. 401 (2002)
Continuing Expansion of Cyberspace Trespass to Chattels .....	17 BERKELEY TECH. L.J. 421 (2002)
Contractual Assent and Enforceability in Cyberspace .....	17 BERKELEY TECH. L.J. 475 (2002)
Council of Europe's Convention on Cybercrime .....	18 BERKELEY TECH. L.J. 425 (2003)
Economic Espionage Act of 1996.....	13 BERKELEY TECH. L.J. 305 (1998)
Electronic Signatures in Global and National Commerce Act .....	16 BERKELEY TECH. L.J. 391 (2001)
European Union Data Privacy Directive.....	15 BERKELEY TECH. L.J. 461 (2000)
European Union Database Directive.....	13 BERKELEY TECH. L.J. 551 (1998)
European Union Database Directive.....	17 BERKELEY TECH. L.J. 571 (2002)
Emerging Patterns in Arbitration under the Uniform Domain-Name Dispute- Resolution Policy.....	17 BERKELEY TECH. L.J. 181 (2002)

- Federal Legislation Regarding Taxation of Internet Sales Transactions  
 ..... 16 BERKELEY TECH. L.J. 415 (2001)
- First Wave of Cases under the Anticybersquatting Consumer Protection Act  
 ..... 17 BERKELEY TECH. L.J. 159 (2002)
- Gramm-Leach-Bliley Act  
 ..... 17 BERKELEY TECH. L.J. 497 (2002)
- Harboring Doubts About the Efficacy of § 512 Immunity Under the DMCA  
 ..... 18 BERKELEY TECH. L.J. 43 (2003)
- Hatch-Waxman Use of Abuse? Collusive Settlements Between Brand-Name and  
 Generic Drug Manufacturers..... 17 BERKELEY TECH. L.J. 317 (2002)
- ICANN's Uniform Dispute Resolution Policy in Action  
 ..... 16 BERKELEY TECH. L.J. 229 (2001)
- ICANN's Uniform Domain Name Dispute Resolution Policy  
 ..... 15 BERKELEY TECH. L.J. 289 (2000)
- Jurisprudence under the *in rem* Provision of the Anticybersquatting Consumer  
 Protection Act ..... 18 BERKELEY TECH. L.J. 237 (2003)
- Ley Federal del Derecho de Autor (1997) [Mexican Federal Copyright Law]  
 ..... 13 BERKELEY TECH. L.J. 503 (1998)
- Memorandum of Understanding on the Generic Top-Level Domain Name Space  
 of the Internet Domain Name System... 13 BERKELEY TECH. L.J. 235 (1998)
- Nonobviousness: Limitations on Evidentiary Support  
 ..... 18 BERKELEY TECH. L.J. 175 (2003)
- Patentability of Human-Animal Chimeras ..... 14 BERKELEY TECH. L.J. 443 (1999)
- Protecting Privacy in the Digital Age  
 ..... 18 BERKELEY TECH. L.J. 283 (2003)
- Recent Developments in Digital Signature Legislation and Electronic Commerce  
 ..... 14 BERKELEY TECH. L.J. 463 (1999)
- South Africa's Medicines and Related Substances Control Amendment Act of  
 1997 ..... 15 BERKELEY TECH. L.J. 485 (2000)
- State Internet Regulation and the Dormant Commerce Clause  
 ..... 17 BERKELEY TECH. L.J. 379 (2002)
- State Regulation of Unsolicited Commercial E-Mail  
 ..... 16 BERKELEY TECH. L.J. 435 (2001)
- Survey of Cybercrime in the United States  
 ..... 18 BERKELEY TECH. L.J. 313 (2003)
- Survey of Developments in European Database Protection  
 ..... 18 BERKELEY TECH. L.J. 447 (2003)
- Uniform Computer Information Transactions Act (UCITA)  
 ..... 16 BERKELEY TECH. L.J. 461 (2001)
- Uniform Computer Information Transactions Act (UCITA)  
 ..... 15 BERKELEY TECH. L.J. 85 (2000)
- Webcasting Royalty Rates  
 ..... 18 BERKELEY TECH. L.J. 399 (2003)
- Wellcome Trust's Disclosures of Gene Sequence Data into the Public Domain &  
 the Potential for Property Rights in the Human Genome  
 ..... 16 BERKELEY TECH. L.J. 145 (2001)
- WTO Panel Report on Section 110(5) of the U.S. Copyright Act  
 ..... 17 BERKELEY TECH. L.J. 595 (2002)

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